

MIDSOUTH BANCORP INC
Form 10-K
March 15, 2012

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011
Commission File number 1-11826

MIDSOUTH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices)

Registrant's telephone number, including area code: (337) 237-8343

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if this registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a nonaccelerated filer. A large accelerated filer An accelerated filer A nonaccelerated filer A smaller reporting company

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant at June 30, 2011 was approximately \$83,527,025 based upon the closing market price on NYSE Amex Equities as of such date. As of March 15, 2012 there were 10,465,506 outstanding shares of MidSouth Bancorp, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

MIDSOUTH BANCORP, INC.
2011 Annual Report on Form 10-K
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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Part I

Item 1 - Business

Overview

The Company was incorporated in 1984 as a Louisiana corporation and a registered bank holding company headquartered in Lafayette, Louisiana. Since February 2008, its operations have been conducted primarily through its wholly owned bank subsidiary MidSouth Bank, N.A. Prior to February 2008, we owned and operated two separate banking subsidiaries, that we merged together in order to consolidate operations and reduce expenses. The Bank, a national banking association, was chartered and commenced operations in 1985. As of December 31, 2011, the Bank operated through a network of 40 offices located in Louisiana and Texas.

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

Products and Services

The Bank is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to small and middle market businesses, their owners and employees, and other individuals in our markets. Our community banking philosophy emphasizes personalized service and building broad customer relationships. Deposit products and services offered by the Bank include interest-bearing and noninterest-bearing checking accounts, investment accounts, cash management services, and electronic banking services, including remote deposit capturing services, internet banking, and debit and credit cards. Most of the Bank’s deposit accounts are FDIC-insured up to the maximum allowed, and the Bank customers have access to a world-wide ATM network of more than 43,000 surcharge-free ATMs.

Loans offered by the Bank include commercial and industrial loans, commercial real estate loans (both owner-occupied and non-owner occupied), other loans secured by real estate and consumer loans. We commenced operations during a severe economic downturn in Louisiana more than 25 years ago. Our survival and growth in the ensuing years has instilled in us a conservative operating philosophy. Our conservative attitude impacts our credit and funding decisions, including underwriting loans primarily based on the cash flows of the borrower (rather than just relying on collateral valuations) and focusing lending efforts on working capital and equipment loans to small and mid-sized businesses along with owner-occupied properties.

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

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

Markets

We operate in south Louisiana and central and east Texas along the Interstate 10, Interstate 49, Highway 90, Interstate 45, and Interstate 20 corridors. As of December 31, 2011, our market area in south Louisiana included 27 offices and is bound by Houma to the south, Baton Rouge to the east, Opelousas to the north and Lake Charles to the west. Our market areas in Texas include 13 offices located in the Beaumont, College Station, Conroe, Houston, Dallas-Fort Worth and Tyler areas. For additional information regarding our properties, see Item 2 – Properties of this Report.

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We believe that high energy prices, clean-up of the 2010 Deepwater Horizon oil spill in the Gulf of Mexico and continued rebuilding from the storms of 2005 in Louisiana and Texas insulated our markets from the full impact of the national recession and have positioned us for growth as the national economy begins to recover. Furthermore, our markets have not experienced the severity of real estate price declines that have plagued so much of the country, and have generally suffered fewer job losses than the rest of the U.S. Oil and gas is the key industry within our markets. However, medical, technology and research companies continue to develop within these markets thereby diversifying the economy. Additionally, numerous major universities located within our market areas, including Louisiana State University, University of Houston, Rice University, Texas A&M University and University of Louisiana at Lafayette, provide a substantial number of jobs and help to contribute to the educated work force within our markets.

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

Competition

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

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

Employees

As of December 31, 2011, the Bank employed approximately 444 full-time equivalent employees. The Company had no employees who are not also employees of the Bank. Through the Bank, employees receive customary employee benefits, which include an employee stock ownership plan; a 401(K) plan; and life, health and disability insurance plans. Our directors, officers, and employees are important to the success of the Company and play a key role in business development by actively participating in the communities served by the Company. The Company considers the relationship of the Bank with its employees as a whole to be good.

Additional Information

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

Supervision and Regulation

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

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Dodd-Frank Act

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

- **Insurance of Deposit Accounts.** The Dodd-Frank Act changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the DIF and increased the floor applicable to the size of the DIF. The Dodd-Frank Act also made permanent the \$250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions.
- **Payment of Interest on Demand Deposits.** The Dodd-Frank Act repealed the federal prohibitions on the payment of interest and demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- **Creation of the Consumer Financial Protection Bureau.** The Dodd-Frank Act centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the “CFPB”), responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than \$10 billion of assets and, to a lesser extent, smaller institutions. As a smaller institution, most consumer protection aspects of the Dodd-Frank Act will continue to be applied to us by the Federal Reserve and to the Bank by the OCC.
- **Debit Card Interchange Fees.** The Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, require that debit card interchange fees must be reasonable and proportional to the actual cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve Board adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements additional fraud-prevention standards. Although issuers that have assets of less than \$10 billion are exempt from the Federal Reserve Board’s regulations that set maximum interchange fees, these regulations are expected to significantly impact the interchange fees that financial institutions with less than \$10 billion in assets are able to collect.

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

- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks from availing themselves of such preemption.
- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.
- Require bank holding companies and banks to be both well capitalized and well managed in order to acquire banks located outside their home state.
- Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Require large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management.
- Require loan originators to retain 5% of any loan sold or securitized, unless it is a “qualified residential mortgage,” which must still be defined by the regulators. FHA, VA and Rural Housing Service loans are specifically exempted from the risk retention requirements.
- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders that apply to all public companies not just financial institutions.

Many aspects of the Dodd-Frank Act remain subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, the Bank, our customers or the financial industry more generally. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below.

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Capital Requirements

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

Under the risk-based capital requirements for bank holding companies, the minimum requirement for the ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital (as defined below) is to be composed of common stockholders’ equity, retained earnings, qualifying perpetual preferred stock (in a limited amount in the case of cumulative preferred stock), minority interests in the equity accounts of consolidated subsidiaries, and qualifying trust preferred securities, less goodwill and certain intangibles (“Tier 1 Capital”). The remainder of total capital may consist of qualifying subordinated debt and redeemable preferred stock, qualifying cumulative perpetual preferred stock and allowance for loan losses (“Tier 2 Capital”, and together with Tier 1 Capital, “Total Capital”). At December 31, 2011, our Tier 1 Capital ratio was 16.10% and Total Capital ratio was 16.97%. As long as our total consolidated assets remain below \$15 billion, we may continue to include our \$32 million aggregate principal amount of trust preferred securities issued prior to May 19, 2011 in our Tier 1 and Total Capital calculations.

The Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets (“Leverage Ratio”) equal to 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least 4%. Our Leverage Ratio at December 31, 2011 was 11.14%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines provide that the Federal Reserve will continue to consider a “tangible tier 1 leverage ratio” (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

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

Basel III Capital Framework

In December 2010, the Basel Committee on Banking Supervision (the “Basel Committee”) released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as “Basel III.” Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Implementation is presently scheduled to be phased in between 2014 and 2019, although it is possible that implementation may be delayed as a result of multiple factors including the current condition of the banking industry within the U.S. and abroad.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure “Common Equity Tier 1” (“CET1”), (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

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When fully phased in on January 1, 2019, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a “countercyclical capital buffer,” generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5% CET1 to risk-weighted assets.
- 4.5% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2012. In addition to Basel III, the Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to the Company may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact our net income and return on equity.

Prompt Corrective Action

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

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

At December 31, 2011, the Bank had the requisite capital level to qualify as "well capitalized" under the regulatory framework for prompt corrective action.

Insurance of Accounts and FDIC Insurance Assessments

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund (the "DIF") of the FDIC. In July 2010, the Dodd-Frank Act permanently raised the basic limit on federal deposit insurance coverage to \$250,000 per depositor, but did not change FDIC deposit insurance coverage for retirement accounts, which remains \$250,000 per depositor. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts. The extended program is not optional and will no longer be funded by separate premiums. This temporary unlimited deposit insurance coverage became effective on December 31, 2010 and terminates on December, 31, 2012.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

In February 2011, the FDIC approved a final rule that changed the assessment base from domestic deposits to average consolidated total assets minus average tangible equity (defined as Tier 1 capital); adopted a new large-bank pricing assessment scheme; and set a target "designated reserve ratio" (described in more detail below) of 2% for the DIF. The changes went into effect beginning with the second quarter of 2011, which was payable at the end of September 2011. The rule also implements a lower assessment rate schedule when the fund reaches 1.15% and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2% and 2.5%.

Under the FDIC's deposit insurance assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, as applied to small institutions Risk Category I, which contains the least risky depository institutions, contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings (CAMELS components) and other information. Assessment rates are determined by the FDIC and, beginning April 1, 2011, initial base assessment rates ranged from 2.5 to 45 basis points. The FDIC may make the following further adjustments to an institution's initial base assessment rates: decreases for long-term unsecured debt, including most senior unsecured debt and subordinated debt; increases for holding long-term unsecured debt or subordinated debt issued by other insured depository institutions; and increases for broker deposits in excess of 10% of domestic deposits for insurances not well rated and well capitalized. As of December 31, 2011, our risk category required a quarterly payment of approximately 7.28 basis points per \$100 of assessable deposits. As a result of the changes described above, our FDIC premiums decreased \$410,000 in 2011. We do not expect to see a further significant decrease in our FDIC premiums in 2012 if the assessment rates remain unchanged.

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

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In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. The restoration plan requires the FDIC to update its loss and income projections for the DIF at least semiannually, and if needed the FDIC may increase or decrease assessment rates following a notice-and-comment rulemaking.

Allowance for Loan and Lease Losses

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

Safety and Soundness Standards

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

Interagency Appraisal and Evaluation Guidelines

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

Community Reinvestment Act

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

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Restrictions on Transactions with Affiliates

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

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

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

The Dodd-Frank Act changed the definition of "covered transaction" in Sections 23A and 23B and limitations on asset purchases from insiders. With respect to the definition of "covered transaction," the Dodd-Frank Act defines that term to include the acceptance of debt obligations issued by an affiliate as collateral for a bank's loan or extension of credit to another person or company. In addition, a "derivative transaction" with an affiliate is now deemed to be a "covered transaction" to the extent that such a transaction causes a bank or its subsidiary to have a credit exposure to the affiliate. In addition, the Dodd-Frank Act provides that the Bank may not "purchase an asset from, or sell an asset to" a Bank insider (or their related interests) unless (1) the transaction is conducted on market terms, and (2) if the proposed transaction represents more than 10% of the capital stock and surplus of the Bank, it has been approved in advance by a majority of the Bank's non-interested directors.

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

Incentive Compensation

In June 2010, the Federal Reserve, the Office of the Comptroller of the Currency (the "OCC") and the FDIC issued a comprehensive final guidance on incentive compensation intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken

against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

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The Dodd-Frank Act requires the SEC and the federal bank regulatory agencies to establish joint regulations or guidelines that require financial institutions with assets of at least \$1 billion to disclose the structure of their incentive compensation practices and prohibit such institutions from maintaining compensation arrangements that encourage inappropriate risk-taking by providing excessive compensation or that could lead to material financial loss to the financial institution. The SEC and the federal bank regulatory agencies proposed such regulations in March 2011, which may become effective before the end of 2012. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives. These proposed regulations incorporate the three principles discussed in the June 2010 comprehensive final guidance on incentive compensation that was issued by the Federal Reserve, the OCC and the FDIC in June 2010.

USA Patriot Act of 2001

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

Privacy

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

Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. The Bank has established policies and procedures designed to safeguard its customers' personal financial information and to ensure compliance with applicable privacy laws.

Consumer Protection

The Dodd-Frank Act created the CFPB, a federal regulatory agency that is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than \$10 billion of assets and, to a lesser extent, smaller institutions. The Dodd-Frank Act gives the CFPB authority to supervise and regulate providers of consumer financial products and services, and establishes the CFPB's power to act against unfair, deceptive or abusive practices. The CFPB has stated that it will focus on (i) risks to consumers and compliance with federal consumer financial laws, (ii) the markets in which firms operate and risks to consumers posed by activities in those markets, (iii) depository institutions that offer a wide variety of consumer financial products and services, and depository institutions with a more specialized focus, and (iv) non-depository companies that offer one or more consumer financial products or services.

As a smaller institution (i.e., with assets of \$10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the Federal Reserve and to the Bank by the OCC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's prudential regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities could influence how the Federal Reserve and OCC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise impact of the CFPB's consumer protection activities cannot be forecast.

Other Regulations

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

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

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- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

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

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

Effect of Governmental Monetary Policies

Our earnings are affected by the monetary and fiscal policies of the United States government and its agencies, as well as general domestic economic conditions. The Federal Reserve's power to implement national monetary policy has had, and is likely to continue to have, an important impact on the operating results of financial institutions. The Federal Reserve affects the levels of bank loans, investments, and deposits through its control over the issuance of U.S. government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature, timing or impact of future changes in monetary and fiscal policies.

Item 1A – Risk Factors

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

Risks Relating to Our Business

The current economic environment poses significant challenges and could adversely affect our financial condition and results of operations.

There was significant disruption and volatility in the financial and capital markets during the past few years. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in mortgage lending and related real estate markets. Continued declines in real estate values, high unemployment and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

As a consequence of the difficult economic environment, we experienced a significant decrease in earnings resulting primarily from increased provisions for loan losses. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets generally, will improve in the near term, in which case we could continue to experience write-downs of assets, and could face capital

and liquidity constraints or other business challenges. A further deterioration in economic conditions, particularly within our market areas, could result in the following consequences, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations:

- Loan delinquencies may further increase causing additional increases in our provision and allowance for loan losses.

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- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.
- Collateral for loans made by the Bank, especially real estate, may continue to decline in value, in turn reducing a customer’s borrowing power, and reducing the value of assets and collateral associated with our loans.
- Consumer confidence levels may decline and cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities and decreased demand for our products and services.

Our market areas are heavily dependent on, and we have significant credit exposure to, the oil and gas industry. The economy in a large portion of our market areas is heavily dependent on the oil and gas industry. Many of our customers provide transportation and other services and products that support oil and gas exploration and production activities. As of December 31, 2011, we had approximately \$112.3 million in loans to borrowers in the oil and gas industry, representing approximately 15.1% of our total loans outstanding as of that date. The oil and gas industry, especially in Louisiana and Texas, has been subject to significant volatility, including the “oil bust” of the 1980s that severely impacted the economies of many of our market areas. Recently, President Obama’s administration proposed a number of legislative changes that could significantly impact the oil and gas industry, including the elimination of certain tax breaks, such as the intangible drilling and development costs, percentage depletion and manufacturing deduction, and the implementation of an excise tax focused specifically on production in the Gulf of Mexico. If there is a significant downturn in the oil and gas industry, generally the cash flows of our customers in this industry would be adversely impacted which could impair their ability to service our loans outstanding to them and/or reduce demand for loans. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may suffer losses in our loan portfolio in excess of our allowance for loan losses. We have experienced increases in the levels of our non-performing assets and loan charge-offs in recent periods. Our total non-performing assets amounted to \$14.2 million, or 1.02% of our total assets, at December 31, 2011 and we had \$5.5 million of net loan charge-offs and a \$3.9 million provision for loan losses for the year ended December 31, 2011. At December 31, 2011, the ratios of our ALLL to non-performing loans and to total loans outstanding were 112.63% and 0.97%, respectively. Additional increases in our non-performing assets or loan charge-offs could have a material adverse effect on our financial condition and results of operations.

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

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

Although we maintain an ALLL at a level that we believe is adequate to absorb losses inherent in our loan portfolio, changes in economic, operating and other conditions, including conditions which are beyond our control such as a

sharp decline in real estate values and changes in interest rates, may cause our actual loan losses to exceed our current allowance estimates. Additions to the ALLL could result in a decrease in net earnings and capital and could hinder our ability to grow. Further, if our actual loan losses exceed the amount reserved, it could have a material adverse effect on our financial condition and results of operations.

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We cannot predict the effect of recent or future legislative and regulatory initiatives.

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, including: (i) changes in banking, securities and tax laws and regulations and their application by our regulators, including pursuant to the Dodd-Frank Act, as discussed above in Item 1 under the heading “Business – Supervision and Regulation”; and (ii) changes in the scope and cost of FDIC insurance and other coverage, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially from those we currently anticipate. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve Board, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our business, prospects, financial condition and results of operations.

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

The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer to consumers covered financial products and services. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an “abusive” practice is new under the law. While the Bank will not be supervised by the CFPB, it will still be subject to the regulations and policies promulgated by the CFPB and may be examined by the OCC for compliance therewith. The costs and limitations related to complying with any new regulations established by the CFPB have yet to be fully determined and could be material. Further, the limitations and restrictions that will be placed upon the Bank with respect to its consumer product offering and services may also produce significant, material effects on the Bank’s (and our) profitability.

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

We have a concentration of exposure to a number of individual borrowers. Our largest exposure to one borrowing relationship as of December 31, 2011, was approximately \$9.5 million, which is 5.87% of our total capital. In addition, as of December 31, 2011, the aggregate exposure to the ten largest borrowing relationships was approximately \$62.7 million, which was 8.41% of loans and 38.76% of total capital. As a result of this concentration, a change in the financial condition of one or more of these borrowers could result in significant loan losses and have a material adverse effect on our financial condition and results of operations.

A large percentage of our deposits are attributable to a relatively small number of customers. The loss of all or some of these customers or a significant decline in their deposit balances may have a material adverse effect on our liquidity and results of operations.

Our 20 largest depositors accounted for approximately 8.80% of our total deposits and our five largest depositors accounted for approximately 4.20% of our total deposits as of December 31, 2011. The ability to attract these types of deposits has a positive effect on our net interest margin as they provide a relatively low cost of funds to the Bank. While we believe we have strong, long-term relationships with each of these customers, the loss of one or more of our 20 largest deposit customers, or a significant decline in the deposit balances would adversely affect our liquidity and require us to attract new deposits, purchase federal funds or borrow funds on a short term basis to replace such deposits, possibly at interest rates higher than those currently paid on these deposits. This could increase our total cost of funds and could result in a decrease in our net interest income and net earnings. If we were unable to develop alternative funding sources, we may have difficulty funding loans or meeting other deposit withdrawal requirements.

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We occasionally purchase non-recourse loan participations from other banks based in part on information provided by the selling bank.

From time to time, we purchase loan participations from other banks in the ordinary course of business, usually without recourse to the selling bank. As of December 31, 2011, we had approximately \$37.2 million in purchased loan participations, or approximately 5.0% of our total loan portfolio. When we purchase loan participations, we apply the same underwriting standards as we would to loans that we directly originate and seek to purchase only loans that would satisfy these standards. However, we are not as familiar with the borrower and may rely on information provided to us by the selling bank and typically must rely on the selling bank's administration of the loan relationship. We therefore have less control over, and may incur more risk with respect to, loan participations that we purchase from selling banks as compared to loans that we originate.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.

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

Our loan portfolio includes a substantial percentage of commercial and industrial loans, which may be subject to greater risks than those related to residential loans.

Our loan portfolio includes a substantial percentage of commercial and industrial loans. Commercial and industrial loans generally carry larger loan balances and historically have involved a greater degree of financial and credit risks than residential first mortgage loans. Repayment of our commercial and industrial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Our commercial and industrial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment, or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At December 31, 2011, commercial and industrial loans totaled approximately 29.9% of our total loan portfolio. Adverse changes in local economic conditions impacting our business borrowers could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2011, approximately 59.9% of our loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. An adverse change in the economy affecting values of real estate in our primary markets could significantly impair the value of real estate collateral and the ability to sell real estate collateral upon foreclosure. Furthermore, it is likely that we would be required to increase the provision for loan losses. A related risk in connection with loans secured by real estate is the effect of unknown or unexpected environmental contamination, which could make the real estate effectively unmarketable or otherwise significantly reduce its value as collateral. If we were required to liquidate real estate collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase the allowance for loan losses, it could have a material adverse effect on our financial condition and results of

operations.

We may face risks with respect to future expansion and acquisition opportunities.

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

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

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

If we acquire the assets and liabilities of one or more target banks that are in receivership through the FDIC bid process for failed institutions, such an acquisition will require us, through our bank subsidiary, to enter into a Purchase and Assumption Agreement (the “P&A Agreement”) with the FDIC. The P&A Agreement is a form document prepared by the FDIC, and our ability to negotiate the terms of this agreement is limited. As a result, we expect that any P&A Agreement would provide for limited disclosure about, and limited indemnification for, risks associated with the target bank. There is a risk that such disclosure regarding, and indemnification for, the assets and liabilities of target banks will not be sufficient and we will incur unanticipated losses. There is also a risk that we may be required to make an additional payment to the FDIC under certain circumstances following the completion of an FDIC-assisted acquisition if, for example, actual losses related to the target bank’s assets acquired are substantially less than expected at the time the P&A Agreement was entered into.

In addition, the FDIC bid process for failed depository institutions is competitive. We cannot provide any assurances that we will be successful in bidding for any target bank or for other failed depository institutions.

The recent repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act beginning on July 21, 2011. As a result, some financial institutions have commenced offering interest on demand deposits to compete for customers. We do not yet know what interest rates other institutions may offer as market interest rates begin to increase. Our interest expense will increase and our net interest margin will decrease if we begin offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to environmental liability risk associated with our lending activities.

A significant portion of the Bank’s loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit the Bank’s ability to use or sell the

affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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Our future earnings could be adversely affected by non-cash charges for goodwill impairment, if a future test of goodwill indicates that goodwill has been impaired.

As prescribed by Accounting Standards Codification (“ASC”) Topic 350, “Intangibles — Goodwill and Other,” we undertake an annual review of the goodwill asset balance reflected in our financial statements. We conduct an annual review in the fourth quarter of each year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. After our most recent annual review in the fourth quarter of 2011, we concluded there was no goodwill impairment as of such date. As of December 31, 2011, we had \$25.0 million in goodwill. Future goodwill impairment tests may result in future non-cash charges, which could adversely affect our earnings for any such future period.

Changes in the fair value of our securities may reduce our shareholders’ equity and net income.

At December 31, 2011, \$367.2 million of our securities (at fair value) were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities was \$11.7 million. We increase or decrease shareholders’ equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported shareholders’ equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

We monitor the fair value of our entire securities portfolio as part of our ongoing other than temporary impairment (“OTTI”) evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future. In addition, as a condition to membership in the Federal Home Loan Bank of Dallas (“FHLB-Dallas”), we are required to purchase and hold a certain amount of FHLB-Dallas stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB-Dallas. At December 31, 2011, we had stock in the FHLB-Dallas totaling approximately \$586,000. The FHLB-Dallas stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2011, we did not recognize an impairment charge related to our FHLB-Dallas stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB-Dallas may not require us to recognize an impairment charge with respect to such holdings.

Loss of key officers or employees may disrupt relationships with certain customers.

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

A natural disaster, especially one affecting one of our market areas, could adversely affect us.

Since most of our business is conducted in Louisiana and Texas, most of our credit exposure is in those states. Historically, Louisiana and Texas have been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as hurricanes, floods and tornados. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us

from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, as uninsured or underinsured losses, including losses from business disruption, may reduce borrowers' ability to repay their loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters in our market areas could have a material adverse effect on our business, prospects, financial condition and results of operations.

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Our profitability is vulnerable to interest rate fluctuations.

Our profitability is dependent to a large extent on net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Conversely, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. For example, as securities in our investment portfolio have matured, they have been replaced by securities paying a lower yield. We expect this trend to continue during 2011. These changes in our investment portfolio have negatively impacted, and are expected to continue to negatively impact, our net interest margin. Furthermore, some of our variable interest rate loans have minimum fixed interest rates (“floors”) that are currently above the contractual variable interest rate. If interest rates rise, the interest income from our variable interest rate loans with floors may not increase as quickly as interest expense on our liabilities, which would negatively impact our net interest income.

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

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

Non-performing assets adversely affect our net earnings in various ways. Until economic and market conditions improve, we expect to incur provisions for loan losses relating to an increase in non-performing assets. We generally do not record interest income on non-performing loans or other real estate owned, thereby adversely affecting our earnings, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we mark the related asset to the then fair market value of the collateral less estimated selling costs, which may result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers’ performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non-performing assets.

The soundness of other financial institutions could adversely affect us.

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

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

We operate within a highly regulated environment. The regulations to which we are subject will continue to have an impact on our operations and the degree to which we can grow and be profitable. Certain regulators, to which we are

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

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

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

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Risks Relating to an Investment in Our Common Stock

Share ownership may be diluted by the issuance of additional shares of common stock in the future.

Our stock incentive plan provides for the granting of stock incentives to directors, officers, and employees. As of December 31, 2011, there were 35,100 shares issued under options and 16,645 shares in restricted stock granted under that plan. Likewise, approximately 560,000 shares, including shares issuable under currently outstanding options, may be issued in the future to directors, officers, and employees under our existing equity incentive plans. In addition, in 2009, as part of our participation in the Treasury's Capital Purchase Program ("CPP"), we also issued a stock purchase warrant that currently entitles the holder to purchase 104,384 shares of our common stock at an exercise price of \$14.37 per share. It is probable that options and or/warrants will be exercised during their respective terms if the stock price exceeds the exercise price of the particular option or warrant. The incentive plan also provides that all issued options automatically and fully vest upon a change in control. If the options are exercised, share ownership will be diluted.

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

The holders of our preferred stock and trust preferred securities have rights that are senior to those of shareholders and that may impact our ability to pay dividends on our common stock and net income available to our common shareholders.

At December 31, 2011, we had outstanding \$15.5 million of trust preferred securities. These securities are senior to shares of common stock. As a result, we must make payments on our trust preferred securities before any dividends can be paid on our common stock; moreover, in the event of our bankruptcy, dissolution, or liquidation, the obligations outstanding with respect to our trust preferred securities must be satisfied before any distributions can be made to our shareholders. While we have the right to defer dividends on the trust preferred securities for a period of up to five years, if any such election is made, no dividends may be paid to our common or preferred shareholders during that time.

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In addition, with respect to the \$32.0 million in Series B Preferred Stock outstanding that was issued to the Treasury in the SBLF Transaction, we are required to pay cumulative dividends on the Series B Preferred Stock at an annual rate between 1% and 5.0% depending on our volume of qualified small business loans. Dividends paid on our Series B Preferred Stock will also reduce the net income available to our common shareholders and our earnings per common share. We may not declare or pay dividends on our common stock or repurchase shares of our common stock without first having paid all accrued cumulative preferred dividends that are due.

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

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

Our directors and executive officers beneficially own approximately 2.1 million shares, or 19.9%, of our outstanding common stock as of December 31, 2011. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on our business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval. In deciding on how to vote on certain proposals, our shareholders should be aware that our directors and executive officers may have interests that are different from, or in addition to, the interests of our shareholders generally.

Provisions of our articles of incorporation and by-laws, Louisiana law, and state and federal banking regulations, could delay or prevent a takeover by a third party.

Our articles of incorporation and by-laws could delay, defer, or prevent a third party takeover, despite possible benefit to the shareholders, or otherwise adversely affect the price of our common stock. Our governing documents:

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

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

Moreover, even in the absence of an attempted takeover, the provisions make it difficult for shareholders dissatisfied with the Board to effect a change in the Board's composition, even at annual meetings.

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

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

Our future ability to pay dividends and repurchase stock is subject to restrictions.

Since we are a holding company with no significant assets other than the Bank, we have no material source of income other than dividends received from the Bank. Therefore, our ability to pay dividends to our shareholders will depend on the Bank’s ability to pay dividends to us. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. We are also restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred securities or Series B Preferred Stock. Additionally, terms and conditions of our outstanding shares of preferred stock place certain restrictions and limitations on our common stock dividends and repurchases of our common stock.

A shareholder’s investment is not an insured deposit.

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

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

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

In our Texas market area we have two full service branches located in Beaumont, Texas. Our additional full service branches in the Texas market area are located in Vidor, Conroe, College Station, Houston, Dallas, Fort Worth, Mesquite, Rockwall, White Rock, and Tyler. The Company also operates a loan production office located in Conroe, Texas. Of these offices, six are owned and seven are leased.

Item 3 - Legal Proceedings

A Notice of Charge of Discrimination was filed against the Company in April 2011 with the U.S. Equal Employment Opportunity Commission by Karen L. Hail, a former Director and officer of the Company. Ms. Hail’s claim alleges

gender discrimination and retaliation. In May 2011, Ms. Hail also filed an action in U.S. District Court for the Western District of Louisiana (“the Court”) against the Company and the Bank for discrimination and retaliation in violation of the Family Medical Leave Act and Title VII of the Civil Rights Act seeking unspecified monetary damages. In July 2011, the Company and the Bank filed an answer and counterclaim along with a motion to partially dismiss Ms. Hail’s claims. Ms. Hail filed a response to the motion to dismiss in August 2011. The Court has not yet ruled on the motion filed by the Company and the Bank. The Company believes Ms. Hail’s claims are without merit and will strongly defend against the claim.

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

Item 4 – Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

The names, ages as of December 31, 2011, and positions of our executive officers are listed below along with their business experience during the past five years.

C. R. Cloutier, 64 – President, Chief Executive Officer and Director of the Company and the Bank since 1984.

Troy Cloutier, 38 – Chief Banking Officer and Senior Executive Vice President of the Bank since February 2011. Prior to his appointment as Chief Banking Officer, Mr. Cloutier had been with MidSouth Bank for 18 years and most recently served as Senior Vice President and Regional President for the South and East Louisiana Regions in addition to managing due diligence for the Bank’s mergers and acquisitions team. Troy Cloutier is the son of C.R. Cloutier.

James R. McLemore, 52 – Senior Executive Vice President and Chief Financial Officer for the Company and the Bank since July 2009. Prior to joining the Company and the Bank, Mr. McLemore served as Executive Vice President and Chief Financial Officer of Security Bank Corporation from 2002 until July 2009. In July 2009, subsequent to Mr. McLemore’s departure, the six subsidiary banks of Security Bank Corporation were closed and the FDIC was appointed receiver of the banks. Security Bank Corporation subsequently filed for bankruptcy in August of 2009.

John Nichols, 56 – Executive Vice President and Chief Credit Officer for the Bank since July 2010. Nichols, who previously served as Senior Vice President and President of the bank's West Louisiana Region, is based in Lake Charles. He continues to be a member of the Lake Charles market's Regional Loan Committee. Nichols joined the Bank in 2001, having previously worked as Senior Vice President and Business Banking Manager for Bank One (now JPMorgan Chase) in Lake Charles and Alexandria.

Gerald “Jerry” Reaux Jr., 51 – Chief Operating Officer of the Company and the Bank since February 2011. Prior to joining MidSouth, Mr. Reaux served three years as Chief Executive Officer of Tri-Parish Bancshares, Ltd. in Eunice, Louisiana and also served as the Vice Chairman for seven years. He has over 28 years of banking experience. In May of 2011 at the Annual Meeting of Shareholders, Mr. Reaux was elected as a director of the Company and the Bank and succeeded Dr. J.B. Hargroder as Vice Chairman of the Board of Directors of the Company.

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

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PART II

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

As of February 29, 2012, there were 864 common shareholders of record. The Company's common stock trades on the NYSE AMEX Equities under the symbol "MSL." The high and low sales price for the past eight quarters has been provided in the Selected Quarterly Financial Data tables that are included with this filing under Item 8 and is incorporated herein by reference.

Cash dividends totaling \$2.8 million were declared to common shareholders during 2011. The regular quarterly dividend of \$0.07 per share was paid for all four quarters of 2011, for a total of \$0.28 per share for the year. Cash dividends totaling \$2.7 million were declared to common shareholders during 2010. A quarterly dividend of \$0.07 per share was paid for each quarter of 2010, for a total of \$0.28 per share for the year.

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

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

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The following graph compares the cumulative total return on our common stock over a period beginning December 31, 2006 with (1) the cumulative total return on the stocks included in the Russell 3000 and (2) the cumulative total return on the stocks included in the SNL Securities, LC (“SNL”) \$500M - \$1B and the SNL \$1B - \$5B Bank Index. The comparison assumes an investment in our common stock on the indices of \$100 at December 31, 2006 and assumes that all dividends were reinvested during the applicable period.

MidSouth Bancorp, Inc.

| Index | Period Ending | | | | | |
|------------------------|---------------|----------|----------|----------|----------|----------|
| | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 |
| MidSouth Bancorp, Inc. | 100.00 | 79.47 | 44.34 | 49.41 | 55.66 | 48.14 |
| Russell 3000 | 100.00 | 105.14 | 65.92 | 84.60 | 98.92 | 99.93 |
| SNL Bank \$500M-\$1B | 100.00 | 80.13 | 51.35 | 48.90 | 53.38 | 46.96 |
| SNL Bank \$1B-\$5B | 100.00 | 72.84 | 60.42 | 43.31 | 49.09 | 44.77 |

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

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Item 6 – Five Year Summary of Selected Financial Data

| | At and For the Year Ended December 31, | | | | | |
|--|---|-----------|-----------|-----------|-----------|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 | |
| | (dollars in thousands, except per share data) | | | | | |
| Interest income | \$51,007 | \$48,124 | \$50,041 | \$55,472 | \$57,139 | |
| Interest expense | (5,802) | (7,395) | (10,220) | (16,085) | (20,534) | |
| Net interest income | 45,205 | 40,729 | 39,821 | 39,387 | 36,605 | |
| Provision for loan losses | (3,925) | (5,020) | (5,450) | (4,555) | (1,175) | |
| Noninterest income | 13,061 | 14,857 | 15,046 | 15,128 | 14,259 | |
| Noninterest expenses | (49,304) | (43,818) | (44,693) | (43,974) | (38,634) | |
| Earnings before income taxes | 5,037 | 6,748 | 4,724 | 5,986 | 11,055 | |
| Income tax expense | (564) | (968) | (125) | (449) | (2,279) | |
| Net earnings | \$4,473 | \$5,780 | \$4,599 | \$5,537 | \$8,776 | |
| Preferred dividend requirement | (1,802) | (1,198) | (1,175) | - | - | |
| Net earnings available to common shareholders | \$2,671 | \$4,582 | \$3,424 | \$5,537 | \$8,776 | |
| Basic earnings per common share ¹ | \$0.27 | \$0.47 | \$0.51 | \$0.84 | \$1.34 | |
| Diluted earnings per common share ¹ | \$0.27 | \$0.47 | \$0.51 | \$0.83 | \$1.32 | |
| Dividends per common share ¹ | \$0.28 | \$0.28 | \$0.28 | \$0.32 | \$0.29 | |
| Total loans | \$746,305 | \$580,812 | \$585,042 | \$608,955 | \$569,505 | |
| Total assets | 1,396,756 | 1,002,339 | 972,142 | 936,815 | 854,056 | |
| Total deposits | 1,164,806 | 800,772 | 773,285 | 766,704 | 733,517 | |
| Cash dividends on common stock | 2,776 | 2,721 | 1,846 | 2,120 | 1,920 | |
| Long-term obligations | 15,465 | 15,465 | 15,465 | 15,465 | 15,465 | |
| Selected ratios: | | | | | | |
| Loans to assets | 53.43 | % 58.00 | % 60.18 | % 65.00 | % 66.68 | % |
| Loans to deposits | 64.07 | % 72.53 | % 75.66 | % 79.43 | % 77.64 | % |
| Deposits to assets | 83.39 | % 79.89 | % 79.54 | % 81.84 | % 85.89 | % |
| Return on average assets | 0.24 | % 0.47 | % 0.37 | % 0.60 | % 1.06 | % |
| Return on average common equity | 2.22 | % 3.92 | % 4.35 | % 7.79 | % 13.83 | % |

¹ On October 23, 2007, the Company paid a 5% stock dividend to common shareholders of record on September 21, 2007.

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

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of the Company and on its results of operations during 2011, 2010, and 2009. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this annual report on Form 10-K, particularly the consolidated financial statements and related notes appearing in Item 8.

Overview

We are a bank holding company, headquartered in Lafayette, Louisiana, that through our community banking subsidiary, MidSouth Bank, N.A., operates 40 offices in Louisiana and Texas. We had approximately \$1.4 billion in consolidated assets as of December 31, 2011. We derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Approximately 78.1% of our total deposits are interest-bearing. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. The resulting ratio of that difference as a percentage of our average earning assets represents our net interest margin. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We maintain this allowance by charging a provision for loan losses against our operating earnings for each period. We have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses. Our financial performance for the years ended December 31, 2010 and 2011 were, and continue to be, significantly impacted by the disruptions in the national economy and the resulting financial uncertainty that has severely impacted the banking industry. While we believe our market areas have fared better than the national economy during this most recent economic downturn, the economic uncertainty and difficult real estate markets had an impact on our loan losses, loan demand and our net interest margin.

In addition to earning interest on our loans and investments, we earn income through fees and other charges to our customers. We have also included a discussion of the various components of this noninterest income, as well as of our noninterest expense.

We plan to continue to grow both organically and through acquisitions, including potential expansion into new market areas. We believe our current financial condition, coupled with our scalable operational capabilities will allow us to act upon growth opportunities in the current banking environment.

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

Acquisition Activity during 2011

The Bank completed three acquisitions in 2011. On July 29, 2011, the Bank acquired five Jefferson Bank branches in the Dallas-Fort Worth market from First Bank and Trust Company of Lubbock, Texas. In connection with this acquisition, the Bank acquired \$57.7 million of loans and assumed \$165.8 million in deposits from Jefferson Bank. In connection with the acquisition, the Bank also purchased \$9.1 million of loan participations from First Bank and Trust.

On December 1, 2011, the Bank acquired substantially all of the assets and liabilities of First Louisiana National Bank (“FLNB”), Breaux Bridge, Louisiana. In connection with this acquisition, the Bank acquired \$48.0 million in loans and assumed \$104.0 million in deposits from FLNB.

On December 2, 2011, the Bank acquired the Tyler, Texas branch of Beacon Federal. In connection with this acquisition, the Bank acquired \$22.2 million in loans and assumed \$79.8 million in deposits from Beacon Federal. The system conversions for all three acquisitions were completed in the third and fourth quarters of 2011.

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Repayment of TARP and Participation in SBLF

In August 2011, the Company repaid \$20.0 million in Series A Preferred Stock issued to the Treasury under the Capital Purchase Plan (“CPP”) with funds from the U.S. Treasury’s Small Business Lending Fund (“SBLF”) authorized by Congress under the Small Business Jobs Act of 2010. Repayment of the 20,000 shares of Series A Preferred Stock under the CPP resulted in accelerated accretion of discount on the preferred stock of approximately \$444,000 in the third quarter of 2011. As a result of the repurchase of the Series A Preferred Stock, all of the TARP limitations affecting the Company were removed. In connection with the SBLF, the Company issued \$32.0 million in Series B Preferred Stock to the Treasury. The dividend rate on the Series B Preferred Stock going forward will be between 1% and 5% based on the level of qualified small business loans. As of December 31, 2011, the dividend rate was 5% per annum.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking practices. Our most critical accounting policy relates to the determination of the allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The determination of the adequacy of the allowance involves significant judgment and complexity and is based on many factors. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates would be updated and additional provisions for loan losses may be required. See Asset Quality – Allowance for Loan Losses and Note 1 and Note 4 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. In evaluating the goodwill on our consolidated balance sheet for impairment at December 31, 2011, we first assessed qualitative factors to determine whether it is more likely than not that the fair value of our acquired assets is less than the carrying amount of the acquired assets, as allowed under ASU 2011-08, Intangibles- Goodwill and Other (Topic 350): Testing Goodwill for Impairment. After making the assessment based on several factors, which included but was not limited to the current economic environment, the economic outlook in our markets, our financial performance and common stock value as compared to our peers, we determined it is more likely than not that the fair value of our acquired assets is greater than the carrying amount and, accordingly, no impairment of goodwill was recorded for the year ended December 31, 2011.

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

Another of our critical accounting policies related 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 percent more likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

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Results of Operations

Net income available to common shareholders for the year ended December 31, 2011 totaled \$2.7 million compared to \$4.6 million for the year ended December 31, 2010, a decrease of \$1.9 million, or 41.3%. Diluted earnings per share were \$0.27 for the year ended December 31, 2011, compared to \$0.47 for 2010. A \$0.6 million increase in preferred dividends reduced net earnings available to common shareholders in prior year comparison. For the year ended December 31, 2011, the \$1.8 million in preferred dividends included \$560,000 recorded with respect to the \$32.0 million in Series B Preferred Stock issued under the SBLF at a rate of 5.0%, \$796,000 in dividends recorded on the \$20.0 million in Series A Preferred Stock issued under the CPP, and \$444,000 in accelerated discount accretion resulting from repayment of the Series A Preferred Stock. The \$1.2 million in preferred dividends recorded for 2010 were dividends paid at a rate of 5.0% on the Series A Preferred Stock.

A \$5.5 million increase in non-interest expense and a \$1.8 million decrease in non-interest income also reduced net earnings in 2011. Of the \$5.5 million increase in non-interest expense, \$2.4 million was acquisition and conversion expenses related to the three acquisitions completed in 2011. Other increases in non-interest expense (exclusive of acquisition, conversion, and acquired operating costs) included \$0.7 million in salary and benefits costs, \$0.7 million in expenses on ORE and repossessed assets, and \$0.3 million in marketing costs, which were partially offset by a \$0.4 million reduction in internet banking processing costs.

Non-interest income decreased \$1.8 million, from \$14.9 million for the year ended December 31, 2010 to \$13.1 million for the year ended December 31, 2011. The decrease was primarily driven by a \$2.7 million reduction in NSF fee income due to a lower volume of NSF transactions processed. Regulatory changes governing our ability to collect NSF fees implemented in the second half of 2010, combined with proactive steps taken during the first quarter of 2011 in response to guidance issued by the FDIC, significantly lowered our NSF fee income in 2011. Although additional regulatory changes regarding electronic transactions could further reduce our non-interest income earned in future periods, we believe the current contribution of NSF fee income to total non-interest income has leveled off and is sustainable.

The \$5.5 million increase in non-interest expense and \$1.8 million decrease in non-interest income were partially offset by a \$4.5 million improvement in net interest income and a \$1.1 million decrease in the provision for loan losses.

Total consolidated assets increased \$394.4 million, or 39.3%, from \$1.0 billion at December 31, 2010, to \$1.4 billion at December 31, 2011. The increase in assets resulted primarily from a \$364.0 million growth in deposits over the same period, from \$800.8 million to \$1.2 billion. The majority of the deposit growth was a result of deposits added from the three branch acquisitions completed in the second half of 2011. Despite a shift in the deposit mix due to the acquired deposits, we maintained a strong non-interest-bearing deposits base of 22% of total deposits at December 31, 2011, decreasing from 25% of total deposits at December 31, 2010. Total loans were \$746.3 million at December 31, 2011, an increase of \$165.5 million, or 28.5%, from the \$580.8 million reported as of December 31, 2010. Of the \$165.5 million growth in loans, \$127.9 million was a result of acquired loans, \$9.1 million was loan participations purchased from First Bank and Trust, and \$28.5 million was organic growth.

Our leverage capital ratio decreased to 11.14% at December 31, 2011 from 14.00% at December 31, 2010 due to the acquisition activity. Tier 1 risk-weighted capital and total risk-weighted capital ratios were 16.10% and 16.97% at December 31, 2011, compared to 21.11% and 22.36% at December 31, 2010, respectively. The Tier 1 common equity ratio at December 31, 2011 was 7.61%. Return on average common equity was 2.22% for 2011 compared to 3.92% for 2010. Return on average assets was 0.24% compared to 0.47% for the same periods, respectively. Our return on average common equity and average assets ratios at December 31, 2011 were significantly impacted by \$2.4 million in acquisition and conversion expenses related to the branch acquisitions.

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Nonaccrual loans totaled \$6.2 million as of December 31, 2011, compared to \$19.6 million as of December 31, 2010. The \$13.4 million decrease in nonaccruals in year-over-year comparison resulted primarily from the transfer of two commercial credits totaling \$6.5 million into ORE and the sales of a \$1.6 million commercial real estate note in the first quarter of 2011 and a \$2.7 million national participation credit in the third quarter of 2011. Nonaccrual loans also declined due to first quarter 2011 charge-offs of \$2.8 million in specific reserves related to the two loans transferred to ORE. Loans past due 90 days or more and still accruing interest totaled \$231,000 at December 31, 2011, an increase of \$165,000 from December 31, 2010. Total nonperforming assets to total assets were 1.01% at December 31, 2011, compared to 2.09% at December 31, 2010. Loans classified as troubled debt restructurings during 2011 consisted of four small commercial loans and one small consumer loan totaling \$456,000. The commercial loans were classified as troubled debt restructurings due to a reduction in monthly payments granted to the borrowers and the consumer loan was classified as troubled debt restructuring due to a credit exception.

Allowance coverage for nonperforming loans was 112.63% at December 31, 2011, compared to 44.81% at December 31, 2010. Year-to-date net charge-offs were 0.73% of total loans as of December 31, 2011 compared to 0.72% as of December 31, 2010. The ALL/total loans ratio decreased to 0.97% for the year ended December 31, 2011, compared to 1.52% at December 31, 2010, primarily due to the \$127.9 million in loans added through the three acquisitions completed in the third and fourth quarters of 2011.

Table 1
Summary of Return on Equity and Assets

| | 2011 | | 2010 | | 2009 | |
|---------------------------------------|--------|---|-------|---|-------|---|
| Return on average assets | 0.24 | % | 0.47 | % | 0.37 | % |
| Return on average common equity | 2.22 | % | 3.92 | % | 4.35 | % |
| Dividend payout ratio on common stock | 103.70 | % | 59.57 | % | 54.90 | % |
| Average equity to average assets | 12.88 | % | 13.88 | % | 10.43 | % |

NOTE: 2011 return on average assets and return on average common equity were impacted by approximately \$2.4 million of acquisition and related system conversion charges due to branch acquisitions.

Earnings Analysis

Net Interest Income

Our primary source of earnings is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and other interest-bearing liabilities. Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income. Our net interest margin on a taxable equivalent basis, which is net interest income as a percentage of average earning assets, was 4.58%, 4.72%, and 4.88% for the years ended December 31, 2011, 2010, and 2009, respectively. Tables 2 and 3 analyze the changes in net interest income in the years ended December 31, 2011, 2010, and 2009.

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

| | Year Ended December 31, | | | | | | | | |
|---|-------------------------|---------------|---------------------------|-------------------|---------------|---------------------------|-------------------|---------------|---------------------------|
| | 2011 | | | 2010 | | | 2009 | | |
| | Average Volume | Interest | Average Yield/ Rate | Average Volume | Interest | Average Yield/ Rate | Average Volume | Interest | Average Yield/ Rate |
| Assets | | | | | | | | | |
| Investment securities¹ | | | | | | | | | |
| Taxable | \$ 226,819 | \$ 5,362 | 2.36 % | \$ 153,545 | \$ 3,699 | 2.41 % | \$ 101,556 | \$ 3,905 | 3.85 % |
| Tax exempt ² | 93,796 | 4,786 | 5.10 % | 109,020 | 5,598 | 5.13 % | 115,176 | 6,159 | 5.35 % |
| Total investment securities | 320,615 | 10,148 | 3.17 % | 262,565 | 9,297 | 3.54 % | 216,732 | 10,064 | 4.64 % |
| Federal funds sold | 6,567 | 14 | 0.21 % | 3,328 | 7 | 0.21 % | 17,617 | 37 | 0.21 % |
| Time and interest bearing deposits in other banks | 61,292 | 196 | 0.32 % | 41,999 | 274 | 0.65 % | 20,222 | 274 | 1.35 % |
| Other investments | 5,107 | 155 | 3.04 % | 5,007 | 148 | 2.96 % | 4,445 | 130 | 2.92 % |
| Loans | | | | | | | | | |
| Commercial and real estate | 545,480 | 35,254 | 6.46 % | 489,799 | 32,201 | 6.57 % | 483,626 | 31,993 | 6.62 % |
| Installment | 79,409 | 6,633 | 8.35 % | 94,391 | 7,828 | 8.29 % | 109,963 | 9,349 | 8.50 % |
| Total loans³ | 624,889 | 41,887 | 6.70 % | 584,190 | 40,029 | 6.85 % | 593,589 | 41,342 | 6.96 % |
| Total earning assets | 1,018,470 | 52,400 | 5.14 % | 897,089 | 49,755 | 5.55 % | 852,605 | 51,847 | 6.08 % |
| Allowance for loan losses | (7,241) | | | (8,050) | | | (7,650) | | |
| Nonearning assets | 106,447 | | | 92,732 | | | 89,579 | | |
| Total assets | \$ 1,117,676 | | | \$ 981,771 | | | \$ 934,534 | | |
| Liabilities and shareholders' equity | | | | | | | | | |
| NOW, money market, and savings | \$ 506,809 | \$ 2,260 | 0.45 % | \$ 466,844 | \$ 3,562 | 0.76 % | \$ 439,655 | \$ 4,632 | 1.05 % |
| Time deposits | 173,742 | 1,764 | 1.02 % | 122,324 | 1,906 | 1.56 % | 141,159 | 3,471 | 2.46 % |
| Total interest-bearing deposits | 680,551 | 4,024 | 0.59 % | 589,168 | 5,468 | 0.93 % | 580,814 | 8,103 | 1.40 % |
| Borrowings: | 49,654 | 807 | 1.63 % | 49,054 | 948 | 1.93 % | 44,318 | 1,070 | 2.41 % |

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| | | | | | | | | | |
|--|--------------|-----------|--------|------------|-----------|--------|------------|-----------|--------|
| Securities sold under agreements to repurchase | | | | | | | | | |
| Federal funds purchased | - | - | - | 243 | 2 | 0.82 % | 622 | 5 | 0.80 % |
| Other borrowings | - | - | - | 682 | 3 | 0.44 % | 4,625 | 23 | 0.50 % |
| Total borrowings | 49,654 | 807 | 1.63 % | 49,979 | 953 | 1.91 % | 49,565 | 1,098 | 2.22 % |
| Junior subordinated debentures | 15,465 | 971 | 6.19 % | 15,465 | 974 | 6.30 % | 15,465 | 1,019 | 6.50 % |
| Total interest-bearing liabilities | 745,670 | 5,802 | 0.78 % | 654,612 | 7,395 | 1.13 % | 645,844 | 10,220 | 1.58 % |
| Demand deposits | 219,669 | | | 184,419 | | | 185,757 | | |
| Other liabilities | 8,367 | | | 6,457 | | | 5,468 | | |
| Stockholders' equity | 143,970 | | | 136,283 | | | 97,465 | | |
| Total liabilities and stockholders' equity | \$ 1,117,676 | | | \$ 981,771 | | | \$ 934,534 | | |
| Net interest income and net interest spread | | \$ 46,598 | 4.36 % | | \$ 42,360 | 4.42 % | | \$ 41,627 | 4.50 % |
| Net yield on interest-earning assets | | | 4.58 % | | | 4.72 % | | | 4.88 % |

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

2 Interest income of \$1,393,000 for 2011, \$1,631,000 for 2010, and \$1,806,000 for 2009 is added to interest earned on tax-exempt obligations to reflect tax-equivalent yields using a 34% tax rate.

3 Interest income includes loan fees of \$3,205,000 for 2011, \$3,150,000 for 2010, and \$3,184,000 for 2009. 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)

| | 2011 Compared to 2010 | | | 2010 Compared to 2009 | | |
|---|---------------------------|-------------------------------------|----------|---------------------------|-------------------------------------|------------|
| | Total Increase (Decrease) | Change Attributable to Volume Rates | | Total Increase (Decrease) | Change Attributable to Volume Rates | |
| Taxable-equivalent interest earned on: | | | | | | |
| Investment securities | | | | | | |
| Taxable | \$1,663 | \$1,733 | \$(70) | \$(206) | \$1,566 | \$(1,772) |
| Tax-exempt | (812) | (777) | (35) | (561) | (322) | (239) |
| Federal funds sold | 7 | 7 | - | (30) | (30) | - |
| Time and interest-bearing deposits in other banks | | | | | | |
| Other investments | (78) | 97 | (175) | - | 194 | (194) |
| Loans, including fees | 7 | 3 | 4 | 18 | 17 | 1 |
| Total | 1,858 | 2,743 | (885) | (1,313) | (650) | (663) |
| Total | 2,645 | 3,806 | (1,161) | (2,092) | 775 | (2,867) |
| Interest paid on: | | | | | | |
| Interest-bearing deposits | (1,444) | 756 | (2,200) | (2,635) | 115 | (2,750) |
| Securities sold under agreements to repurchase | | | | | | |
| Federal funds purchased | (141) | 12 | (153) | (122) | 106 | (228) |
| Other borrowings | (2) | (2) | - | (3) | (3) | - |
| Junior subordinated debentures | (3) | (3) | - | (20) | (18) | (2) |
| Total | (3) | - | (3) | (45) | - | (45) |
| Total | (1,593) | 763 | (2,356) | (2,825) | 200 | (3,025) |
| Taxable-equivalent net interest income | \$4,238 | \$3,043 | \$1,195 | \$733 | \$575 | \$158 |

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

Net interest income on a fully taxable-equivalent (“FTE”) basis increased \$4.2 million for 2011 over 2010, the result of a \$1.6 million reduction in interest expense and a \$2.6 million increase in interest income. The increase in interest income on earning assets resulted primarily from a \$121.4 million increase in the volume of average earning assets primarily as a result of the three acquisitions in 2011. The improvement in interest income from the increased average volume of earning assets was partially offset by a 15 basis point decline in the average yield on loans, from 6.85% at December 31, 2010 to 6.70% at December 31, 2011. Loan yields declined as matured loans re-priced in the lower rate environment and new loan rates reflected competitive market pricing. Additionally, interest income on investment securities for 2011 increased as a \$58.1 million increase in the average volume of investment securities offset the impact of a 37 basis point reduction in the average FTE yield earned on investment securities. The reduction in the FTE average yield on investment securities from 3.54% at December 31, 2010 to 3.17% at December 31, 2011 resulted from lower yields on investments purchased in 2011 with excess cash flow from the acquisitions. Interest expense decreased primarily due to a 34 basis point reduction in the average rate paid on interest-bearing deposits, from 0.93% at December 31, 2010 to 0.59% at December 31, 2011. Additionally, interest paid on securities sold under agreements to repurchase and on the junior subordinated debentures decreased due to rate reductions. As a result, the FTE net interest margin declined 14 basis points, from 4.72% for the year ended December 31, 2010 to 4.58% for the year ended December 31, 2011. Net of purchase accounting adjustments, the

FTE net interest margin declined 24 basis points for 2011 over 2010.

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Net interest income on a FTE basis increased \$733,000 for 2010 over 2009, as a \$2.8 million reduction in interest expense offset a \$2.1 million decrease in interest income. The decrease in interest income on earning assets resulted primarily from the combination of a \$9.4 million decrease in the average volume of loans, combined with an 11 basis point decline in the average yield on loans, from 6.96% at December 31, 2009 to 6.85% at December 31, 2010. The decline in loan volume resulted primarily from payoffs in the commercial, financial, and agricultural portfolio. Loan yields declined as matured loans re-priced in the lower rate environment and new loan rates reflected competitive market pricing. Additionally, FTE interest income on investment securities for 2010 decreased as a 110 basis point reduction in the average FTE yield earned on investment securities offset the impact of a \$45.8 million increase in the average volume of investment securities. The reduction in the average FTE yield on investment securities from 4.64% at December 31, 2009 to 3.54% at December 31, 2010 resulted from the reinvestment of excess cash in short-term U.S. Agency bonds at lower yields. Interest expense decreased primarily due to a 47 basis point reduction in the average rate paid on interest-bearing deposits, from 1.40% at December 31, 2009 to 0.93% at December 31, 2010. Additionally, interest paid on securities sold under agreements to repurchase and on the junior subordinated debentures decreased due to rate reductions. As a result, the FTE net interest margin declined 16 basis points, from 4.88% for the year ended December 31, 2009 to 4.72% for the year ended December 31, 2010.

Included in 2010 FTE net interest income is a \$298,000 one-time recovery of interest income on a \$3.9 million nonaccrual commercial loan that was paid off in December 2010. Net of the \$298,000 recovery of interest income, the taxable equivalent margin would have decreased 19 basis points in prior year comparison.

Noninterest Income

Noninterest income totaled \$13.1 million at December 31, 2011, compared to \$14.9 million at December 31, 2010 and \$15.0 million at December 31, 2009. Service charges and fees on deposit accounts represent the primary source of noninterest income for the Company. Income from service charges and fees on deposit accounts, including insufficient funds fees ("NSF" fees), decreased \$2.8 million in 2011 compared to a \$716,000 decrease in 2010. The decrease in 2011 was primarily due to a \$2.7 million reduction of NSF fee income, which resulted from fewer NSF items processed. As discussed below, we believe this was primarily driven by the changes implemented in our policies in connection with the changes in Regulation E in 2010. Income on ATM and debit card transactions increased \$442,000 in 2011 and \$294,000 in 2010 as the result of an increase in electronic transactions processed. Other noninterest income increased \$514,000 in 2011 and increased \$233,000 in 2010, including net gains on sales of securities. The \$514,000 increase in 2011 resulted primarily from a \$468,000 increase in income from other real estate owned. During the second quarter of 2011, we repossessed a condominium complex and have been earning income on the rentals until the property is sold. The \$233,000 increase in 2010 resulted primarily from a \$178,000 impairment charge on an equity security recorded in 2009.

During 2010, we addressed changes in Regulation E, which became effective on August 15, 2010. Regulation E governs the treatment of electronic funds transfers and the Bank's ability to collect fees for overdrafts involving ATM and point of sale debit transactions. The amendments to Regulation E required that we give our customers the option to continue to receive approval on and payment of point-of-sale transactions only if they have chosen overdraft protection. As a result of offering the required option, 82.0% of our customers affected opted to continue to access a form of overdraft protection for approval on and payment of point-of-sale transactions. Additionally, during the first quarter of 2011, we took proactive steps in response to guidance issued by the FDIC that lowered our NSF fee income in 2011. Although additional regulatory changes regarding electronic transactions could further reduce our non-interest income earned in future periods, we believe the current contribution of NSF fee income to total non-interest income has leveled off and is sustainable.

Noninterest Expense

Total noninterest expense increased 12.5%, or \$5.5 million, from 2010 to 2011, and decreased 2.0%, or \$875,000, from 2009 to 2010. Salaries and employee benefits increased \$1.4 million, or 6.9%, in 2011 and the total of full-time

equivalent employees was 444, an increase of 55 employees from 389 full-time equivalent employees at year-end 2010. Salary and benefit costs increased in 2011 primarily due to employees added with the three acquisitions completed in the second half of 2011. The increase also included retention and merit bonuses paid following completion of the acquisitions and system conversions of all three acquisitions by year-end 2011. Additionally, in the first quarter of 2011, we implemented a new management structure designed to increase shareholder value through a coordinated focus on achieving our expansion objectives. The new structure included the appointment of two new executive officers, a Chief Operating Officer and a Chief Banking Officer. Salaries and employee benefits decreased \$1.4 million, or 6.4%, in 2010, primarily due to a \$1.2 million reduction in group health insurance expense as MidSouth's partially self-funded group health insurance plan experienced a lower amount of insurance claims in 2010.

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Occupancy expenses increased \$554,000 in 2011 and decreased \$561,000 in 2010. The increase in occupancy expense in 2011 related to the acquired branches totaled approximately \$514,000 and primarily included additional lease expense and increased fuel and auto maintenance expenses. The \$561,000 decrease in 2010 resulted primarily from a \$265,000 decrease in depreciation cost and a \$139,000 decrease in lease expense. Premises and equipment additions and leasehold improvements totaled approximately \$11.4 million, \$1.3 million, and \$1.8 million for the years 2011, 2010, and 2009, respectively.

ATM and debit card processing fees decreased \$209,000 in 2011 and increased \$235,000 in 2010. The decrease in 2011 is primarily due to a decrease in the cost of third party processing. The increase in 2010 resulted primarily from an increase in fraud losses on electronic transactions.

Data processing costs, included in other non-interest expense, increased \$1.1 million in 2011 and increased \$451,000 in 2010. The increase in 2011 is due to data processing charges of \$1.2 million incurred as a result of the three acquisitions that were partially offset by a \$423,000 reduction in the cost of internet banking processing. Other non-interest expense increases of \$480,000 in marketing expense, \$328,000 in corporate development expense, \$231,000 in printing and supplies expense, and \$913,000 in legal and professional fees were impacted by acquisition costs totaling approximately \$1.2 million in these and other non-interest expense categories in 2011. Expenses on other real estate owned increased \$713,000 due primarily to the repossession of a condominium complex in the second quarter of 2011. These increased non-interest expenses were partially offset by a \$410,000 decrease in FDIC fees due to a change in the assessment calculation.

Other non-interest expense increases in 2010 included \$274,000 in expenses on other real estate owned and \$179,000 in costs associated with a customer relationship management system. These increased non-interest expenses were partially offset by a \$353,000 decrease in FDIC fees. The reduction in FDIC fees was due to a one-time assessment of approximately \$416,000 paid in the second quarter of 2009.

Income Taxes

Income tax expense decreased by \$404,000 in 2011 and increased by \$843,000 in 2010 and approximated 11%, 14%, and 3% of income before taxes in 2011, 2010 and 2009, respectively. The lower effective tax rate was due primarily to the impact of nontaxable municipal interest on the statutory tax rate. Additionally, the lower tax rates for 2009 resulted from recognition of the Work Opportunity Tax Credit under the Katrina Emergency Tax Relief Act of 2005, which reduced income tax expense by \$108,000 in 2009. The notes to the consolidated financial statements provide additional information regarding income tax considerations.

Balance Sheet Analysis

Investment Securities

Total investment securities increased \$202.3 million in 2011, from \$265.4 million in 2010 to \$467.7 million at December 31, 2011. The increase resulted primarily from \$250.8 million in purchased securities and \$32.6 million in securities acquired with the FLNB acquisition, partially offset by \$81.7 million in maturities and calls of securities within the portfolio in 2011. Average duration of the portfolio was 3.44 years as of December 31, 2011 and the average taxable-equivalent yield was 3.17%. For the year ended December 31, 2010, average duration of the portfolio was 3.17 years and the average taxable-equivalent yield was 3.54%. Unrealized net gains before tax effect in the securities available-for-sale portfolio were \$11.7 million at December 31, 2011, compared to unrealized net gains before tax effect of \$6.3 million at December 31, 2010. These amounts resulted from interest rate fluctuations.

At December 31, 2011, approximately \$176.1 million, or 48.0%, of the securities available-for-sale portfolio represented mortgage-backed securities and CMOs. All of the mortgage-backed securities and CMOs are government agency sponsored with the exception of three privately issued CMOs with a current market value of \$137,000. Risk

due to changes in interest rates on mortgage-backed pools is monitored by monthly reviews of prepayment speeds, duration, and purchase yields as compared to current market yields on each security. CMOs totaled \$66.6 million and represented pools that each had a book value of less than 10% of shareholders' equity at December 31, 2011. An additional 25.9% of the available-for-sale portfolio consisted of short-term U.S. Government sponsored enterprises securities, while municipal securities represented 26.2%. Given the current economic environment and concerns regarding the financial stability of municipalities in general, we contracted with an independent third party provider to conduct a review of our municipal portfolio during the first quarter of 2011. As a result of the review, six municipal securities were sold during the first and second quarters of 2011 due primarily to the inability to obtain current financial information. We did not purchase any municipal securities during 2011. Additional information on our investment securities portfolio is provided in Note 3 of the notes to consolidated financial statements.

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Table 4
Composition of Investment Securities
December 31
(in thousands)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|------------|------------|------------|------------|------------|
| Available-for-sale securities | | | | | |
| U. S. Government sponsored enterprises | \$ 94,999 | \$ 117,698 | \$ 102,523 | \$ 39,747 | \$ 45,229 |
| Obligations of state and political subdivisions | 96,149 | 108,852 | 117,301 | 118,613 | 100,966 |
| GSE mortgage-backed securities | 109,487 | 11,472 | 15,634 | 19,661 | 24,250 |
| Collateralized mortgage obligations: residential | 41,468 | 22,688 | 36,278 | 47,829 | 10,797 |
| Collateralized mortgage obligations: commercial | 25,138 | 3,099 | - | - | - |
| Financial institution equity security | - | - | 72 | 94 | 210 |
| Total available-for-sale securities | \$ 367,241 | \$ 263,809 | \$ 271,808 | \$ 225,944 | \$ 181,452 |
| Held-to-maturity securities | | | | | |
| Obligations of state and political subdivisions | \$ 340 | \$ 1,588 | \$ 3,043 | \$ 6,490 | \$ 10,746 |
| GSE mortgage-backed securities | 82,497 | - | - | - | - |
| Collateralized mortgage obligations: commercial | 17,635 | - | - | - | - |
| Total held-to-maturity securities | \$ 100,472 | \$ 1,588 | \$ 3,043 | \$ 6,490 | \$ 10,746 |
| Total investment securities | \$ 467,713 | \$ 265,397 | \$ 274,851 | \$ 232,434 | \$ 192,198 |

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Table 5

Investment Securities Portfolio

Maturities and Average Taxable-Equivalent Yields

For the Year Ended December 31, 2011

(dollars in thousands)

| | Within 1 Year | | After 1 but | | After 5 but | | After 10 Years | | Total |
|--|---------------|--------|-------------|--------|-------------|--------|----------------|--------|-----------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | |
| Securities available-for-sale: | | | | | | | | | |
| U.S. Government sponsored enterprises | \$72,758 | 1.43 % | \$22,241 | 0.52 % | \$- | - | \$- | - | \$94,999 |
| Obligations of state and political subdivisions ¹ | 7,500 | 5.21 % | 47,522 | 4.83 % | 35,583 | 5.71 % | 5,544 | 5.98 % | 96,149 |
| GSE mortgage-backs and CMOs: residential | 5,588 | 4.66 % | 145,136 | 2.83 % | - | - | 231 | 2.27 % | 150,955 |
| GSE mortgage-backs and CMOs: commercial | 740 | 3.33 % | 14,008 | 2.24 % | 10,390 | 3.01 % | - | - | 25,138 |
| Total fair value | \$86,586 | | \$228,907 | | \$45,973 | | \$5,775 | | \$367,241 |
| | | | | | | | | | |
| | | | | | | | | | |
| Held-to-Maturity: | | | | | | | | | |
| Obligations of state and political subdivisions | \$140 | 5.50 % | \$200 | 6.84 % | \$- | - | \$- | - | \$340 |
| GSE mortgage-backs and CMOs: residential | - | - | 82,497 | 2.41 % | - | - | - | - | 82,497 |
| GSE mortgage-backs and CMOs: commercial | - | - | 10,063 | 2.04 % | 7,572 | 2.45 % | - | - | 17,635 |
| Total cost | \$140 | | \$92,760 | | \$7,572 | | \$- | | \$100,472 |

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

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Loan Portfolio

The loan portfolio totaled \$746.3 million at December 31, 2011, up 28.5%, or \$165.5 million, from \$580.8 million at December 31, 2010. Of the \$165.5 million in loan growth, \$127.9 million resulted from the 2011 acquisitions. Approximately \$26.4 million in organic loan growth in 2011 resulted primarily from improved loan demand and funding activity, primarily in the third and fourth quarters of 2011. Organic growth has been effected by commercial and consumer customers continuing to pay down debt in an unstable economic environment.

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

The loan portfolio at December 31, 2011 consisted of approximately 49% in fixed rate loans, with the majority maturing within five years. Approximately 51% of the portfolio earns a variable rate of interest, the greater majority of which adjusts simultaneous with changes in the Prime rate and a smaller portion that adjusts on a scheduled repricing date. The mix of variable and fixed rate loans provides some protection from changes in market rates of interest. Additionally, over the past two years, we established rate floors, primarily for our commercial loans, that provided some protection to our net interest margin during a sustained low rate environment like we are currently facing.

Table 6
Composition of Loans
December 31
(in thousands)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-----------|-----------|-----------|-----------|-----------|
| Commercial, financial, and agricultural | \$223,283 | \$177,598 | \$193,350 | \$208,473 | \$192,681 |
| Lease financing receivable | 4,276 | 4,748 | 7,589 | 8,058 | 8,089 |
| Real estate – commercial | 280,798 | 208,764 | 188,045 | 167,242 | 148,465 |
| Real estate – residential | 113,582 | 72,460 | 77,130 | 67,346 | 67,840 |
| Real estate – construction | 52,712 | 54,164 | 39,544 | 65,327 | 65,448 |
| Installment loans to individuals | 69,980 | 62,272 | 77,069 | 87,743 | 85,931 |
| Other | 1,674 | 806 | 2,315 | 4,766 | 1,051 |
| Total loans | \$746,305 | \$580,812 | \$585,042 | \$608,955 | \$569,505 |

NOTE: The December 31, 2007 loan composition reflects a reclassification in real estate – construction, real estate – mortgage, and commercial, financial, and agricultural loans.

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Table 7

Loan Maturities and Sensitivity to Interest Rates
For the Year Ended December 31, 2011
(in thousands)

| | Fixed and Variable Rate Loans at Stated Maturities | | | | Amounts Over One Year With | | |
|---|--|------------------|--------------|-----------|----------------------------|----------------|-----------|
| | 1 Year or Less | 1 Year – 5 Years | Over 5 years | Total | Predetermined Rates | Floating Rates | Total |
| Commercial, financial, and agricultural | \$93,449 | \$83,689 | \$46,145 | \$223,283 | \$76,047 | \$53,787 | \$129,834 |
| Lease financing receivables | 156 | 4,120 | - | 4,276 | 4,120 | - | 4,120 |
| Real estate – commercial | 22,951 | 93,470 | 164,377 | 280,798 | 78,566 | 179,281 | 257,847 |
| Real estate – residential | 14,052 | 35,716 | 63,814 | 113,582 | 74,663 | 24,867 | 99,530 |
| Real estate – construction | 24,349 | 14,390 | 13,973 | 52,712 | 13,779 | 14,584 | 28,363 |
| Installment loans to individuals | 20,277 | 42,578 | 7,125 | 69,980 | 42,490 | 7,213 | 49,703 |
| Other | 585 | 1,089 | - | 1,674 | 1,089 | - | 1,089 |
| Total | \$175,819 | \$275,052 | \$295,434 | \$746,305 | \$290,754 | \$279,732 | \$570,486 |

Asset Quality

Credit Risk Management

We manage credit risk by observing written, board approved policies that govern all underwriting activities. In 2010, we added a Chief Credit Officer (“CCO”) responsible for credit underwriting and loan operations for the Bank. The role of CCO includes on-going review and development of lending policies, commercial credit analysis, centralized consumer underwriting, loan operations documentation and funding, and overall credit risk management procedures. The current risk management process requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by the loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. We believe the conservative nature of our underwriting practices has resulted in strong credit quality in our loan portfolio. Completed loan applications, credit bureau reports, financial statements, and a committee approval process remain a part of credit decisions. Documentation of the loan decision process is required on each credit application, whether approved or denied, to ensure thorough and consistent procedures. Additionally, we have historically recognized and disclosed significant problem loans quickly and taken prompt action to address material weaknesses in those credits.

Our loan review process also includes monitoring and reporting of loan concentrations whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At December 31, 2011, one industry segment concentration, the oil and gas industry, aggregated more than 10% of our loan portfolio. Our exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$112.3 million, or 15.1% of total loans. Additionally, we monitor our exposure to loans secured by commercial real estate. At December 31, 2011, loans secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately \$322.3 million. Of the \$322.3 million, \$264.3 million represent CRE loans, 63% of which are secured by owner-occupied

commercial properties. Of the \$322.2 million in loans secured by commercial real estate, \$3.2 million or 1.0% were on nonaccrual status at December 31, 2011 and consisted primarily of five credits totaling \$2.6 million.

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Nonperforming Assets

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

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

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|----------|----------|----------|----------|---------|
| Loans on nonaccrual | \$6,229 | \$19,603 | \$16,183 | \$9,355 | \$1,602 |
| Loans past due 90 days or > and still accruing | 231 | 66 | 378 | 1,005 | 980 |
| Total nonperforming loans | 6,460 | 19,669 | 16,561 | 10,360 | 2,582 |
| Other real estate owned, net | 7,369 | 1,206 | 792 | 329 | 143 |
| Other assets repossessed | 326 | 36 | 51 | 306 | 280 |
| Total nonperforming assets | \$14,155 | \$20,911 | \$17,404 | \$10,995 | \$3,005 |
| Troubled debt restructurings | \$456 | \$653 | \$- | \$- | \$- |
| Nonperforming loans to total loans + ORE + other foreclosed assets | 1.88 | % 3.59 | % 2.83 | % 1.70 | % 0.45 |
| Nonperforming assets to total assets | 1.01 | % 2.09 | % 1.79 | % 1.17 | % 0.35 |
| ALLL to nonperforming loans | 113 | % 45 | % 48 | % 73 | % 217 |
| ALLL to total loans | 0.97 | % 1.52 | % 1.37 | % 1.25 | % 0.99 |

Nonperforming assets declined 32.3% in year-over-year comparison as the Company continued to successfully work problem assets off the balance sheet. Total nonperforming assets were reduced from \$20.9 million at December 31, 2010 to \$14.2 million at December 31, 2011, a \$6.7 million reduction that included the charge-off of \$2.8 million in specific reserves related to two commercial credits in the first quarter of 2011. The two credits were transferred into Other Real Estate (“ORE”) during the second and third quarters of 2011. One credit totaling \$4.9 million is secured by a condominium complex that is currently producing positive cash flow from net rental income on a monthly basis. The second credit is a \$1.4 million commercial development loan in the Texas market. Additionally, a \$1.6 million credit was sold in the first quarter of 2011 and a \$2.7 million national participation credit was sold in the third quarter of 2011 to further reduce nonperforming assets. Classified assets, including ORE, totaled \$26.7 million at December 31, 2011, down 31.9% from \$39.2 million at December 31, 2010. Troubled debt restructurings (“TDRs”) totaled \$456,000 at December 31, 2011 compared to \$653,000 at December 31, 2010. One commercial credit classified as a TDR at December 31, 2010 returned to its original payment schedule in June of 2011 and three additional small commercial credits were identified as TDRs in 2011. Additional information regarding impaired loans and TDRs is included in the notes to the consolidated financial statements.

Allowance coverage for nonperforming loans was 113% at December 31, 2011, compared to 45% at December 31, 2010. The allowance coverage for nonperforming loans ratio increased in 2011 despite a decrease in the ALLL/total loans ratio from 1.52% at December 31, 2010 to 0.97% at December 31, 2011. The increased coverage ratio for nonperforming loans resulted primarily from a \$13.2 million reduction in nonperforming loans. The decrease in the ALLL/total loans ratio resulted primarily from the \$127.9 million in loans added through the three acquisitions completed in the third and fourth quarters of 2011. In accordance with GAAP, there was no carry-over of each bank’s previously established ALLL. Year-to-date net charge-offs were 0.73% of total loans as of December 31, 2011 compared to 0.72% as of December 31, 2010.

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

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Allowance for Loan Losses

Provisions totaling \$3.9 million, \$5.0 million, and \$5.5 million, for the years 2011, 2010, and 2009, respectively, were considered necessary to bring the allowance for loan losses to a level we believe sufficient to cover probable losses in the loan portfolio. For additional information regarding the decrease in the year-end allowance to year-end total loans for 2011, see the discussion of “Nonperforming Assets” above. Table 9 analyzes activity in the allowance for 2011, 2010, 2009, 2008, and 2007.

Table 9

Summary of Loan Loss Experience
(dollars in thousands)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|---------|---------|---------|---------|---------|
| Balance at beginning of year | \$8,813 | \$7,995 | \$7,586 | \$5,612 | \$4,977 |
| Charge-offs: | | | | | |
| Commercial, financial, and agricultural | 1,109 | 1,333 | 1,147 | 776 | 150 |
| Lease financing receivables | 19 | 1 | 26 | - | 1 |
| Real estate – commercial | 1,246 | 130 | 136 | 39 | - |
| Real estate – residential | 283 | 146 | 306 | 125 | 1 |
| Real estate – construction | 2,444 | 1,478 | 2,172 | 428 | - |
| Installment loans to individuals | 671 | 1,368 | 1,481 | 1,256 | 474 |
| Other | - | - | - | - | - |
| Total charge-offs | 5,772 | 4,456 | 5,268 | 2,624 | 626 |
| Recoveries: | | | | | |
| Commercial, financial, and agricultural | 152 | 50 | 56 | 35 | 18 |
| Lease financing receivables | 1 | 1 | - | - | 6 |
| Real estate – commercial | 1 | 1 | - | - | - |
| Real estate – residential | 4 | 60 | 2 | - | 6 |
| Real estate – construction | 14 | 1 | 1 | - | - |
| Installment loans to individuals | 138 | 141 | 168 | 155 | 55 |
| Other | - | - | - | 2 | 1 |
| Total recoveries | 310 | 254 | 227 | 192 | 86 |
| Net charge-offs | 5,462 | 4,202 | 5,041 | 2,432 | 540 |
| Additions to allowance charged to operating expenses | 3,925 | 5,020 | 5,450 | 4,555 | 1,175 |
| Reclassification ¹ | - | - | - | (149) | - |
| Balance at end of year | \$7,276 | \$8,813 | \$7,995 | \$7,586 | \$5,612 |
| Net charge-offs to average loans | 0.87 | % 0.72 | % 0.86 | % 0.40 | % 0.10 |
| Year-end allowance to year-end loans | 0.97 | % 1.52 | % 1.37 | % 1.25 | % 0.99 |

¹ In the second quarter of 2008, approximately \$149,000 of the allowance for loan loss was identified as a reserve for unfunded loan commitments. The reserve was classified as a liability in accordance with SFAS No. 5, Accounting for Contingencies, in the same period.

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Table 10

Allocation of Loan Loss by Category
(dollars in thousands)

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|--|---------|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|
| | Amount | % of loans to total | Amount | % of loans to total | Amount | % of loans to total | Amount | % of loans to total | Amount | % of loans to total |
| Commercial, financial, and real estate | \$1,734 | 24.0 | \$1,664 | 31.0 | \$2,053 | 33.0 | \$1,586 | 35.0 | \$2,111 | 34.0 |
| Real estate - construction | 1,661 | 23.0 | 2,963 | 9.0 | 2,247 | 7.0 | 2,911 | 11.0 | 659 | 11.0 |
| Real estate -mortgages1 | - | - | - | - | 2,296 | 45.0 | 1,999 | 38.0 | 1,893 | 39.0 |
| Real estate - commercial | 2,215 | 30.0 | 2,565 | 36.0 | - | - | - | - | - | - |
| Real estate - residential | 936 | 13.0 | 862 | 12.0 | - | - | - | - | - | - |
| Installment loans to individuals | 710 | 10.0 | 730 | 11.0 | 1,378 | 14.0 | 1,058 | 15.0 | 805 | 15.0 |
| Lease financing receivables | 19 | - | 29 | 1.0 | 21 | 1.0 | 32 | 1.0 | 80 | 1.0 |
| Other | 1 | - | - | - | - | - | - | - | 64 | - |
| | \$7,276 | 100.0 | \$8,813 | 100.0 | \$7,995 | 100.0 | \$7,586 | 100.0 | \$5,612 | 100.0 |

Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The allowance is comprised of specific reserves assigned to each impaired loan for which probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the allowance, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. Additional information regarding the allowance for loan losses is included in the notes to the consolidated financial statements.

Funding Sources

Deposits

As of December 31, 2011, total deposits increased \$364.0 million, or 45.5%, to \$1.2 billion following an increase of \$27.5 million in 2010 to \$800.8 million. Noninterest-bearing deposits increased \$55.3 million to \$254.8 million and represented 21.9% of total deposits at December 31, 2011, compared to 24.9% at December 31, 2010 and 22.7% at December 31, 2009. Interest-bearing deposits in money market and savings accounts increased \$46.3 million and NOW account deposits increased \$55.6 million. Time deposits, which are comprised mostly of certificates of deposits ("CDs"), increased \$206.8 million in 2011. The deposit growth in 2011 resulted primarily from the acquisitions. Core deposits, defined as all deposits other than time deposits of \$100,000 or more, declined following the acquisitions to 84.2% of total deposits in 2011 compared to 92.6% at year-end 2010, and 91.2% at year-end 2009. Strategically, we

will work to convert higher cost CDs acquired into core relationships as the CDs mature. To manage the net interest margin and core deposit balances, we typically offer low- to mid-market rates on CDs and have no brokered deposits. Additional information on deposits appears in the tables below and in the notes to the consolidated financial statements.

1 Portfolio segments have been revised for 2010 in accordance with Accounting Standards Update 2010-20, effective for periods ending on or after December 15, 2010.

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Table 11
Summary of Average Deposits
(in thousands)

| | 2011 | | 2010 | | 2009 | |
|-------------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Average Amount | Average Yield | Average Amount | Average Yield | Average Amount | Average Yield |
| Noninterest-bearing demand deposits | \$219,669 | - | \$184,419 | - | \$185,757 | - |
| Interest-bearing deposits: | | | | | | |
| Savings, NOW, and money market | 506,809 | 0.45 % | 466,844 | 0.76 % | 439,655 | 1.05 % |
| Time deposits | 173,742 | 1.02 % | 122,324 | 1.56 % | 141,159 | 2.46 % |
| Total | \$900,220 | 0.45 % | \$773,587 | 0.71 % | \$766,571 | 1.06 % |

Table 12
Maturity Schedule Time Deposits of \$100,000 or More
(in thousands)

| | 2011 | 2010 | 2009 |
|---------------------------------|-----------|----------|----------|
| 3 months or less | \$40,621 | \$24,555 | \$30,397 |
| Over 3 months through 6 months | 33,435 | 8,992 | 15,235 |
| Over 6 months through 12 months | 59,779 | 11,601 | 17,118 |
| Over 12 months | 50,278 | 13,975 | 5,343 |
| Total | \$184,113 | \$59,123 | \$68,093 |

Borrowed Funds

As of December 31, 2011, we had securities sold under repurchase agreements totaling \$46.1 million and no federal funds purchased. At December 31, 2010, we had \$43.8 million in securities sold under repurchase agreements and no federal funds purchased. Retail repurchase agreements, included in securities sold under agreements to repurchase, increased \$2.3 million, from \$31.3 million at December 31, 2010 to \$33.6 million at December 31, 2011. Also included in securities sold under agreements to repurchase is a \$12.5 million reverse repurchase agreement we entered into with Citigroup Markets, Inc. ("CGMI") in July of 2007. The reverse repurchase agreement provided low cost funding to meet liquidity demands. Under the terms of the agreement, interest is payable at a fixed rate of 4.57% for the remainder of the term. The repurchase date is scheduled for August 9, 2017; however, the agreement is subject to call by CGMI quarterly.

On September 20, 2004, we issued \$8,248,000 of unsecured junior subordinated debentures. The \$8.2 million in debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at December 31, 2011 was 3.06%. The debentures mature on September 20, 2034 and, under certain circumstances, are subject to repayment on September 20, 2009 or thereafter.

On February 22, 2001, we issued \$7,217,000 of unsecured junior subordinated debentures. The \$7.2 million in debentures carry a fixed interest rate of 10.20% and mature on February 22, 2031 and, under certain circumstances, are subject to repayment on February 22, 2011 or thereafter. Our outstanding debentures currently qualify as Tier 1 capital and are presented in the Consolidated Balance Sheets as Junior subordinated debentures. Additional information regarding long-term debt is provided in the notes to the consolidated financial statements.

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

In 2011, 2010, and 2009, we did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or FRB discount window that exceeded 30% of our stockholders' equity for such year.

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Capital

As described under “Business - Supervision and Regulation,” we are required to maintain certain minimum capital levels for the Company and the Bank. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. At December 31, 2011, the Company and the Bank were in compliance with statutory minimum capital requirements. Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 4.0%, and a leverage ratio (Tier 1 capital to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of December 31, 2011, the Company's leverage ratio was 11.14% as compared to 14.00% at December 31, 2010. Tier 1 capital to risk weighted assets was 16.10% and 21.11% for 2011 and 2010, respectively. Total capital to risk weighted assets was 16.97% and 22.36%, respectively, for the same periods. For regulatory purposes, Tier 1 Capital includes \$15.0 million of the junior subordinated debentures issued by the Company. For financial reporting purposes, these funds are included as a liability under GAAP. The Bank's leverage ratio was 8.91% and 10.78% at December 31, 2011 and 2010, respectively.

The FDIC Improvement Act of 1991 established a capital-based supervisory system for all insured depository institutions that imposes increasing restrictions on the institution as its capital deteriorates. The Bank was classified as “well capitalized” as of December 31, 2011. No significant restrictions are placed on the Bank as a result of this classification.

As discussed under the heading Balance Sheet Analysis - Securities, \$11.7 million in unrealized gains on securities available-for-sale, less a deferred tax liability of \$4.0 million, was recorded as an addition to shareholders' equity as of December 31, 2011. As of December 31, 2010, \$6.3 million in unrealized gains on securities available-for-sale, less a deferred tax liability of \$2.1 million, was recorded as an addition to shareholders' equity. While the net unrealized loss or gain on securities available-for-sale is required to be reported as a separate component of shareholders' equity, it does not affect operating results or regulatory capital ratios. The net unrealized gains and losses reported for December 31, 2011 and 2010, however, did affect the equity-to-assets ratio for financial reporting purposes. The ratio of equity-to-assets was 11.59% at December 31, 2011 and 13.63% at December 31, 2010.

Asset/Liability Management and Interest Rate Sensitivity

Interest rate sensitivity is the sensitivity of net interest income and economic value of equity to changes in market rates of interest. The primary objective of our asset and liability management process is to evaluate interest rate sensitivity inherent in our balance sheet components and establish guidelines to manage that risk within acceptable performance levels. Management and our Board of Directors are responsible for determining the appropriate level of acceptable risk based on our strategic focus, regulatory requirements for capital and liquidity, and the market environment. Our Board of Directors established an Asset/Liability management committee (“ALCO”), comprised of certain executive and senior officers of the Bank, to measure and monitor interest rate risk within defined parameters. During 2011, ALCO utilized a qualified third party's model of asset and liability management to measure interest rate risk using net interest income simulation and economic value of equity sensitivity analysis. The third party utilizes its own proprietary software to model our assets and liabilities. The model captures data from our internal operating systems, an external investment portfolio accounting system and additional information regarding rates and prepayment characteristics to construct an analysis that presents differences in repricing, cash flows and the maturity characteristics of earning assets and interest-bearing liabilities for selected time periods.

This data, combined with additional assumptions including repricing rates and payment characteristics, were used to perform instantaneous parallel rate shift and ramped rate shift simulations. Instantaneous rate shifts are known as “rate shocks” because all rates are modeled to change instantaneously by the indicated shock amount. Ramped rate shifts model gradual shifts over a period of time and generally provide more realistic projections of changes in net interest income and market risk. Results of the simulations were compared to a base case scenario that provided projected net interest income over the next 12 months with no change in the balance sheet. The estimated percentage changes in

projected net interest income due to changes in interest rates of –100, +200, and +300 basis points as determined through the simulations are detailed below. At December 31, 2011, the interest rate risk model results were within policy guidelines and indicated that our balance sheet is slightly asset sensitive. The results of the interest rate risk modeling are reviewed by ALCO and discussed quarterly at Funds Management committee meetings of our Board of Directors.

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| Net Interest Income at Risk in Year 1 | Estimated Increase /Decrease in NII at December 31, 2011 |
|---------------------------------------|---|
| Changes in Interest Rates | 2011 |
| Shock Up 300 basis points | 1.1% |
| Ramped Up 200 basis points | 0.2% |
| Ramped Down 100 basis points | 0.1% |

In January 2011, we revised our asset/liability and funds management policy to allow for the potential use of interest rate derivatives; however, we had not entered into any interest rate swaps or off-balance sheet derivatives to modify interest sensitivity levels at December 31, 2011.

Liquidity**Bank Liquidity**

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

Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. Our core deposits are our most stable and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately \$134.8 million in projected cash flows from securities repayments during 2012 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the Federal Reserve Bank of Atlanta ("FRB") and with the FHLB-Dallas. As of December 31, 2011, we had no borrowings with the FRB-Atlanta or the FHLB-Dallas. The Company has \$21.8 million in borrowing capacity at the FRB Discount Window and has the ability to post additional collateral of approximately \$315.7 million if necessary to meet liquidity needs. Additionally, \$10.1 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled \$261.9 million at December 31, 2011. Additional unsecured borrowing lines totaling \$48.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity

In August 2011, the Company repaid \$20.0 million in Series A Preferred Stock issued in 2009 to the Treasury under the CPP with funds from the Treasury's SBLF program authorized by Congress under the Small Business Jobs Act of 2010. As a result of the repurchase of the Series A Preferred Stock, all of the TARP limitations affecting the Company were removed. In connection with the SBLF transaction, the Company issued \$32.0 million in Series B Preferred Stock to the Treasury. Net of \$20.0 million used to repay the Series A Preferred Stock, the remaining \$12.0 million was injected into the Bank as additional common equity capital. The dividend rate on the Series B Preferred Stock going forward will be between 1% and 5% based on the level of qualified small business loans. As of December 31, 2011, the dividend rate was 5% per annum.

On December 22, 2009, we closed an underwritten public offering of 2.7 million shares of our common stock at a price of \$12.75 per share. On January 7, 2010, the underwriters of the public offering exercised in full their overallotment option for 405,000 additional shares of our common stock. Net proceeds from the offering and the exercise of the overallotment option totaled \$37.2 million after deducting underwriting discounts and offering expenses. We used the net proceeds for general corporate purposes including supporting ongoing and anticipated growth, which may include potential acquisition opportunities.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividend payments on the Series B Preferred Stock and dividends on the common stock. We issued \$8,248,000 in unsecured junior subordinated debentures in September 2004 and \$7,217,000 in February 2001, the terms of which are described in the notes to the consolidated financial statements. No dividends were paid by the Bank to the Company in 2010 or 2011; however, as of January 1, 2012, the Bank had the ability to pay dividends to the Company of approximately \$15.4 million without prior approval from the OCC. At December 31, 2011, the parent company had approximately \$27.9 million cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock, preferred stock and other securities to provide funds as needed for operations and future growth of the Company and the Bank.

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Dividends

The primary source of cash dividends on the Company's common stock is dividends from the Bank. The Bank has the ability to declare dividends to the Company of up to \$15.4 million as of December 31, 2011 without prior approval of the OCC. However, the Bank's ability to pay dividends would be prohibited if the result would cause the Bank's regulatory capital to fall below minimum requirements.

Cash dividends totaling \$2.8 million and \$2.7 million were declared to common shareholders during 2011 and 2010, respectively. During 2010 and through August of 2011, pursuant to the terms of the agreements between us and the Treasury governing the CPP Transaction, we could not pay cash dividends on our common stock in excess of \$0.28 per share per year.

Off Balance Sheet Arrangements and Other Contractual Obligations

In the normal course of business we use various financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. We did not have an average balance in any category of short-term borrowings detailed below in 2011, 2010, or 2009 that exceeded 30% of our stockholders' equity for such year. Additional information regarding contractual obligations appears in the notes to the consolidated financial statements. The following table presents significant contractual obligations as of December 31, 2011.

Table 14
Contractual Obligations
(in thousands)

| | Total | Payment due by period | | | |
|-------------------------------|-----------|-----------------------|----------------|----------------|----------------------|
| | | 1 year or less | > 1-3 years | > 3-5 years | More than 5 years |
| Time deposits | \$324,541 | \$239,688 | \$73,518 | \$11,332 | \$3 |
| Federal funds purchased | - | - | - | - | - |
| Long-term debt obligations | 15,465 | - | - | - | 15,465 |
| Retail Repurchase Agreements | 33,578 | 33,578 | - | - | - |
| Reverse Repurchase Agreements | 12,500 | - | - | - | 12,500 |
| Operating lease obligations | 23,110 | 2,179 | 4,062 | 3,525 | 13,344 |
| Total | \$409,194 | \$275,445 | \$77,580 | \$14,857 | \$41,312 |

Impact of Inflation and Changing Prices

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

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

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

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Item 8 – Financial Statements and Supplementary Data

Consolidated Balance Sheets

December 31, 2011 and 2010

(dollars in thousands, except share data)

| | 2011 | 2010 |
|--|--------------------|--------------------|
| Assets | | |
| Cash and due from banks, including required reserves of \$7,990 and \$3,487, respectively | \$26,775 | \$20,758 |
| Interest-bearing deposits in banks | 56,128 | 69,452 |
| Federal funds sold | 400 | 1,697 |
| Time deposits held in banks | 710 | 5,164 |
| Securities available-for-sale, at fair value (cost of \$355,496 at December 31, 2011 and \$257,472 at December 31, 2010) | 367,241 | 263,809 |
| Securities held-to-maturity (estimated fair value of \$101,131 at December 31, 2011 and \$1,608 at December 31, 2010) | 100,472 | 1,588 |
| Other investments | 5,637 | 5,062 |
| Loans | 746,305 | 580,812 |
| Allowance for loan losses | (7,276) | (8,813) |
| Loans, net | 739,029 | 571,999 |
| Bank premises and equipment, net | 44,598 | 36,592 |
| Accrued interest receivable | 5,607 | 4,628 |
| Goodwill | 24,959 | 9,271 |
| Intangibles | 7,147 | 115 |
| Cash surrender value of life insurance | 4,853 | 4,698 |
| Other real estate | 7,369 | 1,206 |
| Other assets | 5,831 | 6,300 |
| Total assets | \$1,396,756 | \$1,002,339 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$254,755 | \$199,460 |
| Interest-bearing | 910,051 | 601,312 |
| Total deposits | 1,164,806 | 800,772 |
| Securities sold under agreements to repurchase | 46,078 | 43,826 |
| Junior subordinated debentures | 15,465 | 15,465 |
| Other liabilities | 8,570 | 5,623 |
| Total liabilities | 1,234,919 | 865,686 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Series A Preferred stock, no par value; 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2011 and 20,000 shares issued and outstanding at December 31, 2010 | - | 19,408 |
| Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at December 31, 2011 and no shares issued and outstanding at December 31, 2010 | 32,000 | - |
| Common stock, \$0.10 par value; 30,000,000 shares authorized, 10,615,983 and 9,880,743 issued and 10,465,506 and 9,730,266 outstanding at December 31, 2011 and | 1,062 | 988 |

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| | | |
|---|-------------|-------------|
| December 31, 2010, respectively | | |
| Additional paid-in capital | 98,842 | 89,893 |
| Unearned ESOP shares | - | (104) |
| Accumulated other comprehensive income | 7,752 | 4,182 |
| Treasury stock- 150,477 shares at December 31, 2011 and 2010, at cost | (3,286) | (3,286) |
| Retained earnings | 25,467 | 25,572 |
| Total shareholders' equity | 161,837 | 136,653 |
| Total liabilities and shareholders' equity | \$1,396,756 | \$1,002,339 |

See notes to consolidated financial statements.

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Consolidated Statements of Earnings
 December 31, 2011, 2010 and 2009
 (in thousands, except per share data)

| | Twelve Months Ended December 31, | | |
|--|----------------------------------|----------|----------|
| | 2011 | 2010 | 2009 |
| Interest income: | | | |
| Loans, including fees | \$41,887 | \$40,029 | \$41,342 |
| Investment securities: | | | |
| Taxable | 5,362 | 3,699 | 3,905 |
| Nontaxable | 3,393 | 3,967 | 4,353 |
| Other interest income | 365 | 429 | 441 |
| Total interest income | 51,007 | 48,124 | 50,041 |
| Interest expense: | | | |
| Deposits | 4,024 | 5,468 | 8,103 |
| Borrowings | 807 | 953 | 1,098 |
| Junior subordinated debentures | 971 | 974 | 1,019 |
| Total interest expense | 5,802 | 7,395 | 10,220 |
| Net interest income | 45,205 | 40,729 | 39,821 |
| Provision for loan losses | 3,925 | 5,020 | 5,450 |
| Net interest income after provision for loan losses | 41,280 | 35,709 | 34,371 |
| Noninterest income: | | | |
| Service charges on deposit accounts | 6,921 | 9,673 | 10,389 |
| Gain (loss) on securities, net | 99 | 3 | (178) |
| ATM and debit card income | 3,802 | 3,360 | 3,066 |
| Other charges and fees | 2,239 | 1,821 | 1,769 |
| Total noninterest income | 13,061 | 14,857 | 15,046 |
| Noninterest expenses: | | | |
| Salaries and employee benefits | 21,763 | 20,352 | 21,743 |
| Occupancy expense | 9,281 | 8,727 | 9,288 |
| ATM and debit card expense | 1,256 | 1,465 | 1,230 |
| Other | 17,004 | 13,274 | 12,432 |
| Total noninterest expense | 49,304 | 43,818 | 44,693 |
| Income before income taxes | 5,037 | 6,748 | 4,724 |
| Income tax expense | 564 | 968 | 125 |
| Net earnings | \$4,473 | \$5,780 | \$4,599 |
| Dividends on preferred stock and accretion of warrants | 1,802 | 1,198 | 1,175 |
| Net earnings available to common shareholders | \$2,671 | \$4,582 | \$3,424 |
| Earnings per common share: | | | |
| Basic | \$0.27 | \$0.47 | \$0.51 |
| Diluted | \$0.27 | \$0.47 | \$0.51 |

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income
 December 31, 2011, 2010 and 2009
 (in thousands)

| | 2011 | 2010 | 2009 |
|---|---------|---------|---------|
| Net earnings | \$4,473 | \$5,780 | \$4,599 |
| Other comprehensive income, net of tax: | | | |
| Unrealized gains on securities available-for-sale: | | | |
| Unrealized holding gains arising during the year net of income tax expense of \$1,872, \$143, and \$1,076 respectively | 3,635 | 280 | 2,090 |
| Reclassification adjustment for gain on liquidation of equity security included in securities available-for-sale, net of income tax expense of \$34 and \$1, for the years ended December 31, 2011 and 2010, respectively, and for impairment loss, net of income tax benefit of \$61, for the year ended December 31, 2009 | (65) | (2) | 117 |
| Total other comprehensive income | 3,570 | 278 | 2,207 |
| Total comprehensive income | \$8,043 | \$6,058 | \$6,806 |

See notes to consolidated financial statements.

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Consolidated Statements of Shareholders' Equity

December 31, 2011, 2010 and 2009

(in thousands, except share and per share data)

| | Preferred Stock Series A | | Preferred Stock Series B | | Common Stock | | ESOP Surplus | Accumulated Other Comprehensive Income | Treasury Stock | Retained Earnings | |
|--|-----------------------------|--------|-----------------------------|--------|--------------|--------|-----------------|---|-------------------|----------------------|----------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balance | | | | | | | | | | | |
| December 31, 2008 | - | \$- | - | \$- | 6,788,885 | \$679 | \$52,097 | \$(18) | \$1,697 | \$(3,544) | \$22,133 |
| Net earnings | - | - | - | - | - | - | - | - | - | - | 4,599 |
| Issuance of common stock, net of offering expenses | - | - | - | - | 2,700,000 | 270 | 32,178 | - | - | - | - |
| Issuance of Series A cumulative preferred stock and common stock warrants, net of costs of issuance | 20,000 | 19,014 | - | - | - | - | 940 | - | - | - | - |
| Dividends on preferred stock and accretion of common stock warrants | - | 197 | - | - | - | - | - | - | - | - | (1,175) |
| Dividends on common stock - \$0.28 per share | - | - | - | - | - | - | - | - | - | - | (1,840) |
| Exercise of stock options | - | - | - | - | 48 | - | - | - | - | - | - |
| Tax benefit resulting from exercise of stock options, net adjustment | - | - | - | - | - | - | (3) | - | - | - | - |
| ESOP compensation expense | - | - | - | - | - | - | 31 | (199) | - | - | - |
| Stock option expense | - | - | - | - | - | - | 20 | - | - | - | - |
| Change in accumulated other comprehensive income | - | - | - | - | - | - | - | - | 2,207 | - | - |

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| | | | | | | | | | | | |
|--|----------|----------|--------|--------|-----------|-----|--------|-------|-------|---------|---------|
| Balance December 31, 2009 | 20,000 | 19,211 | - | - | 9,488,933 | 949 | 85,263 | (217) | 3,904 | (3,544) | 23,711 |
| Net earnings | - | - | - | - | - | - | - | - | - | - | 5,780 |
| Issuance of common and treasury stock due to overallotment, net of discount and offering expenses | - | - | - | - | 384,811 | 38 | 4,472 | - | - | 258 | - |
| Dividends on preferred stock and accretion of common stock warrants | - | 197 | - | - | - | - | - | - | - | - | (1,198) |
| Dividends on common stock - \$0.28 per share | - | - | - | - | - | - | - | - | - | - | (2,721) |
| Exercise of stock options | - | - | - | - | 6,999 | 1 | 50 | - | - | - | - |
| ESOP compensation expense | - | - | - | - | - | - | 58 | 113 | - | - | - |
| Stock compensation expense | - | - | - | - | - | - | 50 | - | - | - | - |
| Change in accumulated other comprehensive income | - | - | - | - | - | - | - | - | 278 | - | - |
| Balance December 31, 2010 | 20,000 | 19,408 | - | - | 9,880,743 | 988 | 89,893 | (104) | 4,182 | (3,286) | 25,571 |
| Net earnings | - | - | - | - | - | - | - | - | - | - | 4,473 |
| Issuance of common stock for acquisitions | - | - | - | - | 725,000 | 73 | 8,765 | - | - | - | - |
| Dividends on Series A preferred stock and accretion of common stock warrants | - | 592 | - | - | - | - | - | - | - | - | (1,242) |
| Redemption of Series A Preferred Stock | (20,000) | (20,000) | - | - | - | - | - | - | - | - | - |
| | - | - | 32,000 | 32,000 | - | - | - | - | - | - | - |

| | | | | | | | | | | | | |
|--|---|-----|--------|----------|------------|---------|----------|-----|---------|-----------|----------|---------|
| Issuance of Series B Preferred Stock | | | | | | | | | | | | |
| Dividends on Series B Preferred Stock | - | - | - | - | - | - | - | - | - | - | - | (560) |
| Dividends on common stock - \$0.28 per share | - | - | - | - | - | - | - | - | - | - | - | (2,770) |
| Exercise of stock options | - | - | - | - | 10,240 | 1 | 66 | - | - | - | - | - |
| Tax benefit resulting from exercise of stock options | - | - | - | - | - | - | 1 | - | - | - | - | - |
| ESOP compensation expense | - | - | - | - | - | - | 42 | 104 | - | - | - | - |
| Stock option and restricted stock compensation expense | - | - | - | - | - | - | 75 | - | - | - | - | - |
| Change in accumulated other comprehensive income | - | - | - | - | - | - | - | - | - | 3,570 | - | - |
| Balance December 31, 2011 | - | \$- | 32,000 | \$32,000 | 10,615,983 | \$1,062 | \$98,842 | \$- | \$7,752 | \$(3,286) | \$25,460 | |

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
 December 31, 2011, 2010, and 2009
 (in thousands)

| | 2011 | 2010 | 2009 |
|--|------------|-----------|------------|
| Cash flows from operating activities: | | | |
| Net earnings | \$ 4,473 | \$ 5,780 | \$ 4,599 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 3,265 | 3,300 | 3,587 |
| Amortization of purchase accounting adjustments | (752) | 98 | 121 |
| Provision for loan losses | 3,925 | 5,020 | 5,450 |
| Deferred tax benefit | (491) | (1,033) | (541) |
| Amortization of premiums on securities, net | 910 | 1,226 | 970 |
| Amortization of other investments | 14 | - | - |
| Net loss on sale of other real estate | 66 | 150 | 55 |
| Write down of other real estate owned | 476 | 241 | 76 |
| Net loss on sale of premises and equipment | 126 | 132 | 18 |
| Stock compensation expense | 13 | 6 | 20 |
| Restricted stock expense | 62 | 44 | - |
| (Gain) loss on liquidation and/or impairment of equity security in securities available-for-sale | (99) | (3) | 178 |
| Change in accrued interest receivable | (331) | 180 | 548 |
| Change in accrued interest payable | (120) | (149) | (462) |
| Change in other assets and liabilities, net | 1,667 | 2,271 | (3,356) |
| Net cash provided by operating activities | 13,204 | 17,263 | 11,263 |
| Cash flows from investing activities, net of effect of purchase acquisitions in 2011: | | | |
| Net change in time deposits in other banks | 5,164 | 20,958 | (17,099) |
| Proceeds from liquidation of equity security included in securities available-for-sale | - | 75 | - |
| Proceeds from maturities and calls of securities available-for-sale | 81,030 | 33,242 | 77,703 |
| Proceeds from maturities and calls of securities held-to-maturity | 900 | 1,455 | 3,453 |
| Proceeds from sale of securities available-for-sale | 3,895 | - | - |
| Purchases of securities available-for-sale | (149,332) | (26,107) | (121,369) |
| Purchases of securities held-to-maturity | (101,493) | - | - |
| Proceeds from redemption of other investments | 82 | - | 600 |
| Purchases of other investments | (449) | (173) | (1,201) |
| Net change in loans | (49,875) | (1,050) | 17,903 |
| Purchases of premises and equipment | (3,656) | (1,291) | (1,770) |
| Proceeds from sale of premises and equipment | 9 | 3 | 9 |
| Net cash associated with Jefferson Bank acquisition | 93,800 | - | - |
| Net cash associated with First Louisiana National Bank acquisition | 19,708 | - | - |
| Net cash associated with Beacon Federal acquisition | 52,170 | - | - |
| Proceeds from sale of other real estate owned | 541 | 766 | 177 |
| Purchase of other real estate | - | (450) | - |
| Net cash (used in) provided by investing activities | (47,506) | 27,428 | (41,594) |
| Cash flows from financing activities, net of effect of purchase acquisitions in 2011: | | | |
| Change in deposits | 15,041 | 27,487 | 6,581 |

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| | | | |
|---|-----------|-----------|-----------|
| Change in securities sold under agreements to repurchase | 2,252 | (3,233) | 22,083 |
| Change in federal funds purchased | - | (1,700) | (13,200) |
| Issuance of Series B preferred stock | 32,000 | - | - |
| Redemption of Series A preferred stock | (20,000) | - | - |
| Issuance of preferred stock and related common stock warrants | - | - | 19,954 |
| Issuance of common stock and treasury stock, net of offering expenses | - | 4,768 | 32,448 |
| Change in Federal Reserve Discount Window borrowings | - | - | (36,000) |
| Proceeds from exercise of stock options | 67 | 51 | - |
| Tax benefit due to exercise of stock options | 1 | - | (3) |
| Payment of dividends on preferred stock | (938) | (1,001) | (850) |
| Payment of dividends on common stock | (2,725) | (2,507) | (2,117) |
| Net cash provided by financing activities | 25,698 | 23,865 | 28,896 |
| Net increase or decrease in cash and cash equivalents | (8,604) | 68,556 | (1,435) |
| Cash and cash equivalents, beginning of year | 91,907 | 23,351 | 24,786 |
| Cash and cash equivalents, end of year | \$ 83,303 | \$ 91,907 | \$ 23,351 |

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (continued)
 December 31, 2011, 2010, and 2009
 (in thousands)

| | 2011 | 2010 | 2009 |
|--|----------|----------|-----------|
| Supplemental cash flow information: | | | |
| Interest paid | \$ 5,608 | \$ 7,544 | \$ 10,684 |
| Income taxes paid | 835 | 1,051 | 1,045 |
| Noncash investing and financing activities: | | | |
| Common stock issued in acquisition | 8,838 | - | - |
| Accretion of warrants | 592 | 197 | 197 |
| Change in accrued common stock dividends | 51 | 218 | (272) |
| Change in accrued preferred stock dividends | 272 | - | 128 |
| Net change in loan to ESOP | 104 | 113 | (199) |
| Change in unrealized gains/losses on securities available-for-sale, net of tax | 3,570 | 278 | 2,207 |
| Transfer of loans to other real estate | 7,319 | 1,222 | 1,070 |
| Financed sales of other real estate | 73 | 30 | 300 |

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2011, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements include the accounts of MidSouth Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries MidSouth Bank, N.A. (the “Bank”) and Financial Services of the South, Inc. (the “Finance Company”), which has liquidated its loan portfolio. We merged our two wholly-owned banking subsidiaries, MidSouth Bank, N.A. (Louisiana) and MidSouth Bank Texas, N.A. into MidSouth Bank, N.A., at the end of the first quarter of 2008. All significant intercompany accounts and transactions have been eliminated in consolidation. We are subject to regulation under the Bank Holding Company Act of 1956. The Bank is primarily regulated by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”).

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

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

A summary of significant accounting policies follows:

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

Investment Securities—We determine the appropriate classification of debt securities at the time of purchase and reassesses this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Securities not classified as held-to-maturity or trading are classified as available-for-sale. We had no trading account securities during the three years ended December 31, 2011. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of deferred taxes, reported as a separate component of shareholders’ equity.

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

specific-identification method.

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

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

Loans—Loans that we have the intent and ability to hold for the foreseeable future or until maturity are reported at the principal amount outstanding, net of the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on commercial and real estate mortgage loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. Unearned income on installment loans is credited to operations based on a method which approximates the interest method. In-house legal counsel and the collections department are responsible for validating loans past due for reporting purposes. Once loans are determined to be past due, the collections department actively works with customers to bring loans back to current status.

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

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

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

may continue accruing after 90 days if the loan is in the process of renewing, being paid off, or the underlying collateral fully supports both the principal and accrued interest and the loan is in the process of collection.

Nonaccrual loans may be returned to accrual status if all principal and interest amounts contractually owed are reasonably assured of repayment within a reasonable period and there is a period of at least six months to one year of repayment performance by the borrower depending on the contractual payment terms. Our Special Assets Committee must approve the return of loans to accrual status as well as exceptions to any requirements of the non-accrual policy.

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

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

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

Loans can be classified into the following three risk rating 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.

Allowance for Loan Losses—The allowance for loan losses is a valuation account available to absorb probable losses on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance for loan losses at the time of recovery. Quarterly, we estimate the probable level of losses in the existing portfolio through consideration of such factors including, but not limited to, past loan loss experience; estimated losses in significant credits; known deterioration in concentrations of credit; trends in nonperforming assets; volume and composition of the loan portfolio, including percentages of special mention, substandard and past due loans; lending policies and control systems; known inherent risks in the portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; current national and local economic conditions, including the unemployment rate, the price of oil, and real estate absorption time; the experience, ability and depth of lending management; collections personnel experience; and the results of examinations of the loan portfolio by regulatory agencies and others. Based on these estimates, the allowance for loan losses is increased by charges to earnings and

decreased by charge-offs (net of recoveries).

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

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

Management and the Board of Directors believe the allowance for loan losses is appropriate at December 31, 2011. While determination of the allowance for loan losses is based on available information at a given point in time, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions or deductions to the allowance based on their judgment and information available to them at the time of their examination.

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

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

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

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

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

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

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

respective agreements.

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements—In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (“ASU No. 2010-29”). ASU No. 2010-29 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU No. 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. ASU No. 2010-29 disclosures on the three acquisitions completed in 2011 were not required to be included in Note 2 – Acquisition due to the immateriality of assets acquired and liabilities assumed in each transaction to the Company’s consolidated balance sheet.

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends guidance for evaluating whether the restructuring of a receivable by a creditor is a troubled debt restructuring ("TDR"). The ASU responds to concerns that creditors are inconsistently applying existing guidance for identifying TDRs. The main provision of this Update requires a creditor to separately conclude whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties, in order to determine if a restructuring constitutes a TDR. Guidance is also provided to assist the creditor in evaluating these two criteria. Furthermore, the amendments clarify that a creditor is precluded from using the effective interest rate test, as described in the debtors guidance on restructuring payables, when evaluating whether a restructuring constitutes a TDR. The Company adopted ASU No. 2011-02 for the interim period beginning July 1, 2011. Adoption of ASU No. 2011-02 did not have a material impact on the Company's results of operations, financial position or disclosures.

In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The amendments in this update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this update. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. ASU No. 2011-03 is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

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In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRSs”). The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB Board does not intend for the amendments in this update to result in a change in the application of the requirements in Topic 820. The update also reflects the FASB’s consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. Non-public entities will be exempt from a number of the new disclosure requirements. The amendments in this update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. ASU No. 2011-04 is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in this update allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders’ equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The Company has presented the statement of comprehensive income in a separate, consecutive statement following the statement of earnings for the years ended December 31, 2011, 2010 and 2009. This format will be applied to quarterly filings of Form 10Q beginning with the first quarter 2012 filing.

In September 2011, the FASB issued ASU 2011-08, Intangibles- Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The amendments in this update give an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in ASC 350-20-35-4. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any, as described in ASC 350-20-35-9. Under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company has elected to adopt ASU 2011-08 effective for the year ended December 31, 2011. The adoption of ASU 2011-08 had an effect on how the Company performs its test for impairment of goodwill, but the adoption of this ASU did not have a material impact on the Company’s results of operations, financial position or

disclosures.

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In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update defers the requirements in ASU 2011-05 to present items that are reclassified from accumulated other comprehensive income. ASU 2011-12 does not affect any of the other requirements of ASU 2011-05, including the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive statements.

Reclassifications—Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2011. The reclassifications had no impact on net income or shareholders equity.

2. ACQUISITION ACTIVITY

On July 29, 2011, the Bank purchased all five former Jefferson Bank locations in the Dallas-Fort Worth, Texas area. The Bank acquired the branch network from First Bank and Trust Company, which purchased Jefferson Bank's assets in connection with the bankruptcy of Jefferson Bank's parent company. The Bank acquired at fair value approximately \$57.7 million in performing loans and assumed approximately \$165.8 million in Jefferson Bank deposits for a purchase price of approximately \$10.4 million.

On December 1, 2011, the Bank purchased substantially all of the assets of First Louisiana National Bank ("FLNB"), a wholly owned subsidiary of First Bankshares of St. Martin, Ltd, for total consideration of \$20.3 million, which resulted in preliminary goodwill of \$4.1 million, as shown in the following table (in thousands):

| | Number of Shares | Amount |
|--|---------------------|-----------|
| Equity consideration: | | |
| Common stock issued | 725,000 | \$8,838 |
| Non-equity consideration: | | |
| Cash | | 11,500 |
| Total consideration paid | | 20,338 |
| Fair value of net assets acquired including identifiable intangible assets | | (16,230) |
| Goodwill | | \$4,108 |

On December 2, 2011, the Bank purchased the Tyler, Texas branch of Beacon Federal, a wholly owned federal savings bank of Beacon Federal Bancorp, Inc. The Bank acquired at fair value approximately \$22.2 million in performing loans and assumed approximately \$79.8 million in Beacon Federal deposits.

The three transactions were accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values on the acquisition dates. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information relative to fair values become available. Assets acquired totaled \$370.4 million, including \$127.8 million in loans, \$177.2 million in cash, \$32.8 million of investment securities, \$7.8 million of fixed assets and \$23.0 million of intangibles. Liabilities assumed were \$350.0 million, including \$349.6 million of deposits.

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Preliminary goodwill of \$15.7 million is calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created from combining the businesses as well as the economies of scale expected from combining the operations of the acquired banks with those of the Bank.

The following table provides the assets purchased and the liabilities assumed and the adjustments to fair value for the Jefferson Bank acquisition (in thousands):

| Assets | As Recorded By Jefferson | Fair Value Adjustments | Fair Value |
|---|-----------------------------|---------------------------|-------------------|
| Cash | \$ 93,800 | \$ - | \$ 93,800 |
| Investment securities | 175 | - | 175 |
| Loans receivable | 59,818 | (2,124) | 57,694 |
| Fixed assets | 2,240 | 1,392 | 3,632 |
| Core deposit intangible | - | 2,702 | 2,702 |
| Other assets | 327 | - | 327 |
| Total assets acquired | \$ 156,360 | \$ 1,970 | \$ 158,330 |
| Liabilities | | | |
| Deposits | \$ 164,368 | \$ 1,405 | \$ 165,773 |
| Other liabilities | 283 | - | 283 |
| Total liabilities assumed | 164,651 | 1,405 | 166,056 |
| Excess of liabilities assumed over assets acquired | \$ 8,291 | | |
| Aggregate fair value adjustments | | \$ 565 | |
| Goodwill | | | \$ 7,726 |

The following table provides the assets purchased and the liabilities assumed and the adjustments to fair value for the FLNB acquisition (in thousands):

| Assets | As Recorded By FLNB | Fair Value Adjustments | Fair Value |
|----------------------------------|------------------------|---------------------------|-------------------|
| Cash | \$ 31,208 | \$ - | \$ 31,208 |
| Time deposits held in banks | 710 | - | 710 |
| Investment securities | 32,625 | (1) | 32,624 |
| Other investments | 140 | - | 140 |
| Loans receivable | 48,645 | (693) | 47,952 |
| Fixed assets | 2,234 | 1,445 | 3,679 |
| Core deposit intangible | - | 3,434 | 3,434 |
| Other assets | 641 | - | 641 |
| Total assets acquired | \$ 116,203 | \$ 4,185 | \$ 120,388 |
| Liabilities | | | |
| Deposits | \$ 103,857 | \$ 134 | \$ 103,991 |
| Other liabilities | 167 | - | 167 |
| Total liabilities assumed | \$ 104,024 | \$ 134 | \$ 104,158 |

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The following table provides the assets purchased and the liabilities assumed and the adjustments to fair value for the Beacon Federal acquisition (in thousands):

| Assets | As Recorded By Beacon | Fair Value Adjustments | Fair Value |
|--|--------------------------|---------------------------|---------------|
| Cash | \$ 52,170 | \$ - | \$ 52,170 |
| Loans receivable | 23,760 | (1,600) | 22,160 |
| Fixed assets | 288 | 153 | 441 |
| Core deposit intangible | - | 1,126 | 1,126 |
| Other assets | 51 | - | 51 |
| Total assets acquired | \$ 76,269 | \$ (321) | \$ 75,948 |
| Liabilities | | | |
| Deposits | \$ 76,466 | \$ 3,331 | \$ 79,797 |
| Other liabilities | 5 | - | 5 |
| Total liabilities assumed | 76,471 | 3,331 | 79,802 |
| Excess of liabilities assumed over assets acquired | \$ 202 | | |
| Aggregate fair value adjustments | | \$ (3,652) | |
| Goodwill | | | \$ 3,854 |

The discounts on loans receivable will be accreted to interest income over the estimated average life of the loans using the level yield method. The core deposit intangible assets are being amortized over a 10 year life on an accelerated basis. The deposit premiums will be amortized over the average life of the related deposits as a reduction of interest expense.

The following table provides a reconciliation of goodwill:

| | |
|---|----------|
| Balance, December 31, 2010 | \$9,271 |
| Addition: Jefferson Bank | 7,726 |
| Addition: First Louisiana National Bank | 4,108 |
| Addition: Beacon Federal | 3,854 |
| Balance, December 31, 2011 | \$24,959 |

In many cases, determining the fair value of the acquired assets and assumed liabilities requires the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the fair valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. Management determined that the acquired loans were performing and that there was no evidence of credit quality deterioration. Therefore, these loans are accounted for under ASC 310-20, and, accordingly, contractual cash flows equal the expected cash flows. The loans are categorized into different loan pools per loan types. The Company determined expected cash flows on the acquired loans based on the best available information at the date of acquisition. In accordance with GAAP, there was no carry-over of each acquired bank's previously established allowance for loan losses.

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3. INVESTMENT SECURITIES

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

| | | December 31, 2011 | | |
|--|-----------|-------------------|------------|------------|
| | Amortized | Gross | Gross | Fair Value |
| | Cost | Unrealized | Unrealized | |
| | | Gains | Losses | |
| Available-for-sale: | | | | |
| U.S. Government sponsored enterprises | \$94,339 | \$662 | \$2 | \$94,999 |
| Obligations of state and political subdivisions | 90,284 | 5,865 | - | 96,149 |
| GSE mortgage-backed securities | 105,409 | 4,078 | - | 109,487 |
| Collateralized mortgage obligations: residential | 40,855 | 618 | 5 | 41,468 |
| Collateralized mortgage obligations: commercial | 24,609 | 529 | - | 25,138 |
| | \$355,496 | \$11,752 | \$7 | \$367,241 |

| | | December 31, 2010 | | |
|--|-----------|-------------------|------------|------------|
| | Amortized | Gross | Gross | Fair Value |
| | Cost | Unrealized | Unrealized | |
| | | Gains | Losses | |
| Available-for-sale: | | | | |
| U.S. Government sponsored enterprises | \$116,560 | \$1,138 | \$- | \$117,698 |
| Obligations of state and political subdivisions | 105,376 | 3,593 | 117 | 108,852 |
| GSE mortgage-backed securities | 10,642 | 830 | - | 11,472 |
| Collateralized mortgage obligations: residential | 21,849 | 882 | 43 | 22,688 |
| Collateralized mortgage obligations: commercial | 3,045 | 54 | - | 3,099 |
| | \$257,472 | \$6,497 | \$160 | \$263,809 |

| | | December 31, 2011 | | |
|---|-----------|-------------------|------------|------------|
| | Amortized | Gross | Gross | Fair Value |
| | Cost | Unrealized | Unrealized | |
| | | Gains | Losses | |
| Held-to-maturity: | | | | |
| Obligations of state and political subdivisions | \$340 | \$2 | \$- | \$342 |
| GSE mortgage-backed securities | 82,497 | 550 | - | 83,047 |
| Collateralized mortgage obligations: commercial | 17,635 | 107 | - | 17,742 |
| | \$100,472 | \$659 | \$- | \$101,131 |

| | | December 31, 2010 | | |
|---|-----------|-------------------|------------|------------|
| | Amortized | Gross | Gross | Fair Value |
| | Cost | Unrealized | Unrealized | |
| | | Gains | Losses | |
| Held-to-maturity: | | | | |
| Obligations of state and political subdivisions | \$1,588 | \$20 | \$- | \$1,608 |

With the exception of three private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$137,000 and \$228,000 at December 31, 2011 and 2010, respectively, all of the Company’s CMOs are government-sponsored enterprise securities.

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The amortized cost and fair value of debt securities at December 31, 2011 by contractual maturity are shown below (in thousands). Except for mortgage backed securities and collateralized mortgage obligations, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|----------------|------------|
| Available-for-sale: | | |
| Due in one year or less | \$ 79,491 | \$80,258 |
| Due after one year through five years | 67,331 | 69,763 |
| Due after five years through ten years | 32,552 | 35,583 |
| Due after ten years | 5,249 | 5,544 |
| Mortgage-backed securities and collateralized mortgage obligations: | | |
| Residential | 146,264 | 150,955 |
| Commercial | 24,609 | 25,138 |
| | \$ 355,496 | \$367,241 |
| | Amortized Cost | Fair Value |
| Held-to-maturity: | | |
| Due in one year or less | \$ 140 | \$141 |
| Due after one year through five years | 200 | 201 |
| Mortgage-backed securities and collateralized mortgage obligations: | | |
| Residential | 82,497 | 83,047 |
| Commercial | 17,635 | 17,742 |
| | \$ 100,472 | \$101,131 |

Details concerning investment securities with unrealized losses as of December 31, 2011 are as follows (in thousands):

| | Securities with losses under 12 months | | Securities with losses over 12 months | | Total | |
|---|---|-------------------------------|--|-------------------------------|---------------|-------------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Available-for-sale: | | | | | | |
| U.S. Government sponsored enterprises | \$6,204 | \$2 | \$- | \$- | \$6,204 | \$2 |
| Collateralized mortgage obligations: residential | | | | | | |
| | 1,849 | 1 | 136 | 4 | 1,985 | 5 |
| | \$8,053 | \$3 | \$136 | \$4 | \$8,189 | \$7 |

Details concerning investment securities with unrealized losses as of December 31, 2010 are as follows (in thousands):

| | Securities with losses under 12 months | | Securities with losses over 12 months | | Total | |
|---------------------|---|-------------------------------|--|-------------------------------|---------------|-------------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Available-for-sale: | | | | | | |
| | \$6,919 | \$117 | \$- | \$- | \$6,919 | \$117 |

Obligations of state and political subdivisions

Collateralized mortgage

| | | | | | | |
|--------------------------|----------|-------|-------|-----|----------|-------|
| obligations: residential | 4,689 | 36 | 227 | 7 | 4,916 | 43 |
| | \$11,608 | \$153 | \$227 | \$7 | \$11,835 | \$160 |

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Management evaluates whether unrealized losses on securities represent impairment that is other than temporary on a quarterly basis. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance of the debt security, and changes in the market's perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred other than temporary impairment, then the amount of the credit related impairment is determined. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

The unrealized losses on debt securities at December 31, 2011 and 2010 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At December 31, 2011 and 2010, management had both the intent and ability to hold impaired securities, and no impairment was evaluated as other than temporary. As a result, no impairment losses were recognized on debt securities during the years ended December 31, 2011, 2010, or 2009.

During the year ended December 31, 2011, the Company sold five securities classified as available-for-sale and one security classified as held-to-maturity. Of the available-for-sale securities, four securities were sold with gains totaling \$94,000 and one security was sold at a loss of \$4,000 for a net gain of \$90,000. The securities were sold as a result of an external review performed on the municipal securities portfolio. The decision to sell the one held to maturity security, which was sold at a gain of \$9,000, was based on the inability to obtain current financial information on the municipality. The sale was consistent with action taken on other securities with a similar deficiency, as identified in the external review. On October 27, 2010, the Company liquidated one equity security at a market value of \$75,000 for a recognized gain of \$3,000. The equity security was an investment in a portfolio of common stocks of community bank holding companies. It was determined to be impaired in the fourth quarter of 2009 and was adjusted to a fair value of \$72,000 from the original value of \$250,000, resulting in an impairment of \$178,000.

Of the securities issued by U.S. Government sponsored enterprises and SBA held by the Company at December 31, 2011, 5 out of 25 securities contained unrealized losses. Of the collateralized mortgage obligations, 3 out of 29 contained unrealized losses.

Of the securities issued by state and political subdivisions held by the Company at December 31, 2010, 10 out of 175 securities contained unrealized losses. Of the collateralized mortgage obligations, 3 out of 17 contained unrealized losses.

Securities with an aggregate carrying value of approximately \$154.1 million and \$150.6 million at December 31, 2011 and 2010, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

4. OTHER INVESTMENTS

The Company is required to own stock in the Federal Reserve Bank of Atlanta ("FRB-Atlanta") and, as a member of the Federal Home Loan Bank system, own stock in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"). The Company accounts for FRB-Atlanta and FHLB-Dallas stock as other investments along with stock ownership in two correspondent banks and a Community Reinvestment Act ("CRA") investment in a Senior Housing Crime Prevention

program in Louisiana. The CRA investment consisted of three government-sponsored agency mortgage-backed securities purchased by the Company and held by the Senior Housing Crime Prevention program. The majority of the interest earned on the security provides income to the program.

For impairment analysis, the Company reviews financial statements and regulatory capital ratios for each of the banks in which the Company owns stock to verify financial stability and regulatory compliance with capital requirements. As of December 31, 2011 and 2010, based upon quarterly reviews, we determined that there was no impairment in the bank stocks held as other investments.

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The aggregate carrying amount of other investments consisted of the following (in thousands):

| | December 31, 2011 | December 31, 2010 |
|-------------------|-------------------|-------------------|
| FRB-Atlanta | \$ 2,071 | \$ 1,624 |
| FHLB-Dallas | 586 | 584 |
| Other bank stocks | 853 | 713 |
| CRA investment | 2,127 | 2,141 |
| | \$ 5,637 | \$ 5,062 |

5. LOANS

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

| | December 31, | |
|--|--------------|-----------|
| | 2011 | 2010 |
| Commercial, financial and agricultural | \$223,283 | \$177,598 |
| Lease financing receivable | 4,276 | 4,748 |
| Real estate – construction | 52,712 | 54,164 |
| Real estate – commercial | 280,798 | 208,764 |
| Real estate – residential | 113,582 | 72,460 |
| Installment loans to individuals | 69,980 | 62,272 |
| Other | 1,674 | 806 |
| | 746,305 | 580,812 |
| Less allowance for loan losses | (7,276) | (8,813) |
| | \$739,029 | \$571,999 |

The amounts reported in other loans at December 31, 2011 and 2010 includes the DDA overdraft deposits and loans primarily made to non-profit entities reported for each period.

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

| | December 31, | | |
|----------------------------|--------------|----------|----------|
| | 2011 | 2010 | 2009 |
| Balance, beginning of year | \$ 8,813 | \$ 7,995 | \$ 7,586 |
| Provision for loan losses | 3,925 | 5,020 | 5,450 |
| Recoveries | 310 | 254 | 227 |
| Loans charged-off | (5,772) | (4,456) | (5,268) |
| Balance, end of year | \$ 7,276 | \$ 8,813 | \$ 7,995 |

During the years ended December 31, 2011, 2010, and 2009, there were approximately \$7.3 million, \$1.2 million, and \$1.1 million, respectively, of transfers from loans to ORE. Included in the \$7.3 million added to ORE in 2011 is one credit totaling \$4.9 million secured by a condominium complex. The credit is currently producing positive cash flow from net rental income on a monthly basis.

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

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An analysis of the 2011 activity with respect to these related party loans and commitments to extend credit is as follows (in thousands):

| | |
|----------------------------|---------|
| Balance, beginning of year | \$1,937 |
| New loans | 97 |
| Repayments and adjustments | (54) |
| Balance, end of year | \$1,980 |

The Company monitors loan concentrations and evaluates individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity for each major standard industry classification segment. At December 31, 2011, one industry segment concentration, the oil and gas industry, aggregate 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 \$112.3 million, or 15.1% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At December 31, 2011, loans secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately \$322.3 million. Of the \$322.3 million, \$264.3 million represent CRE loans, 63% of which are secured by owner-occupied commercial properties. Of the \$322.2 million in loans secured by commercial real estate, \$3.2 million or 1.0% were on nonaccrual status at December 31, 2011 and consisted primarily of five credits totaling \$2.6 million.

Table of ContentsAllowance for Loan Losses and Recorded Investment in Loans by Portfolio Segment
For the Year Ended December 31, 2011 (in thousands)

| | Real Estate | | | | | | | Total |
|--|-------------------------------|--------------|------------|-------------|-----------|---------------------------|----------|------------|
| | Coml, Fin, and Agric | Construction | Commercial | Residential | Consumer | Finance Leases Coml | Other | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | \$ 1,664 | \$ 2,963 | \$ 2,565 | \$ 862 | \$ 730 | \$ 29 | \$- | \$ 8,813 |
| Charge-offs | (1,109) | (2,444) | (1,246) | (283) | (671) | (19) | - | (5,772) |
| Recoveries | 152 | 14 | 1 | 4 | 138 | 1 | - | 310 |
| Provision | 1,027 | 1,128 | 895 | 353 | 513 | 8 | 1 | 3,925 |
| Ending balance | \$ 1,734 | \$ 1,661 | \$ 2,215 | \$ 936 | \$ 710 | \$ 19 | \$ 1 | \$ 7,276 |
| Ending balance: individually evaluated for impairment | \$ 240 | \$ 2 | \$ 321 | \$ 21 | \$ 98 | \$ - | \$- | \$ 682 |
| Loans: | | | | | | | | |
| Ending balance | \$ 223,283 | \$ 52,712 | \$ 280,798 | \$ 113,582 | \$ 69,980 | \$ 4,276 | \$ 1,674 | \$ 746,305 |
| Ending balance: individually evaluated for impairment | \$ 2,341 | \$ 901 | \$ 2,271 | \$ 1,142 | \$ 287 | \$ - | \$- | \$ 6,942 |

Allowance for Loan Losses and Recorded Investment in Loans by Portfolio Segment
For the Year Ended December 31, 2010 (in thousands)

| | Real Estate | | | | | | | Total |
|--|-------------------------------|--------------|------------|-------------|-----------|---------------------------|--------|------------|
| | Coml, Fin, and Agric | Construction | Commercial | Residential | Consumer | Finance Leases Coml | Other | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | \$ 2,105 | \$ 2,240 | \$ 1,683 | \$ 631 | \$ 1,315 | \$ 21 | \$- | \$ 7,995 |
| Charge-offs | (1,333) | (1,478) | (130) | (146) | (1,368) | (1) | - | (4,456) |
| Recoveries | 50 | 1 | 1 | 60 | 141 | 1 | - | 254 |
| Provision | 842 | 2,200 | 1,011 | 317 | 642 | 8 | - | 5,020 |
| Ending balance | \$ 1,664 | \$ 2,963 | \$ 2,565 | \$ 862 | \$ 730 | \$ 29 | \$- | \$ 8,813 |
| Ending balance: individually evaluated for impairment | \$ 27 | \$ 2,024 | \$ 827 | \$ 84 | \$ 91 | \$ - | \$- | \$ 3,053 |
| Loans: | | | | | | | | |
| Ending balance | \$ 177,598 | \$ 54,164 | \$ 208,764 | \$ 72,460 | \$ 62,272 | \$ 4,748 | \$ 806 | \$ 580,812 |
| Ending balance: individually | \$ 3,549 | \$ 10,813 | \$ 8,780 | \$ 1,761 | \$ 275 | \$ - | \$- | \$ 25,178 |

evaluated for
impairment

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Credit Quality Indicators by Class of Loans

As of December 31, 2011 (in thousands)

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category

| | Commercial, Financial, and Agricultural | Commercial Real Estate Construction | Commercial Real Estate – Other | Percentage of Total | |
|-----------------|--|---|--------------------------------------|------------------------|---|
| Pass | \$ 216,465 | \$ 36,631 | \$ 264,542 | 94.88 | % |
| Special mention | 1,705 | 1,104 | 10,755 | 2.49 | % |
| Substandard | 4,809 | 3,728 | 5,501 | 2.57 | % |
| Doubtful | 304 | - | - | 0.06 | % |
| | \$ 223,283 | \$ 41,463 | \$ 280,798 | 100.00 | % |

Consumer Credit Exposure

Credit Risk Profile by Creditworthiness Category

| | Residential – Construction | Residential – Prime | Residential – Subprime | | |
|-----------------|-------------------------------|------------------------|------------------------------|--------|---|
| Pass | \$ 9,041 | \$ 104,965 | \$- | 91.33 | % |
| Special mention | 1,077 | 5,152 | - | 4.99 | % |
| Substandard | 1,131 | 3,465 | - | 3.68 | % |
| | \$ 11,249 | \$ 113,582 | \$- | 100.00 | % |

Consumer and Commercial Credit Exposure

Credit Risk Profile Based on Payment

Activity

| | Consumer - Credit Card | Consumer – Other | Finance Leases Commercial | Other Loans | | |
|---------------|---------------------------------|---------------------|---------------------------------|----------------|--------|---|
| Performing | \$5,182 | \$64,497 | \$ 4,276 | \$1,674 | 99.60 | % |
| Nonperforming | 18 | 283 | - | - | 0.40 | % |
| | \$5,200 | \$64,780 | \$ 4,276 | \$1,674 | 100.00 | % |

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Credit Quality Indicators by Class of Loans

As of December 31, 2010 (in thousands)

Commercial Credit Exposure

Credit Risk Profile by

Creditworthiness Category

| | Commercial, Financial, and Agricultural | Commercial Real Estate Construction | Commercial Real Estate – Other | Percentage of Total | |
|-----------------|--|---|--------------------------------------|------------------------|---|
| Pass | \$ 165,581 | \$ 32,061 | \$ 191,089 | 89.50 | % |
| Special mention | 3,661 | 3,851 | 3,726 | 2.59 | % |
| Substandard | 8,356 | 12,077 | 13,949 | 7.91 | % |
| | \$ 177,598 | \$ 47,989 | \$ 208,764 | 100.00 | % |

Consumer Credit Exposure

Credit Risk Profile by Creditworthiness Category

| | Residential – Construction | Residential – Prime | Residential – Subprime | | |
|-----------------|-------------------------------|------------------------|------------------------------|--------|---|
| Pass | \$ 5,959 | \$66,867 | \$- | 92.61 | % |
| Special mention | - | 2,501 | - | 3.18 | % |
| Substandard | 216 | 3,092 | - | 4.21 | % |
| | \$ 6,175 | \$72,460 | \$- | 100.00 | % |

Consumer and Commercial Credit Exposure

Credit Risk Profile Based on Payment

Activity

| | Consumer - Credit Card | Consumer – Other | Finance Leases Commercial | Other Loans | | |
|---------------|---------------------------|---------------------|---------------------------------|----------------|--------|---|
| Performing | \$5,318 | \$56,905 | \$4,748 | \$806 | 99.93 | % |
| Nonperforming | - | 49 | - | - | 0.07 | % |
| | \$5,318 | \$56,954 | \$4,748 | \$806 | 100.00 | % |

Table of ContentsAge Analysis of Past Due Loans by Class of Loans
(in thousands)

| | 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 |
|---|---------------------------|------------------------------|---|-------------------|-----------|----------------|--|
| As of December 31, 2011 | | | | | | | |
| Commercial, financial, and agricultural | \$622 | \$242 | \$1,856 | \$2,720 | \$220,563 | \$223,283 | \$64 |
| Commercial real estate - construction | 673 | 166 | 358 | 1,197 | 40,266 | 41,463 | - |
| Commercial real estate - other | 3,185 | - | 1,878 | 5,063 | 275,735 | 280,798 | - |
| Consumer - credit card | 79 | - | 19 | 98 | 5,102 | 5,200 | 19 |
| Consumer - other | 410 | 193 | 269 | 872 | 63,908 | 64,780 | 8 |
| Residential - construction | - | - | - | - | 11,249 | 11,249 | - |
| Residential - prime | 2,457 | 469 | 685 | 3,611 | 109,971 | 113,582 | 140 |
| Residential - subprime | - | - | - | - | - | - | - |
| Other loans | 118 | - | - | 118 | 1,556 | 1,674 | - |
| Finance leases commercial | - | - | - | - | 4,276 | 4,276 | - |
| | \$7,544 | \$1,070 | \$5,065 | \$13,679 | \$732,626 | \$746,305 | \$231 |

| | 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 |
|---|---------------------------|------------------------------|---|-------------------|-----------|----------------|--|
| As of December 31, 2010 | | | | | | | |
| Commercial, financial, and agricultural | \$1,298 | \$114 | \$2,405 | \$3,817 | \$173,781 | \$177,598 | \$17 |
| Commercial real estate - construction | 3,334 | - | 3,324 | 6,658 | 41,331 | 47,989 | - |
| Commercial real estate - other | 642 | 6,579 | 1,234 | 8,455 | 200,309 | 208,764 | - |
| Consumer - credit card | 50 | 23 | - | 73 | 5,245 | 5,318 | - |

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| | | | | | | | |
|----------------------------|---------|---------|---------|----------|-----------|-----------|------|
| Consumer - other | 407 | 79 | 280 | 766 | 56,188 | 56,954 | 49 |
| Residential - construction | - | - | - | - | 6,175 | 6,175 | - |
| Residential - prime | 1,023 | 22 | 1,155 | 2,200 | 70,260 | 72,460 | - |
| Residential - subprime | - | - | - | - | - | - | - |
| Other loans | 102 | 3 | - | 105 | 701 | 806 | - |
| Finance leases commercial | - | - | - | - | 4,748 | 4,748 | - |
| | \$6,856 | \$6,820 | \$8,398 | \$22,074 | \$558,738 | \$580,812 | \$66 |

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Table of ContentsImpaired Loans by Class of Loans
(in thousands)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| As of December 31, 2011 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial, financial, and agricultural | \$ 1,157 | \$ 1,248 | \$- | \$ 2,311 | \$ 2 |
| Commercial real estate – construction | 897 | 963 | - | 4,511 | 9 |
| Commercial real estate – other | 1,029 | 1,029 | - | 2,958 | 31 |
| Consumer – other | 48 | 59 | - | 65 | 3 |
| Residential – prime | 851 | 851 | - | 1,334 | 28 |
| Finance leases commercial | - | - | - | 4 | - |
| Other loans | - | - | - | 3 | - |
| Subtotal: | 3,982 | 4,150 | - | 11,186 | 73 |
| With an allowance recorded: | | | | | |
| Commercial, financial, and agricultural | 1,184 | 1,184 | 240 | 1,140 | 58 |
| Commercial real estate – construction | 4 | 4 | 2 | 1,580 | - |
| Commercial real estate – other | 1,242 | 1,242 | 321 | 1,639 | 98 |
| Consumer – other | 239 | 242 | 98 | 202 | 10 |
| Residential – prime | 291 | 291 | 21 | 255 | 1 |
| Subtotal: | 2,960 | 2,963 | 682 | 4,816 | 167 |
| Totals: | | | | | |
| Commercial | 5,513 | 5,670 | 563 | 14,143 | 198 |
| Consumer | 287 | 301 | 98 | 267 | 13 |
| Residential | 1,142 | 1,142 | 21 | 1,589 | 29 |
| Other | - | - | - | 3 | - |
| Grand total: | \$ 6,942 | \$ 7,113 | \$ 682 | \$ 16,002 | \$ 240 |

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| As of December 31, 2010 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial, financial, and agricultural | \$ 3,291 | \$ 3,538 | \$ - | \$ 4,036 | \$ 85 |
| Commercial real estate – construction | 5,918 | 9,175 | - | 5,584 | 179 |
| Commercial real estate – other | 2,407 | 2,487 | - | 1,941 | 114 |
| Consumer – other | 90 | 90 | - | 80 | 8 |
| Residential – prime | 1,549 | 1,549 | - | 1,166 | 77 |
| Subtotal: | 13,255 | 16,839 | - | 12,807 | 463 |
| With an allowance recorded: | | | | | |
| Commercial, financial, and agricultural | 258 | 258 | 27 | 1,671 | 6 |
| Commercial real estate – construction | 4,895 | 4,895 | 2,024 | 4,098 | 140 |
| Commercial real estate – other | 6,373 | 6,373 | 827 | 6,632 | 2 |
| Consumer – other | 185 | 185 | 91 | 262 | 3 |
| Residential – prime | 212 | 212 | 84 | 320 | 12 |
| Subtotal: | 11,923 | 11,923 | 3,053 | 12,983 | 163 |

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Totals:

| | | | | | |
|--------------|-----------|-----------|----------|-----------|--------|
| Commercial | 23,142 | 26,726 | 2,878 | 23,962 | 526 |
| Consumer | 275 | 275 | 91 | 342 | 11 |
| Residential | 1,761 | 1,761 | 84 | 1,486 | 89 |
| Grand total: | \$ 25,178 | \$ 28,762 | \$ 3,053 | \$ 25,790 | \$ 626 |

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Table of ContentsModifications by Class of Loans
(in thousands)

| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---------------------------|---|--|
| Troubled debt restructurings as of December 31, 2011: | | | |
| Commercial, financial, and agricultural | 4 | \$ 447 | \$ 444 |
| Consumer - other | 1 | 14 | 12 |
| | | \$ 461 | \$ 456 |

| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---------------------------|---|--|
| Troubled debt restructurings as of December 31, 2010: | | | |
| Commercial, financial, and agricultural | 1 | \$ 194 | \$ 194 |
| Commercial real estate - other | 1 | 446 | 446 |
| Consumer - other | 1 | 13 | 13 |
| | | \$ 653 | \$ 653 |

Of the \$456,000 of total TDRs, \$266,000 occurred during the year ended December 31, 2011 through modification of the original loan terms. One loan identified as a TDR at December 31, 2010 was removed from TDR status during the second quarter of 2011 after the loan was returned to its original loan terms and payments were made as agreed for three 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 that losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans.

Loans on Nonaccrual Status by Class of Loans
(in thousands)

| | December 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| Commercial, financial, and agricultural | \$ 1,897 | \$ 2,589 |
| Commercial real estate - construction | 902 | 8,220 |
| Commercial real estate - other | 2,271 | 7,378 |
| Consumer - credit card | - | - |
| Consumer - other | 275 | 261 |
| Residential - construction | - | - |
| Residential - prime | 884 | 1,155 |
| Residential - subprime | - | - |
| Other loans | - | - |
| Finance leases commercial | - | - |
| | \$ 6,229 | \$ 19,603 |

The amount of interest that would have been recorded on nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately \$749,000, \$981,000, and \$817,000 for the years ended December 31, 2011, 2010, and 2009. Interest actually received on nonaccrual loans at December 31, 2011 and 2010 was \$256,000 and \$384,000, respectively, and for the year ended December 31, 2009 was not material.

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6. PREMISES AND EQUIPMENT

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

| | December 31, | |
|--|--------------|-----------|
| | 2011 | 2010 |
| Land | \$ 9,521 | \$ 7,958 |
| Buildings and improvements | 29,296 | 23,338 |
| Furniture, fixtures, and equipment | 19,647 | 17,554 |
| Automobiles | 495 | 428 |
| Leasehold improvements | 10,006 | 9,249 |
| Construction-in-process | 706 | 214 |
| | 69,671 | 58,741 |
| Less accumulated depreciation and amortization | (25,073) | (22,149) |
| | \$ 44,598 | \$ 36,592 |

Depreciation expense totaled approximately \$3.3 million, \$3.3 million, and \$3.6 million for the years ended December 31, 2011, 2010, and 2009, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes to the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are provided in the following table (in thousands):

| | |
|-----------------------------------|----------|
| Balance, December 31, 2009 | \$9,271 |
| Goodwill acquired during the year | - |
| Balance, December 31, 2010 | 9,271 |
| Goodwill acquired during the year | 15,688 |
| Balance, December 31, 2011 | \$24,959 |

The goodwill acquired during the year ended December 31, 2011 was a result of the three acquisitions completed during the third and fourth quarters.

A summary of core deposit intangible assets as of December 31, 2011 and 2010 is as follows (in thousands):

| | 2011 | 2010 |
|-------------------------------|----------|----------|
| Gross carrying amount | \$ 9,012 | \$ 1,750 |
| Less accumulated amortization | (1,865) | (1,635) |
| Net carrying amount | \$ 7,147 | \$ 115 |

During 2011, \$7.3 million of core deposit intangibles were recorded as a result of the deposits acquired in the three acquisitions.

Amortization expense on the core deposit intangible assets totaled approximately \$230,000 in 2011, \$97,000 in 2010, and \$122,000 in 2009.

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

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| | |
|------------|-------|
| 2012 | \$763 |
| 2013 | 726 |
| 2014 | 726 |
| 2015 | 726 |
| 2016 | 726 |
| Thereafter | 3,480 |

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8. DEPOSITS

Deposits consisted of the following (in thousands):

| | December 31, | |
|-------------------------------|--------------|------------|
| | 2011 | 2010 |
| Noninterest-bearing | \$ 254,755 | \$ 199,460 |
| Savings and money market | 350,342 | 304,061 |
| NOW accounts | 235,168 | 179,541 |
| Time deposits less than \$100 | 140,428 | 58,587 |
| Time deposits \$100 or more | 184,113 | 59,123 |
| | \$ 1,164,806 | \$ 800,772 |

Time deposits held consist primarily of certificates of deposits. The maturities for these deposits at December 31, 2011 are as follows (in thousands):

| | |
|---------------------|-----------|
| 2012 | \$239,688 |
| 2013 | 58,196 |
| 2014 | 15,322 |
| 2015 | 6,855 |
| 2016 and thereafter | 4,480 |
| | \$324,541 |

Deposits from related parties totaled approximately \$15.7 million and \$19.0 million at December 31, 2011 and 2010, respectively.

9. BORROWINGS

Securities sold under agreements to repurchase totaled \$46.1 million and \$43.8 million at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, retail repurchase agreements, defined as securities sold under agreements to repurchase from our customers, totaled \$33.6 million and \$31.3 million, respectively. These retail repurchase agreements are secured short term borrowings from customers, which may be drawn on demand. The agreements bear interest at a rate determined by us. The average rate of the outstanding agreements at December 31, 2011 and 2010 was 0.46% and 0.73%. The Company had pledged securities with an approximate market value of \$51.1 million and \$50.6 million as collateral at December 31, 2011 and 2010, respectively.

Also included in securities sold under agreements to repurchase is a \$12.5 million repurchase agreement the Company entered into with CitiGroup Global Markets, Inc. ("CGMI") effective August 9, 2007. Under the terms of the repurchase agreement, interest is payable quarterly based on a floating rate equal to the 3-month LIBOR for the first 12 months of the agreement and a fixed rate of 4.57% for the remainder of the term. The rate at December 31, 2011 was 4.57%. The repurchase date is scheduled for August 9, 2017; however, the agreement may be called by CGMI quarterly. The Company had pledged securities with a market value \$17.2 million and \$17.4 million as collateral at December 31, 2011 and 2010, respectively.

In 2011, 2010, and 2009, the Company did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or FRB discount window that exceeded 30% of our stockholders' equity for such year.

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10. JUNIOR SUBORDINATED DEBENTURES

On September 20, 2004, we issued, through a wholly-owned statutory business trust, \$8,248,000 of unsecured junior subordinated debentures bearing interest at a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at December 31, 2011 and 2010 was 3.06% and 2.80%, respectively. The debentures mature on September 20, 2034 and, under certain circumstances, are subject to repayment on September 20, 2009 or thereafter.

On February 22, 2001, we issued, through a wholly-owned statutory business trust, \$7,217,000 of unsecured junior subordinated debentures. These junior subordinated debentures bear interest at a fixed rate of 10.20% with interest paid semi-annually in arrears and mature on February 22, 2031. Under certain circumstances, these debentures are subject to repayment on February 22, 2011 or thereafter.

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

11. COMMITMENTS AND CONTINGENCIES

At December 31, 2011, future annual minimum rental payments due under non-cancellable operating leases are as follows (in thousands):

| | |
|------------|----------|
| 2011 | \$2,179 |
| 2012 | 2,034 |
| 2013 | 2,028 |
| 2014 | 1,871 |
| 2015 | 1,654 |
| Thereafter | 13,344 |
| | \$23,110 |

Rental expense under operating leases for 2011, 2010, and 2009 was approximately \$2.0 million, \$1.7 million, and \$1.8 million, respectively.

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

At December 31, 2011, the Company had borrowing lines available through the Bank with the FHLB of Dallas and other correspondent banks. The Bank had approximately \$261.9 million available, subject to available collateral, under a secured line of credit with the FHLB of Dallas. Additional federal funds lines of credit were available through correspondent banks with approximately \$48.5 million available for overnight borrowing at December 31, 2011. The Bank also had a credit line available through the Federal Reserve of \$31.9 million. As of December 31, 2011, we had no borrowings with the FRB-Atlanta, FHLB-Dallas, or from correspondent banks.

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12. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows (in thousands):

| | 2011 | 2010 |
|--------------------------------|----------|----------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 2,474 | \$ 3,047 |
| Alternative minimum tax credit | 1,158 | 1,005 |
| Other | 1,357 | 517 |
| Total deferred tax assets | 4,989 | 4,569 |
| Deferred tax liabilities: | | |
| Premises and equipment | 3,792 | 4,057 |
| FHLB stock dividends | 18 | 17 |
| Unrealized gains on securities | 3,993 | 2,155 |
| Other | 351 | 158 |
| Total deferred tax liabilities | 8,154 | 6,387 |
| Net deferred tax liability | \$ 3,165 | \$ 1,818 |

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe that it is more likely than not that we will realize the benefits of these deductible differences existing at December 31, 2011. Therefore, no valuation allowance is necessary at this time. The net deferred tax liability is included in other liabilities on the consolidated balance sheets.

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

| | 2011 | 2010 | 2009 |
|--------------------------|----------|----------|--------|
| Current | \$ 1,055 | \$ 2,001 | \$ 666 |
| Deferred benefit | (491) | (1,033) | (541) |
| Total income tax expense | \$ 564 | \$ 968 | \$ 125 |

The provision for federal income taxes differs from the amount computed by applying the U.S. Federal income tax statutory rate of 34% on pre-tax income as follows (in thousands):

| | 2011 | December 31, 2010 | 2009 |
|-------------------------------------|----------|----------------------|----------|
| Taxes calculated at statutory rate | \$ 1,713 | \$ 2,294 | \$ 1,606 |
| Increase (decrease) resulting from: | | | |
| Tax-exempt interest, net | (1,121) | (1,293) | (1,402) |
| Tax credits | - | - | (108) |
| Other | (28) | (33) | 29 |
| | \$ 564 | \$ 968 | \$ 125 |

The tax credits available to the Company for the 2009 tax year included the Work Opportunity Tax Credit.

The Company's federal income tax returns are open and subject to examination from the 2008 tax return year and forward. The various state income and franchise tax returns are generally open from the 2008 and later tax return years based on individual state statutes of limitation. We are not currently under examination by federal or state tax

authorities for the 2008, 2009, or 2010 tax years.

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13. EMPLOYEE BENEFITS

The Company sponsors a leveraged employee stock ownership plan (“ESOP”) that covers all employees who meet minimum age and service requirements. The Company makes annual contributions to the ESOP in amounts as determined by the Board of Directors. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for this debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year. On February 3, 2006, the ESOP borrowed \$300,000 under a second note payable to MidSouth Bank, N.A. for the purpose of purchasing additional shares of MidSouth Bancorp, Inc.’s common stock. A total of 13,710 shares at \$21.88 per share were purchased with loan proceeds on February 3, 2006. The balance of the note was paid in full on February 17, 2009. On February 5, 2009, the ESOP borrowed an additional \$300,000 payable to MidSouth Bank, N.A. A total of 25,000 shares at \$9.89 per share and 5,828 shares at \$9.05 per share were purchased with the loan proceeds on February 6, 2009 and February 19, 2009, respectively. The balance of the note was paid in full on November 10, 2011. The balance of the notes payable of the ESOP was \$104,000 at December 31, 2010.

Because the source of the loan payments are contributions received by the ESOP from the Company, the related notes receivable is shown as a reduction of shareholders’ equity. In accordance with GAAP, compensation costs relating to shares purchased are based on the fair value of shares committed to be released. The unreleased shares are not considered outstanding in the computation of earnings per common share. Dividends received on ESOP shares are allocated based on shares held for the benefit of each participant and used to purchase additional shares of stock for each participant. ESOP compensation expense consisting of both cash contributions and shares committed to be released for 2011, 2010, and 2009 was approximately \$469,000, \$481,000, and \$493,000, respectively. The cost basis of the shares released was \$9.73 per share for 2011, \$9.73 per share for and 2010, and \$10.72 per share for 2009. ESOP shares as of December 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|--|---------|------------|
| Allocated shares | 546,722 | 561,633 |
| Shares released for allocation | 10,757 | 11,613 |
| Unreleased shares | - | 10,757 |
| Total ESOP shares | 557,479 | 584,003 |
| Fair value of unreleased shares at December 31 | \$ - | \$ 165,000 |

The Company has deferred compensation arrangements with certain officers, which will provide them with a fixed benefit after retirement. The Company recorded a liability of approximately \$1.1 million at December 31, 2011 and \$848,000 at December 31, 2010 in connection with these agreements. Deferred compensation expense recognized in 2011, 2010, and 2009 was approximately \$232,000, \$125,000, and \$92,000, respectively.

The Company sponsors defined contribution post-retirement benefit agreements to provide death benefits for the designated beneficiaries of certain of the Company's executive officers. Under the agreements, split-dollar whole life insurance contracts were purchased on certain executive officers. The increase in the cash surrender value of the contracts, less the Bank's cost of funds, constitutes the Company's contribution to the agreements each year. In the event the insurance contracts fail to produce positive returns, the Company has no obligation to contribute to the agreements. During 2011, 2010, and 2009, the Company incurred expenses of \$9,000, \$30,000 and \$10,000, respectively, related to the agreements.

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

\$31,000 in 2011. The Company made no contributions to the plan in 2010 and 2009.

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14. EMPLOYEE STOCK PLANS

In May of 2007, our shareholders approved the 2007 Omnibus Incentive Compensation Plan to provide incentives and awards for directors, officers, and employees. "Awards" as defined in the Plan includes, with limitations, stock options (including restricted stock options), restricted stock awards, stock appreciation rights, performance shares, stock awards and cash awards, all on a stand-alone, combination, or tandem basis. The 2007 Omnibus Incentive Compensation Plan replaces the 1997 Stock Incentive Plan, which expired February of 2007. A total of 525,000 of our common shares outstanding can be granted under the Plan.

Stock Options – The 35,100 options outstanding at December 31, 2011 were issued under the 1997 Stock Incentive Plan and are incentive stock options with a term of ten years, vesting 20% each year on the anniversary date of the grant. The following table summarizes activity relating to stock options:

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|-----------|--|---|---------------------------------|
| Outstanding at December 31, 2010 | 53,918 | \$ 12.86 | 2.64 | |
| Exercised | (10,240) | 6.60 | | |
| Forfeited | (8,578) | 15.39 | | |
| Outstanding at December 31, 2011 | 35,100 | \$ 14.07 | 1.86 | \$ - |
| Exercisable at December 31, 2011 | 35,100 | \$ 14.07 | 1.86 | \$ - |

As of December 31, 2011, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements. The total amount of options expensed during the years ended December 31, 2011, 2010 and 2009 was \$13,000, \$6,000 and \$20,000, respectively.

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

The total intrinsic value of the options exercised was \$66,000, \$57,000, and \$0 for the years ended December 31, 2011, 2010, and 2009, respectively.

Restricted Stock Awards – On June 30, 2010, the Compensation Committee (formerly the Personnel Committee) of the Board of Directors of the Company made grants of 22,047 shares of restricted stock under the Company's 2007 Omnibus Incentive Compensation Plan to certain officers and employees of the Company. The restricted shares of stock, which are subject to the terms of a Restricted Stock Grant Agreement between the Company and each recipient, will fully vest on the third anniversary of the grant date. Prior to vesting, the recipient will be entitled to vote the shares and receive dividends, if any, declared by the Company with respect to its common stock. Compensation expense for restricted stock is based on the fair value of the restricted stock awards at the time of the grant, which is equal to the market value of the Company's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized monthly into compensation expense over the three year vesting period.

The restricted shares had a fair value of \$12.77 per share on the date of issuance. For the year ended December 31, 2011 and 2010, compensation expense of \$62,000 and \$44,000, respectively, was recognized related to non-vested

restricted stock awards. As of December 31, 2011, there was \$106,000 of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan.

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

| | 2011 |
|------------------------------|----------|
| Balance at beginning of year | 20,847 |
| Granted | - |
| Forfeited | (4,202) |
| Vested | - |
| Balance at end of year | 16,645 |

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15. SHAREHOLDERS' EQUITY

The payment of dividends by the Bank to the Company is restricted by various regulatory and statutory limitations. At December 31, 2011, the Bank had approximately \$15.4 million available to pay dividends to the Parent Company without regulatory approval.

On December 22, 2009 the Company closed an underwritten public offering of 2.7 million shares of its common stock at a price of \$12.75 per share. On January 7, 2010, the underwriters of the public offering exercised in full their overallotment option for 405,000 shares of our common stock. Net proceeds from the offering and the exercise of the overallotment option totaled \$37.2 million after deducting underwriting discounts and offering expenses. The Company used the net proceeds for general corporate purposes including ongoing and anticipated growth, which may include potential acquisition opportunities.

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

The Series A preferred stock qualified as Tier 1 capital and paid cumulative dividends at a rate of 5% per annum. In August 2011, the Company redeemed all 20,000 outstanding shares of Series A preferred stock at its stated value of \$1,000 per share with funds from our issuance of 32,000 shares of Series B preferred stock in connection with the Company's participation under the U.S. Treasury's Small Business Lending Fund ("SBLF"). The remaining \$12.0 million of net proceeds from the issuance was provided to the Bank as additional capital. The dividend rate on the Series B preferred stock going forward will be between 1% and 5% based on the level of qualified small business loans. As of December 31, 2011, the dividend rate was 5% per annum. The Series B preferred stock is nonvoting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B preferred stock.

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16. NET EARNINGS PER COMMON SHARE

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

| | 2011 | December 31, 2010 | 2009 |
|--|---------|----------------------|---------|
| Net earnings | \$4,473 | \$5,780 | \$4,599 |
| Dividends on preferred stock and accretion of warrants | 1,802 | 1,198 | 1,175 |
| Net earnings available to common shareholders | \$2,671 | \$4,582 | \$3,424 |
| Weighted average number of common shares outstanding used in computation of basic earnings per common share | 9,787 | 9,701 | 6,670 |
| Effect of dilutive securities: | | | |
| Stock options | 7 | 15 | 17 |
| Restricted stock | 5 | 2 | - |
| Weighted average number of common shares outstanding plus effect of dilutive securities used in computation of diluted earnings per common share | 9,799 | 9,718 | 6,687 |

Options to acquire 18,331, 23,335 and 23,786 shares of common stock were not included in computing diluted earnings per share for the year ended December 31, 2011, 2010 and 2009, respectively, because the effect of these shares was anti-dilutive. For the year ended December 31, 2011, 16,645 shares of restricted stock were included in computed diluted earnings because the effect of these shares was dilutive. The remaining 104,384 shares subject to the outstanding warrant issued in connection with the CPP transaction were anti-dilutive and not included in the computation of diluted earnings per share for the years ended December 31, 2011, 2010 and 2009.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

| | Contract or Notional Amount | |
|---|-----------------------------|------------|
| | 2011 | 2010 |
| Financial instruments whose contract amounts represent credit risk: (in thousands) | | |
| Commitments to extend credit | \$ 152,145 | \$ 118,232 |
| Letters of credit | 8,347 | 8,082 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the

total commitment amounts disclosed above do not necessarily represent future cash requirements. Substantially all of these commitments are at variable rates.

Commercial letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. Approximately 90% and 92% of these letters of credit were secured by marketable securities, cash on deposit, or other assets at December 31, 2011 and 2010, respectively.

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18. REGULATORY MATTERS

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

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

As of December 31, 2011, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage capital ratios as set forth in the table (in thousands). There are no conditions or events since those notifications that management believes has changed the Bank's category.

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

| | Actual | | Required for Minimum Capital Adequacy Purposes | | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|-------|--|-------|------------|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| As of December 31, 2011: | | | | | | | |
| Total capital to risk weighted assets: | | | | | | | |
| Company | \$144,439 | 16.97 | % \$68,085 | 8.00 | % N/A | N/A | |
| Bank | \$116,988 | 13.75 | % \$68,071 | 8.00 | % \$85,089 | 10.00 | % |
| Tier I capital to risk weighted assets: | | | | | | | |
| Company | \$136,979 | 16.10 | % \$34,043 | 4.00 | % N/A | N/A | |
| Bank | \$109,528 | 12.87 | % \$34,036 | 4.00 | % \$51,054 | 6.00 | % |
| Tier I capital to average assets: | | | | | | | |
| Company | \$136,979 | 11.14 | % \$49,193 | 4.00 | % N/A | N/A | |
| Bank | \$109,528 | 8.91 | % \$49,149 | 4.00 | % \$73,723 | 6.00 | % |

| | Actual | | Required for Minimum Capital Adequacy Purposes | | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|-------|--|-------|--------|---|--|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| As of December 31, 2010: | | | | | | | |
| Total capital to risk weighted assets: | | | | | | | |
| Company | \$146,272 | 22.36 | % \$52,332 | 8.00 | % N/A | N/A | |

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| | | | | | | | | | |
|---|------------|-------|---|-----------|------|---|-----------|-------|---|
| Bank | \$ 114,328 | 17.49 | % | \$ 52,296 | 8.00 | % | \$ 65,370 | 10.00 | % |
| Tier I capital to risk weighted assets: | | | | | | | | | |
| Company | \$ 138,085 | 21.11 | % | \$ 26,166 | 4.00 | % | N/A | N/A | |
| Bank | \$ 106,147 | 16.24 | % | \$ 26,148 | 4.00 | % | \$ 39,222 | 6.00 | % |
| Tier I capital to average assets: | | | | | | | | | |
| Company | \$ 138,085 | 14.00 | % | \$ 39,440 | 4.00 | % | N/A | N/A | |
| Bank | \$ 106,147 | 10.78 | % | \$ 39,404 | 4.00 | % | \$ 59,106 | 6.00 | % |

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19. FAIR VALUE MEASUREMENTS AND DISCLOSURES

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

Fair Value Hierarchy

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

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

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

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

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

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

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

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

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.

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

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

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

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.

Borrowings—The fair value approximates the carrying value of repurchase agreements, federal funds purchased, Federal Home Loan Bank advances, and Federal Reserve Discount Window borrowings due to their short-term nature.

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.

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Assets Recorded at Fair Value

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

| Description | Assets / Liabilities Measured at Fair Value at December 31, 2011 | Fair Value Measurements at December 31, 2011 | | |
|--|--|---|----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| U.S. Government sponsored enterprises | \$ 94,999 | \$- | \$94,999 | \$- |
| Obligations of state and political subdivisions | 96,149 | - | 96,149 | - |
| GSE mortgage-backed securities | 109,487 | - | 109,487 | - |
| Collateralized mortgage obligations: | | | | |
| residential | 41,468 | - | 41,468 | - |
| Collateralized mortgage obligations: commercial | 25,138 | - | 25,138 | - |

| Description | Assets / Liabilities Measured at Fair Value at December 31, 2010 | Fair Value Measurements at December 31, 2010 | | |
|--|--|---|-----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Available-for-sale securities: | | | | |
| U.S. Government sponsored enterprises | \$ 117,698 | \$- | \$117,698 | \$- |
| Obligations of state and political subdivisions | 108,852 | - | 108,852 | - |
| GSE mortgage-backed securities | 11,472 | - | 11,472 | - |
| Collateralized mortgage obligations: residential | 22,688 | - | 22,688 | - |
| Collateralized mortgage obligations: commercial | 3,099 | - | 3,099 | - |

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

| Description | Assets / Liabilities Measured at Fair Value at December 31, 2011 | Fair Value Measurements at December 31, 2011 | | |
|-------------------|---|---|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$ 2,994 | \$- | \$2,994 | \$- |
| Other real estate | 7,369 | - | 7,369 | - |

| Description | Assets / Liabilities Measured at Fair Value at December 31, 2010 | Fair Value Measurements at December 31, 2010 | | |
|-------------------|---|---|----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$ 12,841 | \$- | \$12,841 | \$- |
| Other real estate | 1,206 | - | 1,206 | - |

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Limitations

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

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

The estimated fair values of our financial instruments are as follows at December 31, 2011 and 2010 (in thousands):

| | 2011 | | 2010 | |
|---|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 83,303 | \$ 83,303 | \$ 91,907 | \$ 91,907 |
| Time deposits held in banks | 710 | 716 | 5,164 | 5,206 |
| Securities available-for-sale | 367,241 | 367,241 | 263,809 | 263,809 |
| Securities held-to-maturity | 100,472 | 101,131 | 1,588 | 1,608 |
| Other investments | 5,637 | 5,637 | 5,062 | 5,062 |
| Loans, net | 739,029 | 747,156 | 571,999 | 580,033 |
| Cash surrender value of life insurance policies | 4,853 | 4,853 | 4,698 | 4,698 |
| Financial liabilities: | | | | |
| Noninterest-bearing deposits | 254,755 | 254,755 | 199,460 | 199,460 |
| Interest-bearing deposits | 910,051 | 913,204 | 601,312 | 602,188 |
| Securities sold under agreements to repurchase | 46,078 | 46,078 | 43,826 | 43,826 |
| Junior subordinated debentures | 15,465 | 17,343 | 15,465 | 16,031 |

20. OTHER NON-INTEREST INCOME AND EXPENSE

For the years ended December 31, 2011, 2010, and 2009, none of the components of other noninterest income were greater than 1% of interest income and noninterest income.

Components of other noninterest expense greater than 1% of interest income and noninterest income consisted of the following for the years ended December 31, 2011, 2010, and 2009 (in thousands):

| | 2011 | 2010 | 2009 |
|-------------------------------|----------|----------|----------|
| Professional fees | \$ 2,518 | \$ 1,787 | \$ 1,529 |
| FDIC fees | 921 | 1,331 | 1,684 |
| Marketing expenses | 1,663 | 1,178 | 1,199 |
| Corporate development expense | 984 | 656 | 598 |
| Data processing | 2,355 | 1,212 | 767 |

| | | | |
|--|-------|-----|-----|
| Printing and supplies | 890 | 659 | 644 |
| Expenses on other real estate owned and other assets repossessed | 1,511 | 798 | 525 |

21.

SUBSEQUENT EVENTS

The Company has evaluated all subsequent events and transactions that occurred after December 31, 2011 up through the date of filing this Annual Report on Form 10-K. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

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22. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Summarized financial information for MidSouth Bancorp, Inc. (parent company only) follows:

Balance Sheets

December 31, 2011 and 2010

(in thousands)

| | 2011 | 2010 |
|---|-----------|-----------|
| Assets | | |
| Cash and interest-bearing deposits in banks | \$27,894 | \$32,010 |
| Other assets | 174 | 578 |
| Investment in and advances to subsidiaries | 151,166 | 120,726 |
| Total assets | \$179,234 | \$153,314 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Dividends payable | \$1,144 | \$821 |
| Junior subordinated debentures | 15,465 | 15,465 |
| ESOP obligation | - | 104 |
| Other | 788 | 271 |
| Total liabilities | 17,397 | 16,661 |
| Shareholders' equity | 161,837 | 136,653 |
| Total liabilities and shareholders' equity | \$179,234 | \$153,314 |

Statements of Earnings

For the Years Ended December 31, 2011, 2010, and 2009

(in thousands)

| | 2011 | 2010 | 2009 |
|---|----------|---------|---------|
| Revenue: | | | |
| Dividends from Bank and nonbank subsidiary | \$- | \$- | \$1,750 |
| Rental and other income | 908 | 1,032 | 196 |
| | 908 | 1,032 | 1,946 |
| Expenses: | | | |
| Interest on short- and long-term debt | 971 | 974 | 1,019 |
| Professional fees | 337 | 185 | 153 |
| Other expenses | 643 | 667 | 623 |
| | 1,951 | 1,826 | 1,795 |
| Earnings before equity in undistributed earnings of subsidiaries and income taxes | (1,043) | (794) | 151 |
| Equity in undistributed earnings of subsidiaries | 5,167 | 6,303 | 3,903 |
| Income tax benefit | 349 | 271 | 545 |
| Net earnings | \$4,473 | \$5,780 | \$4,599 |

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Statements of Cash Flows

For the Years Ended December 31, 2011, 2010, and 2009

(in thousands)

| | 2011 | 2010 | 2009 |
|--|-----------|----------|-----------|
| Cash flows from operating activities: | | | |
| Net earnings | \$4,473 | \$5,780 | \$4,599 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Undistributed earnings of subsidiaries | (5,167) | (6,303) | (3,903) |
| Other, net | 144 | 32 | (384) |
| Net cash (used in) provided by operating activities | (550) | (491) | 312 |
| Cash flows from investing activities: | | | |
| Sale of equity securities | - | 75 | - |
| Investments in and advances to subsidiaries | (11,972) | - | (20,000) |
| Net cash (used in) provided by investing activities | (11,972) | 75 | (20,000) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | - | 4,768 | 32,448 |
| Proceeds from issuance of Series A preferred stock and related common stock warrants | - | - | 19,954 |
| Proceeds from issuance of Series B preferred stock | 32,000 | - | - |
| Payment to redeem Series A preferred stock | (20,000) | - | - |
| Proceeds from exercise of stock options | 68 | 51 | - |
| Payment of preferred dividends | (938) | (1,001) | (850) |
| Payment of common dividends | (2,724) | (2,507) | (2,117) |
| Net cash provided by financing activities | 8,406 | 1,311 | 49,435 |
| Net change in cash and cash equivalents | (4,116) | 895 | 29,747 |
| Cash and cash equivalents at beginning of year | 32,010 | 31,115 | 1,368 |
| Cash and cash equivalents at end of year | \$27,894 | \$32,010 | \$31,115 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
MidSouth Bancorp, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited MidSouth Bancorp, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MidSouth Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MidSouth Bancorp, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MidSouth Bancorp, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 15, 2012, expressed an unqualified opinion.

Atlanta, Georgia
March 15, 2012

235 Peachtree Street Suite 1800 Atlanta, Georgia 30303 Phone 404.588.4200 Fax 404.588.4222
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
MidSouth Bancorp, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited the accompanying consolidated balance sheets of MidSouth Bancorp, Inc. (the “Company”) and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MidSouth Bancorp, Inc. and subsidiaries as of December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of MidSouth Bancorp, Inc. and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012, expressed an unqualified opinion on the effectiveness of MidSouth Bancorp, Inc.’s internal control over financial reporting.

Atlanta, Georgia
March 15, 2012

235 Peachtree Street NE Suite 1800 Atlanta, Georgia 30303 Phone 404.588.4200 Fax 404.588.4222

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Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A – 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 Annual Report on Form 10-K, 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 fourth quarter of 2011, there were no significant changes in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of MidSouth Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with the accounting principles generally accepted in the United States of America. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended.

The Company's internal control systems are designed to ensure that transactions are properly authorized and recorded in the financial records and to safeguard assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 based on the criteria for effective internal control established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2011.

Our independent registered public accountants have issued an audit report on the Company's internal control over financial reporting. Their report is included on page 90 in this Annual Report on Form 10-K.

Item 9B – Other Information

Not applicable.

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PART III

Item 10 - Directors, Executive Officers, and Corporate Governance

The information set forth under the heading “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K, is incorporated herein by reference.

The information set forth under the headings “Item 1. Election of Directors,” “Corporate Governance – Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance – Code of Ethics,” and “Corporate Governance – Standing Board Committees” in the Company’s Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics (which is entitled “Code of Ethics”) and the Company’s corporate governance policies are posted on the Investor Relations page of Company’s website at <http://www.midsouthbank.com>. The Company intends to satisfy disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the Audit Committee, Compensation Committee, Executive Committee and the Corporate Governance and Nominating Committee of the Company’s Board of Directors are available on the Company’s website as well. This information is also available in print free of charge to any person who requests it.

Item 11 - Executive Compensation

The information set forth under the headings “Compensation Discussion and Analysis,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Options Exercised and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination or Change of Control,” “Outside Director Compensation,” “Corporate Governance – Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Company’s Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information set forth under the headings “Securities Authorized for Issuance under Equity Compensation Plans” in this Annual Report on Form 10-K, is incorporated by reference to the sections entitled “Security Ownership of Management and Certain Beneficial Owners – Security Ownership of Management” and “Security Ownership of Management and Certain Beneficial Owners – Security Ownership of Certain Beneficial Owners” in the Company’s Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2011, the Company had outstanding stock options and restricted stock granted under our incentive compensation plans, which were approved by the Company’s shareholders. Provided below is information regarding the Company’s equity compensation plans under which the Company’s equity securities are authorized for issuance as of December 31, 2011, subject to the Company’s available authorized shares.

| Plan Category | Number of securities to be issued upon exercise | Weighted-average exercise price of | Number of securities remaining available for |
|---------------|---|------------------------------------|--|
|---------------|---|------------------------------------|--|

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| | of outstanding options, warrants, and rights (a) | outstanding options (b) | future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|-------------------------------|--|
| Equity compensation plans approved by security holders | 51,745 | \$ 13.65 | 508,355 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 51,745 | \$ 13.65 | 508,355 |

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Item 13 - Certain Relationships and Related Transactions and Director Independence

The information set forth under the headings “Certain Relationships and Related Transactions” and “Corporate Governance – Board Independence” in the Company’s Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

Item 14 – Fees aPrincipal Accounting nd Services

The information set forth under the heading “Relationship with Independent Registered Public Accountants” in the Company’s Proxy Statement for the 2012 Annual Meeting of Shareholders is incorporated herein by reference.

Item 15 - Exhibits and Financial Statement Schedules

The following documents are filed as a part of this report:

(a)(1) The following consolidated financial statements and supplementary data of the Company are included in Part II of this Form 10-K:

Selected Quarterly Financial Data

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets – December 31, 2011 and 2010

Consolidated Statements of Earnings – Years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Changes in Shareholders’ Equity – Years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Cash Flows – Years ended December 31, 2011, 2010, and 2009

Notes to Consolidated Financial Statements

(a)(2) All schedules have been outlined because the information required is included in the financial statements or notes or have been omitted because they are not applicable or not required.

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Exhibits

Exhibit Description
No.

| | |
|--------|--|
| 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 Current Report on Form 8-K filed on May 27, 2011 and incorporated herein by reference). |
| 3.1(a) | Articles of Amendment to the Amended and Restated Articles of Incorporation of MidSouth Bancorp, Inc. (filed as Exhibit 3.1 to MidSouth's Current Report on Form 8-K filed on August 29, 2011 and incorporated herein by reference). |
| 3.2 | Amended and Restated By-laws of MidSouth Bancorp, Inc. effective December 19, 2007 (filed as Exhibit 3.3 to MidSouth's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference). |
| 4.1 | Specimen Common Stock Certificate. (filed as Exhibit 4.1 to MidSouth's Registration Statement (No. 333-163361) on Form S-1 filed November 25, 2009 and incorporated herein by reference). |
| 4.2 | Specimen Stock Certificate for Series A Fixed Rate Cumulative Perpetual Preferred Stock (included as part of Exhibit 3.1 to MidSouth's Current Report on Form 8-K filed January 14, 2009 and incorporated herein by reference). |
| 4.3 | Warrant to Purchase Shares of Common Stock of MidSouth Bancorp, Inc. (filed as Exhibit 3.2 to Form 8-K filed January 14, 2009 and incorporated herein by reference). |
| 10.1 | MidSouth National Bank Lease Agreement with Southwest Bank Building Limited Partnership (filed as Exhibit 10.7 to the Company's annual report on Form 10-K for the Year Ended December 31, 1992, and incorporated herein by reference). |
| 10.2 | First Amendment to Lease between MBL Life Assurance Corporation, successor in interest to Southwest Bank Building Limited Partnership in Commendam, and MidSouth National Bank (filed as Exhibit 10.1 to the Company's annual report on Form 10-KSB for the year ended December 31, 1994, and incorporated herein by reference). |
| 10.3+ | Amended and Restated Deferred Compensation Plan and Trust effective dated December 17, 2008 (filed as Exhibit 10.3 to MidSouth's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference). |
| 10.4+ | Employment Agreement with Karen L. Hail (filed as Exhibit 10.4 to MidSouth's Registration Statement (No. 333-163361) on Form S-1 filed November 25, 2009 and incorporated herein by reference). |
| 10.5+ | The MidSouth Bancorp, Inc. 2007 Omnibus Incentive Plan (filed as an appendix to MidSouth's definitive proxy statement filed April 23, 2007 and incorporated herein by reference). |

10.6 Letter Agreement, dated January 9, 2009, including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, between the Company and the United States Department of the Treasury (filed as Exhibit 10.1 to Form 8-K filed January 14, 2009 and incorporated herein by reference).

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10.7+ Form of Letter Agreement, executed by each of Messrs. C.R. Cloutier, J. Eustis Corrigan, Jr., Donald R. Landry and A. Dwight Utz, and Ms. Karen L. Hail with the Company (filed as Exhibit 10.3 to Form 8-K filed January 14, 2009 and incorporated herein by reference).

10.8+ Form of Restricted Stock Award Agreement (filed as Exhibit 10.1 to the Form 8-K filed July 6, 2010 and incorporated herein by reference).

10.9 Small Business Lending Fund Securities Purchase Agreement, dated August 25, 2011, between MidSouth Bancorp, Inc. and the Secretary of the Treasury (filed as Exhibit 10.1 to the Form 8-K filed on August 29, 2011 and incorporated herein by reference).

21 Subsidiaries of the Registrant*

23.1 Consent of Porter, Keadle, Moore LLC*

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended *

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended *

32.1 Certification by the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

32.2 Certification by the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

99.1 Certification of Chief Executive Officer pursuant to the Emergency Economic Stability Act of 2008*

99.2 Certification of Chief Financial Officer pursuant to the Emergency Economic Stability Act of 2008*

101 The following financial information from the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in Extensible Business Reporting Language (“XBRL”): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders’ Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.**

+ Management contract or compensatory plan or arrangement

* Included herewith

**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.

Agreements with respect to certain of the Company's long-term debt are not filed as Exhibits hereto inasmuch as the debt authorized under any such agreement does not exceed 10% of the Company's total assets. The Company agrees to furnish a copy of each such agreement to the Securities & Exchange Commission upon request.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDSOUTH BANCORP, INC.
Registrant

By: /s/ C. R. Cloutier
C. R. Cloutier
President and
Chief Executive Officer

Date: March 15, 2012

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| Signatures | Title | Date |
|--|--|----------------|
| /s/ C.R. Cloutier C.R. Cloutier | Principal Executive Officer, President, and Director | March 15, 2012 |
| /s/ James R. McLemore James R. McLemore | Principal Financial Officer and Senior Executive Vice President | March 15, 2012 |
| /s/ Teri S. Stelly Teri S. Stelly | Principal Accounting Officer and Controller | March 15, 2012 |
| /s/ Gerald B. Reaux, Jr. Gerald B. Reaux, Jr. | Director | March 15, 2012 |
| /s/ J.B. Hargroder, M.D. J.B. Hargroder, M.D. | Director | March 15, 2012 |
| /s/ William M. Simmons William M. Simmons | Director | March 15, 2012 |
| /s/ Will Charbonnet, Sr. Will Charbonnet, Sr. | Director | March 15, 2012 |
| /s/ Clayton Paul Hillard Clayton Paul Hillard | Director | March 15, 2012 |
| /s/ James R. Davis, Jr. James R. Davis, Jr. | Director | March 15, 2012 |
| /s/ Timothy J. Lemoine Timothy J. Lemoine | Director | March 15, 2012 |
| /s/ Joseph V. Tortorice, Jr. Joseph V. Tortorice, Jr. | Director | March 15, 2012 |
| /s/ Milton B. Kidd, III Milton B. Kidd, III | Director | March 15, 2012 |
| /s/ R. Glenn Pumpelly R. Glenn Pumpelly | Director | March 15, 2012 |
