

MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

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

Louisiana
(State or other jurisdiction of incorporation or organization)

72-1020809
(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501

(Address of principal executive offices, including zip code)

(337) 237-8343

(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

YES NO

As of May 10, 2013, there were 11,238,786 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.



<u>Part I – Financial Information</u>	3
<u>Item 1. Financial Statements.</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Earnings (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	5
<u>Consolidated Statement of Shareholders’ Equity (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows (unaudited)</u>	7
<u>Notes to Interim Consolidated Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation.</u>	27
<u>Forward-Looking Statements</u>	27
<u>Critical Accounting Policies</u>	28
<u>Results of Operations</u>	29
<u>Analysis of Balance Sheet</u>	32
<u>Liquidity and Capital</u>	34
<u>Asset Quality</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	37
<u>Item 4. Controls and Procedures.</u>	37
<u>Part II – Other Information</u>	38
<u>Item 1. Legal Proceedings.</u>	38
<u>Item 1A. Risk Factors.</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	38
<u>Item 3. Defaults Upon Senior Securities.</u>	38
<u>Item 4. Mine Safety Disclosures.</u>	38
<u>Item 5. Other Information.</u>	38
<u>Item 6. Exhibits.</u>	38

Table of Contents

Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share data)

	March 31, 2013 (unaudited)	December 31, 2012* (audited)
Assets		
Cash and due from banks, including required reserves of \$22,094 and \$14,083, respectively	\$36,428	\$46,297
Interest-bearing deposits in banks	71,206	20,276
Federal funds sold	10,375	7,000
Time deposits held in banks	-	881
Securities available-for-sale, at fair value (cost of \$376,554 at March 31, 2013 and \$412,065 at December 31, 2012)	387,786	424,617
Securities held-to-maturity (fair value of \$170,177 at March 31, 2013 and \$156,924 at December 31, 2012)	167,617	153,524
Other investments	10,017	8,310
Loans	1,037,859	1,046,940
Allowance for loan losses	(7,457)	(7,370)
Loans, net	1,030,402	1,039,570
Bank premises and equipment, net	66,797	63,461
Accrued interest receivable	6,847	6,691
Goodwill	42,676	42,781
Intangibles	8,771	9,047
Cash surrender value of life insurance	13,242	13,183
Other real estate	7,552	7,496
Other assets	7,340	8,594
Total assets	\$1,867,056	\$1,851,728
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$390,774	\$380,557
Interest bearing	1,169,352	1,171,347
Total deposits	1,560,126	1,551,904
Securities sold under agreements to repurchase	48,557	41,447
Notes Payable	28,772	29,128
Junior subordinated debentures	29,384	29,384
Other liabilities	9,384	10,624
Total liabilities	1,676,223	1,662,487
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2013 and December 31, 2012	32,000	32,000
	9,997	9,997

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Series C Preferred stock, no par value; 100,000 shares authorized, 99,971 shares issued and outstanding at March 31, 2013 and December 31, 2012

Common stock, \$0.10 par value; 30,000,000 shares authorized, 11,389,263 and 11,386,611 issued and 11,238,786 and 11,236,134 outstanding at March 31, 2013 and December 31, 2012, respectively	1,139	1,139
Additional paid-in capital	110,703	110,603
Accumulated other comprehensive income	7,301	8,159
Treasury stock – 150,477 shares at March 31, 2013 and December 31, 2012, at cost	(3,286)	(3,286)
Retained earnings	32,979	30,629
Total shareholders' equity	190,833	189,241
Total liabilities and shareholders' equity	\$1,867,056	\$1,851,728

See notes to unaudited consolidated financial statements.

* Derived from audited financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Interest income:		
Loans, including fees	\$17,117	\$12,403
Securities and other investments:		
Taxable	2,059	2,069
Nontaxable	839	775
Federal funds sold	4	2
Time and interest bearing deposits in other banks	38	39
Other investments	72	45
Total interest income	20,129	15,333
Interest expense:		
Deposits	1,078	1,100
Securities sold under agreements to repurchase	179	181
Other borrowings and payable	124	-
Junior subordinated debentures	336	248
Total interest expense	1,717	1,529
Net interest income	18,412	13,804
Provision for loan losses	550	675
Net interest income after provision for loan losses	17,862	13,129
Non-interest income:		
Service charges on deposits	2,171	1,824
Gain on securities, net (includes \$204,000 accumulated other comprehensive income reclassifications for net gains on sales of AFS securities)	204	-
ATM and debit card income	1,356	1,126
Other charges and fees	700	578
Total non-interest income	4,431	3,528
Non-interest expenses:		
Salaries and employee benefits	8,392	6,086
Occupancy expense	3,597	2,548
FDIC insurance	345	368
Other	5,097	3,666
Total non-interest expenses	17,431	12,668
Income before income taxes	4,862	3,989
Income tax expense (includes \$71,000 of income tax expense for reclassification adjustment for net gains on sales of AFS securities)	1,434	1,103
Net earnings	3,428	2,886
Dividends on preferred stock	292	400

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Net earnings available to common shareholders	\$3,136	\$2,486
Earnings per share:		
Basic	\$0.28	\$0.24
Diluted	\$0.27	\$0.24
Cash dividends declared per common share	\$0.07	\$0.07

See notes to unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Net earnings	\$3,428	\$2,886
Other comprehensive income, net of tax:		
Unrealized losses on securities available-for-sale:		
Unrealized holding losses arising during the period, net of income tax benefit of \$390 for the three months ended March 31, 2013 and net of income tax benefit of \$138 for the three months ended March 31, 2012	(725)	(268)
Reclassification adjustment for gains on sales of securities available-for-sale, net of income tax expense of \$71 for the three months ended March 31, 2013	(133)	-
Total other comprehensive loss	(858)	(268)
Total comprehensive income	\$2,570	\$2,618

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2013
(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
Balance - December 31, 2012	131,971	\$41,997	11,386,611	\$1,139	\$ 110,603	\$ 8,159	\$(3,286)	\$30,629	\$189,241	
Net earnings	-	-	-	-	-	-	-	3,428	3,428	
Dividends on Series B and Series C Preferred Stock	-	-	-	-	-	-	-	(292)	(292)	
Dividends on common stock, \$0.07 per share	-	-	-	-	-	-	-	(786)	(786)	
Exercise of stock options, including tax benefit	-	-	2,652	-	30	-	-	-	30	
Stock option and restricted stock compensation expense	-	-	-	-	70	-	-	-	70	
Change in accumulated other comprehensive income	-	-	-	-	-	(858)	-	-	(858)	
Balance - March 31, 2013	131,971	\$41,997	11,389,263	\$1,139	\$ 110,703	\$ 7,301	\$(3,286)	\$32,979	\$190,833	

See notes to unaudited consolidated financial statements.

Table of Contents

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

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net earnings	\$3,428	\$2,886
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,321	885
Amortization (accretion) of purchase accounting adjustments	(1,914)	(690)
Provision for loan losses	550	675
Provision for deferred tax expense	599	229
Amortization of premiums on securities, net	1,299	358
Amortization of other investments	5	4
Stock option expense	62	-
Restricted stock expense	8	12
Net gain on sale of investment securities	(204)	-
Net loss on sale of other real estate owned	8	94
Net write down of other real estate owned	47	(8)
Net loss on sale of premises and equipment	6	-
Change in accrued interest receivable	(156)	(134)
Change in accrued interest payable	(286)	(250)
Change in other assets & other liabilities, net	1,284	335
Net cash provided by operating activities	6,057	4,396
Cash flows from investing activities:		
Net decrease in time deposits in other banks	881	-
Proceeds from maturities and calls of securities available-for-sale	23,664	20,529
Proceeds from maturities and calls of securities held-to-maturity	7,620	3,465
Proceeds from sale of securities available-for-sale	41,839	-
Purchases of securities available-for-sale	(35,866)	(19,871)
Purchases of securities held-to-maturity	(22,194)	-
Proceeds from redemptions of other investments	-	-
Purchases of other investments	(1,712)	(1)
Net change in loans	15,075	(1,767)
Purchases of premises and equipment	(4,664)	(417)
Proceeds from sale of premises and equipment	1	-
Proceeds from sale of other real estate owned	306	110
Net cash provided by investing activities	24,950	2,048
Cash flows from financing activities:		
Change in deposits	8,453	12,734
Change in securities sold under agreements to repurchase	7,110	2,977
Federal Home Loan Bank advances	-	100
Repayments of Federal Home Loan Bank advances	(14)	(100)
Repayments of notes payable	(250)	-
Proceeds and tax benefit from exercise of stock options,	30	-

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Payment of dividends on preferred stock	(368)	(400)
Payment of dividends on common stock	(1,532)	(732)
Net cash provided by financing activities	13,429	14,579
Net increase in cash and cash equivalents	44,436	21,023
Cash and cash equivalents, beginning of period	73,573	83,303
Cash and cash equivalents, end of period	\$118,009	\$104,326
Supplemental information- Noncash items		
Transfer of loans to other real estate	\$417	\$97
Accrued preferred stock dividends	292	400

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2013
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (“GAAP”), the financial position of MidSouth Bancorp, Inc. (the “Company”) and its subsidiaries as of March 31, 2013 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company’s 2012 Annual Report on Form 10-K.

The results of operations for the three month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire year.

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

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2012 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities applies to derivatives accounted for in accordance with ASC 815 (Derivatives and Hedging), including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The effective date of this Update is for fiscal years beginning on or after January 1, 2013 and interim periods within those annual periods. Adoption of this Update did not impact the Company’s consolidated financial statements or the interim notes to the consolidated financial statements.

ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income was issued in the first quarter of 2013 to improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”). The ASU requires information regarding the impact to net income of the reclassification on significant amounts out of AOCI to be presented on either the face of the income statement or in the notes to the financial statements. The amendments in this Update do not change the current reporting requirements for net income or AOCI. For public entities, the amendments in this Update are effective prospectively for reporting periods beginning after December 15, 2012. In compliance with the Update, the information required has been included in the Consolidated Statements of Earnings for the period ended March 31, 2013.

Reclassifications—Certain reclassifications have been made to the prior years’ financial statements in order to conform to the classifications adopted for reporting in 2013. The reclassifications had no impact on net income or stockholders equity.

Table of Contents

2. Investment Securities

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

		March 31, 2013		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government sponsored enterprises	\$13,195	\$8	\$17	\$13,186
Obligations of state and political subdivisions	73,186	3,997	4	77,179
GSE mortgage-backed securities	162,299	5,137	116	167,320
Other asset-backed securities	12,174	454	-	12,628
Collateralized mortgage obligations: residential	86,784	629	160	87,253
Collateralized mortgage obligations: commercial	28,452	1,241	-	29,693
Collateralized debt obligation	464	63	-	527
	\$376,554	\$11,529	\$297	\$387,786

		December 31, 2012		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government sponsored enterprises	\$13,422	\$2	\$-	\$13,424
Obligations of state and political subdivisions	83,093	4,328	-	87,421
GSE mortgage-backed securities	172,932	5,887	-	178,819
Collateralized mortgage obligations: residential	101,381	652	47	101,986
Collateralized mortgage obligations: commercial	28,528	1,233	-	29,761
Other asset-backed securities	12,245	497	-	12,742
Collateralized debt obligation	464	-	-	464
	\$412,065	\$12,599	\$47	\$424,617

		March 31, 2013		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Held-to-maturity:				
Obligations of state and political subdivisions	\$44,443	\$201	\$481	\$44,163
GSE mortgage-backed securities	91,968	2,315	29	94,254
Collateralized mortgage obligations: residential	15,026	-	90	14,936
Collateralized mortgage obligations: commercial	16,180	644	-	16,824
	\$167,617	\$3,160	\$600	\$170,177

Table of Contents

		December 31, 2012		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Held-to-maturity:				
Obligations of state and political subdivisions	\$42,900	\$7	\$7	\$42,900
GSE mortgage-backed securities	89,383	2,819	-	92,202
Collateralized mortgage obligations: residential	5,009	-	-	5,009
Collateralized mortgage obligations: commercial	16,232	581	-	16,813
	\$153,524	\$3,407	\$7	\$156,924

With the exception of 3 private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$83,000 at March 31, 2013, all of the Company’s CMOs are government-sponsored enterprise (“GSE”) securities.

Effective January 1, 2013, an adjustment was made to the premium amortization method of the pass-through mortgage-backed securities (“MBSs”) and the CMOs. Previously, the premiums were amortized over the average life of the securities which resulted in greater amortization taken in the early years of the bond’s life. The change provides for the premium amortization to be calculated based on 2 times the average life on MBSs and on final principal window for the CMOs, together with the related premium amortization based on principal pay-downs. The adjustment was made to more closely reflect the level yield method as required by GAAP and resulted in an increase in interest income on investment securities of approximately \$73,000 for the three months ended March 31, 2013, or approximately \$0.02 diluted earnings per share on an annualized basis.

The amortized cost and fair value of debt securities at March 31, 2013 by contractual maturity are shown in the following table (in thousands) with the exception of other asset-backed securities, MBSs, CMOs, and the collateralized debt obligation. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized	Fair
	Cost	Value
Available-for-sale:		
Due in one year or less	\$ 13,977	\$ 14,152
Due after one year through five years	44,507	46,369
Due after five years through ten years	22,706	24,462
Due after ten years	5,191	5,382
Other asset-backed securities	12,174	12,628
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	249,083	254,573
Commercial	28,452	29,693
Collateralized debt obligation	464	527
	\$ 376,554	\$ 387,786

Table of Contents

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$ 306	\$ 307
Due after one year through five years	1,152	1,154
Due after five years through ten years	6,218	6,329
Due after ten years	36,767	36,373
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	106,994	109,190
Commercial	16,180	16,824
	\$ 167,617	\$ 170,177

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

	Securities with losses under 12 months		March 31, 2013 Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
U.S. Government sponsored enterprises	\$5,512	\$17	\$-	\$-	\$5,512	\$17
Obligations of state and - political subdivisions	491	4	-	-	491	4
GSE mortgage-backed securities	34,310	116	-	-	34,310	116
Collateralized mortgage obligations: residential	19,920	159	82	1	20,002	160
	\$60,233	\$296	\$82	\$1	\$60,315	\$297

	Securities with losses under 12 months		December 31, 2012 Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Collateralized mortgage obligations: residential	\$10,085	\$45	\$96	\$2	\$10,181	\$47

Table of Contents

	Securities with losses under 12 months		March 31, 2013 Securities with losses over 12 months		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Loss	Value	Unrealized Loss	Value	Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	\$29,289	\$481	\$-	\$-	\$29,289	\$481
GSE mortgage-backed securities	9,996	29	-	-	9,996	29
Collateralized mortgage obligations: residential	14,936	90			14,936	90
	\$54,221	\$600	\$-	\$-	\$54,221	\$600
	Securities with losses under 12 months		December 31, 2012 Securities with losses over 12 months		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Loss	Value	Unrealized Loss	Value	Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	\$1,128	\$7	\$-	\$-	\$1,128	\$7

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

The unrealized losses on debt securities at March 31, 2013 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Of the four US government sponsored securities classified as available-for-sale, one contained unrealized losses at March 31, 2013. Of the 122 obligations of state and political subdivisions classified as available-for-sale, one contained unrealized losses at March 31, 2013. Of the 82 GSE mortgage-backed securities classified as available-for-sale, eight contained unrealized losses at March 31, 2013. Of the 36 residential collateralized mortgage obligations classified as available-for-sale, seven contained unrealized losses at March 31, 2013. Management identified no impairment related to credit quality. At March 31, 2013, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the three months ended March 31, 2013.

During the three months ended March 31, 2013, the Company sold 21 securities classified as available-for-sale at a net gain of \$204,000. Of the 21 securities sold, 18 securities were sold with gains totaling \$217,000 and three securities were sold at a loss of \$13,000. During the three months ended March 31, 2012, the Company did not sell any securities.

Securities with an aggregate carrying value of approximately \$302.1 million and \$226.2 million at March 31, 2013 and December 31, 2012, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

Table of Contents

3. 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, owns 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 securities 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 March 31, 2013 and December 31, 2012, based upon quarterly reviews, management determined that there was no impairment in the bank stocks held as other investments.

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

	March 31, 2013	December 31, 2012
FRB-Atlanta	\$ 3,789	\$ 2,258
FHLB-Dallas	1,863	1,862
Other bank stocks	2,063	2,063
Other stocks	187	7
CRA investment	2,115	2,120
	\$ 10,017	\$ 8,310

4. Credit Quality of Loans and Allowance for Loan Losses

The allowance for loan losses and recorded investment in loans as of the dates indicated are as follows:

(in thousands)	As of March 31, 2013			Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	
Allowance for loan losses:				
Commercial, financial, agriculture	\$1,115	\$467	\$ -	\$1,582
Real estate – construction	2,212	51	-	2,263
Commercial real estate	2,252	21	-	2,273
Residential real estate	827	42	-	869
Consumer	319	106	-	425
Financial leases	42	-	-	42
Other	3	-	-	3
Total allowance for loan losses	\$6,770	\$687	\$ -	\$7,457

(in thousands)	As of March 31, 2013			Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Loans:

Commercial, financial, agriculture	\$313,677	\$1,648	\$ 72	\$315,397
Real estate – construction	81,673	835	-	82,508
Commercial real estate	399,117	2,688	3,900	405,705
Residential real estate	136,797	1,205	282	138,284
Consumer	88,643	255	-	88,898
Financial leases	4,962	-	-	4,962
Other	2,105	-	-	2,105
Total loans	\$1,026,974	\$6,631	\$ 4,254	\$1,037,859

Table of Contents

(in thousands)	As of December 31, 2012			Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	
Allowance for loan losses:				
Commercial, financial, agriculture	\$1,144	\$391	\$ -	\$1,535
Real estate – construction	2,090	57	-	2,147
Commercial real estate	2,131	35	-	2,166
Residential real estate	906	30	-	936
Consumer	429	114	-	543
Financial leases	41	-	-	41
Other	2	-	-	2
Total allowance for loan losses	\$6,743	\$627	\$ -	\$7,370

(in thousands)	As of December 31, 2012			Total
	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	
Loans:				
Commercial, financial, agriculture	\$313,937	\$1,636	\$ 82	\$315,655
Real estate – construction	74,398	936	-	75,334
Commercial real estate	407,489	2,911	3,984	414,384
Residential real estate	140,776	1,627	455	142,858
Consumer	90,231	330	-	90,561
Financial leases	5,769	-	-	5,769
Other	2,379	-	-	2,379
Total loans	\$1,034,979	\$7,440	\$ 4,521	\$1,046,940

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 March 31, 2013, one industry segment concentration, the oil and gas industry, constituted more than 10% of the loan portfolio. The Company's exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$144.1 million, or 13.9% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At March 31, 2013, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately \$470.8 million. Of the \$470.8 million, \$348.5 million represent CRE loans, 58.2% of which are secured by owner-occupied commercial properties. Of the \$470.8 million in loans secured by commercial real estate, \$3.6 million, or 0.8%, were on nonaccrual status at March 31, 2013.

Modifications by Class of Loans
(in thousands)

Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
---------------------------	---	--

Troubled debt restructurings as of March 31, 2013:

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Commercial, financial, and agricultural	4	\$ 412	\$ 370
Real Estate - commercial	3	4,983	4,662
		\$ 5,395	\$ 5,032

14

Table of Contents

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings as of December 31, 2012:			
Commercial, financial, and agricultural	3	\$ 370	\$ 353
Real Estate – commercial	3	4,983	4,709
		\$ 5,353	\$ 5,062

Trouble Debt Restructurings that Subsequently Defaulted
(in thousands)

	March 31, 2013		March 31, 2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial, and agricultural	4	\$259	3	\$251

One loan with a pre-modification balance of \$27,000 was identified as a TDR and no additional defaults on TDRs were recorded during the three months ended March 31, 2013. For purposes of the determination of an allowance for loan losses on these TDRs, as an identified TDR, the Company considers a loss probable on the loan and, as a result is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of March 31, 2013, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

For the Three Months Ended March 31, 2013 (in thousands)

	Real Estate							
	Coml, Fin, and Agric	Construction	Commercial	Residential	Consumer	Finance Leases Coml	Other	Total
Allowance for loan losses:								
Beginning balance	\$1,535	\$2,147	\$ 2,166	\$ 936	\$ 543	\$41	\$2	\$7,370
Charge-offs	(181)	-	(18)	(109)	(216)	-	-	(524)
Recoveries	16	5	10	1	29	-	-	61
Provision	212	111	115	41	69	1	1	550
Ending balance	\$1,582	\$2,263	\$ 2,273	\$ 869	\$ 425	\$42	\$3	\$7,457
Ending balance: individually evaluated for impairment								
	\$467	\$51	\$ 21	\$ 42	\$ 106	\$-	\$-	\$687
Loans:								
Ending balance	\$315,397	\$82,508	\$ 405,705	\$ 138,284	\$ 88,898	\$4,962	\$2,105	\$1,037,859
Ending balance: individually evaluated for impairment								
	\$1,648	\$835	\$ 2,688	\$ 1,205	\$ 255	\$-	\$-	\$6,631

Table of Contents

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2012 (in thousands)

	Real Estate							
	Coml, Fin, and Agric	Construction	Commercial	Residential	Consumer	Finance Leases Coml	Other	Total
Allowance for loan losses:								
Beginning balance	\$ 1,734	\$ 1,661	\$ 2,215	\$ 936	\$ 710	\$ 19	\$ 1	\$ 7,276
Charge-offs	(1,054)	-	(550)	(126)	(526)	-	-	(2,256)
Recoveries	181	18	1	2	98	-	-	300
Provision	674	468	500	124	261	22	1	2,050
Ending balance	\$ 1,535	\$ 2,147	\$ 2,166	\$ 936	\$ 543	\$ 41	\$ 2	\$ 7,370
Ending balance: individually evaluated for impairment	\$ 391	\$ 57	\$ 35	\$ 30	\$ 114	\$ -	\$ -	\$ 627
Loans:								
Ending balance	\$ 315,655	\$ 75,334	\$ 414,384	\$ 142,858	\$ 90,561	\$ 5,769	\$ 2,379	\$ 1,046,940
Ending balance: individually evaluated for impairment	\$ 1,636	\$ 936	\$ 2,911	\$ 1,627	\$ 330	\$ -	\$ -	\$ 7,440

Credit Quality Indicators by Class of Loans
As of March 31, 2013 (in thousands)

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category

	Commercial, Financial, and Agricultural	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial Total	% of Total Commercial
Pass	\$ 308,294	\$ 62,579	\$ 380,402	\$ 751,275	95.55 %
Special mention	2,897	663	13,729	17,289	2.20 %
Substandard	3,887	1,888	6,816	12,591	1.60 %
Doubtful	319	3	4,758	5,080	0.65 %
	\$ 315,397	\$ 65,133	\$ 405,705	\$ 786,235	100.00 %

Residential Credit Exposure

Credit Risk Profile by Creditworthiness Category

	Residential Construction	Residential Prime	Residential Subprime	Residential Total	% of Total Residential
Pass	\$ 17,139	\$ 133,525	\$ -	\$ 150,664	96.79 %
Special mention	-	1,398	-	1,398	0.90 %

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Substandard	236	3,361	-	3,597	2.31	%
	\$ 17,375	\$ 138,284	\$-	\$ 155,659	100.00	%

16

Table of ContentsConsumer and Commercial Credit Exposure
Credit Risk Profile Based on Payment Activity

	Consumer Credit Card	Consumer Other	Finance Leases Commercial	Other Loans	Total	% of Total	
Performing	\$5,892	\$82,722	\$4,962	\$2,105	\$95,681	99.70	%
Nonperforming	29	255	-	-	284	0.30	%
	\$5,921	\$82,977	\$4,962	\$2,105	\$95,965	100.00	%

Credit Quality Indicators by Class of Loans
As of December 31, 2012 (in thousands)Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, Financial, and Agricultural	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial Total	% of Total Commercial	
Pass	\$ 304,219	\$ 54,737	\$ 396,077	\$ 755,033	95.76	%
Special Mention	5,748	684	6,224	12,656	1.61	%
Substandard	4,503	2,925	7,514	14,942	1.90	%
Doubtful	1,185	4	4,569	5,758	0.73	%
	\$ 315,655	\$ 58,350	\$ 414,384	\$ 788,389	100.00	%

Residential Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Residential Construction	Residential Prime	Residential Subprime	Residential Total	% of Total Residential	
Pass	\$ 16,785	\$137,681	\$-	\$154,466	96.64	%
Special mention	-	1,612	-	1,612	1.01	%
Substandard	199	3,565	-	3,764	2.35	%
	\$ 16,984	\$142,858	\$-	\$159,842	100.00	%

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

	Consumer Credit Card	Consumer Other	Finance Leases Commercial	Other Loans	Total	% of Total	
Performing	\$6,792	\$83,347	\$5,769	\$2,379	\$98,287	99.57	%
Nonperforming	15	407	-	-	422	0.43	%
	\$6,807	\$83,754	\$5,769	\$2,379	\$98,709	100.00	%

Table of Contents

Age Analysis of Past Due Loans by Class of Loans
(in thousands)