MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2018

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, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

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

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

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

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 of 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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 10, 2018, there were 16,603,511 shares of the registrant's Common Stock, par value $0.10 per share, outstanding.

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Part I – Financial Information

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

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Cash and due from banks, including required reserves of $7,991 and $6,741, respectively	$18,037	$34,775
Interest-bearing deposits in banks	192,130	114,839
Federal funds sold	1,319	3,350
Securities available-for-sale, at fair value (cost of $301,411 at March 31, 2018 and $312,584 at December 31, 2017)	293,970	309,191
Securities held-to-maturity (fair value of $72,307 at March 31, 2018 and $80,920 at December 31, 2017)	73,255	81,052
Other investments	12,896	12,214
Loans held for sale	1,117	15,737
Loans	1,137,255	1,183,426
Allowance for loan losses	(25,371)	(26,888)
Loans, net	1,111,884	1,156,538
Bank premises and equipment, net	57,848	59,057
Accrued interest receivable	7,887	8,283
Goodwill	42,171	42,171
Intangibles	3,238	3,515
Cash surrender value of life insurance	14,948	14,896
Other real estate	1,803	2,001
Assets held for sale	3,995	3,995
Other assets	21,257	19,538
Total assets	$1,857,755	$1,881,152
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$427,504	$416,547
Interest-bearing	1,076,433	1,063,142
Total deposits	1,503,937	1,479,689
Securities sold under agreements to repurchase	33,026	67,133
Short-term Federal Home Loan Bank advances	27,500	40,000
Long-term Federal Home Loan Bank advances	10,016	10,021
Junior subordinated debentures	22,167	22,167
Other liabilities	10,272	8,127
Total liabilities	1,606,918	1,627,137
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, 2018 and December 31, 2017	32,000	32,000
	8,987	8,987

Series C Preferred stock, no par value; 100,000 shares authorized, 89,875 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively		
Common stock, $0.10 par value; 30,000,000 shares authorized, 16,621,811 and 16,548,829 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	1,662	1,655
Additional paid-in capital	168,765	168,412
Unearned ESOP shares	(906)	(937)
Accumulated other comprehensive loss	(4,782)	(1,828)
Retained earnings	45,111	45,726
Total shareholders’ equity	250,837	254,015
Total liabilities and shareholders’ equity	$1,857,755	$1,881,152

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans, including fees	$16,015	$16,622
Securities and other investments:		
Taxable	2,047	2,327
Nontaxable	316	407
Federal funds sold	18	6
Time and interest bearing deposits in other banks	514	85
Other investments	87	84
Total interest income	18,997	19,531
Interest expense:		
Deposits	1,238	935
Securities sold under agreements to repurchase	40	234
Short-term FHLB advances	84	—
Long-term FHLB advances	45	88
Junior subordinated debentures	220	208
Total interest expense	1,627	1,465
Net interest income	17,370	18,066
Provision for loan losses	—	2,800
Net interest income after provision for loan losses	17,370	15,266
Non-interest income:		
Service charges on deposits	2,206	2,480
Gain on sale of securities, net	—	6
ATM and debit card income	1,784	1,703
Other charges and fees	839	855
Total non-interest income	4,829	5,044
Non-interest expenses:		
Salaries and employee benefits	7,719	8,689
Occupancy expense	3,190	3,624
ATM and debit card expense	576	721
Data processing	665	621
FDIC insurance	430	397
Legal and professional fees	5,703	385
Loss on transfer of loans to held for sale	875	—
Other	2,715	2,793
Total non-interest expenses	21,873	17,230
Income before income tax expense (benefit)	326	3,080
Income tax (benefit) expense	(34)	589
Net earnings	360	2,491

Dividends on preferred stock	810	811
Net (loss) earnings available to common shareholders	$(450)	$1,680
(Loss) earnings per share:		
Basic	$(0.03)	$0.15
Diluted	$(0.03)	$0.15
Weighted average number of shares outstanding:		
Basic	16,495	11,264
Diluted	16,500	11,282
Dividends declared per common share	$0.01	$0.09

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Net earnings	$360	$2,491
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on securities available-for-sale:		
Unrealized holding (losses) gains arising during the year	(4,048)	820
Less: reclassification adjustment for gains on sales of securities available-for-sale	—	(6)
Net change in unrealized (losses) gains on securities available-for-sale	(4,048)	814
Unrealized gain on derivative instruments designated as cash flow hedges:		
Unrealized holding gains on derivatives arising during the period	349	13
Less: reclassification adjustment for gains on derivative instruments	(40)	—
Net change in unrealized gain on derivative instruments	309	13
Total other comprehensive (loss) income, before tax	(3,739)	827
Income tax effect related to items of other comprehensive (loss) income	785	(290)
Total other comprehensive (loss) income, net of tax	(2,954)	537
Total comprehensive (loss) income	$(2,594)	$3,028

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2018
(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in	Unearned ESOP	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Shares	Amount	Capital	Shares	Loss	Earnings	Total
Balance - December 31, 2017	121,875	$40,987	16,548,829	$1,655	$168,412	$(937)	$(1,828)	$45,726	$254,015
Net earnings	—	—	—	—	—	—	—	360	360
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(810)	(810)
Dividends on common stock, $0.01 per share	—	—	—	—	—	—	—	(165)	(165)
Restricted stock grant	—	—	52,278	5	(5)	—	—	—	—
Restricted stock forfeitures	—	—	(12,375)	(1)	1	—	—	—	—
ESOP shares released for allocation	—	—	—	—	—	31	—	—	31
ESOP compensation expense	—	—	—	—	10	—	—	—	10
Exercise of stock options	—	—	33,079	3	426	—	—	—	429
Stock option and restricted stock compensation expense	—	—	—	—	(79)	—	—	—	(79)
Change in accumulated other comprehensive loss	—	—	—	—	—	—	(2,954)	—	(2,954)
Balance – March 31, 2018	121,875	$40,987	16,621,811	$1,662	$168,765	$(906)	$(4,782)	$45,111	$250,837

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$360	$2,491
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,205	1,493
Accretion of purchase accounting adjustments	162	2
Provision for loan losses	—	2,800
Deferred tax expense (benefit)	1,614	(222)
Amortization of premiums on securities, net	705	686
Stock-based compensation expense	(79)	81
Net excess tax benefit from stock-based compensation	18	333
ESOP compensation expense	10	27
Net gain on sale of investment securities	—	(6)
Proceeds from sale of loans held for sale	14,514	—
Net gain on sale of other real estate owned	(1)	(8)
Net write down of other real estate owned	48	23
Loss on transfer of loans to held for sale	875	—
Net loss (gain) on sale/disposal of premises and equipment	55	(12)
Change in accrued interest receivable	396	60
Change in accrued interest payable	(28)	(11)
Change in other assets & other liabilities, net	(136)	510
Net cash provided by operating activities	19,718	8,247
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	12,272	14,631
Proceeds from maturities and calls of securities held-to-maturity	7,583	5,865
Proceeds from sale of securities available-for-sale	410	6,462
Proceeds from sale of security held-to-maturity	—	887
Purchases of securities available-for-sale	(2,000)	(36,672)
Purchases of other investments	(682)	(7)
Net change in loans	44,026	9,687
Purchases of premises and equipment	(275)	(887)
Proceeds from sale of premises and equipment	224	144
Proceeds from sale of other real estate owned	151	612
Net cash provided by investing activities	61,709	722
Cash flows from financing activities:		
Change in deposits	24,248	(6,486)
Change in securities sold under agreements to repurchase	(34,107)	(4,654)
Borrowings on Federal Home Loan Bank advances	82,500	—
Repayments of Federal Home Loan Bank advances	(95,000)	(17)
Proceeds from exercise of stock options	429	266
Payment of dividends on preferred stock	(810)	(811)

Payment of dividends on common stock	(165)	(1,024)
Net cash used by financing activities	(22,905)	(12,726)
Net increase (decrease) in cash and cash equivalents	58,522	(3,757)
Cash and cash equivalents, beginning of period	152,964	82,228
Cash and cash equivalents, end of period	$211,486	$78,471
Supplemental cash flow information:		
Interest paid	$1,654	$1,476
Income taxes paid	—	—
Noncash investing and financing activities:		
Transfer of loans to other real estate	—	95
Transfer of loans to held for sale	221	—
Change in accrued common stock dividends	1	1
Change in unrealized gains/losses on securities available-for-sale, net of tax	(3,198)	529
Change in unrealized gains on derivative instruments, net of tax	244	8
Net change in loan to ESOP	31	109

See notes to unaudited consolidated financial statements.

MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2018
(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, 2018 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 2017 Annual Report on Form 10-K.

The results of operations for the three-month period ended March 31, 2018 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 2017 Annual Report on Form 10-K.

Recent Accounting Pronouncements — ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities was issued to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities in ASU 2016-01:

- Clarification regarding the ability to discontinue application of the measurement alternative for equity securities without a readily determinable fair value
- Clarification of the measurement date for fair value adjustments to the carrying amount of equity securities without a readily determinable fair value for which the measurement alternative is elected
- Clarification of the unit of account for fair value adjustments to forward contracts and purchased options on equity securities without a readily determinable fair value for which the measurement alternative is expected to be elected
- Presentation requirements for certain hybrid financial liabilities for which the fair value option is elected
- Measurement of financial liabilities denominated in a foreign currency for which the fair value option is elected
- Transition guidance for equity securities without a readily determinable fair value

The effective date of this Update is for fiscal years beginning on or after December 15, 2017 and for interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt the amendments until interim periods beginning after June 15, 2018. Adoption of this Update is not expected to have a material effect on the Company's financial position, results of operations or its financial statement disclosures.

Adoption of New Accounting Standards — In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers, which created a new principle-based framework to determine when and how an entity recognizes revenue

from its customer contracts. FASB has established a core principle for recognizing revenue within the new rules, which states that revenue should only be recorded when services are provided or goods are transferred to customers at the agreed price. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Description of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

- Service charges on deposits - We collect service charges on most of our non-maturity deposits accounts on a monthly basis. Our fee earned is collected monthly when a particular cycle for a non-maturity deposit account closes. Each cycle is monthly and the fee earned is for our service for the month just closed. Our performance obligations are to process transactions, pay interest (on interest-bearing accounts), collect deposits, and allow access to on-line banking applications and other services ancillary to a banking relationship. Each month when our fee is charged, our obligation is complete. The contract-relationship is a month to month obligation - i.e. our obligation to perform these services would end if the customer closes their deposit account with MidSouth.

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- ATM and debit card income - ATM fees primarily consist of surcharges assessed to our customers for using a non-Bank ATM or a non-Bank customer using our ATM. Debit card income represents revenues earned from interchange fees, which are earned on debit card transactions conducted with payment networks. Such fees are generally recognized concurrently with the delivery of services on a daily basis.

2. Investment Securities

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

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$20,943	$ 75	$ 825	$20,193
GSE mortgage-backed securities	55,926	561	976	55,511
Collateralized mortgage obligations: residential	194,647	103	6,743	188,007
Collateralized mortgage obligations: commercial	2,230	—	47	2,183
Mutual funds	2,100	—	74	2,026
Corporate debt securities	25,565	579	94	26,050
	$301,411	$ 1,318	$ 8,759	$293,970

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$23,042	$ 209	$ 442	$22,809
GSE mortgage-backed securities	58,620	825	321	59,124
Collateralized mortgage obligations: residential	202,573	90	4,508	198,155
Collateralized mortgage obligations: commercial	2,274	—	34	2,240
Mutual funds	2,100	—	39	2,061
Corporate debt securities	23,975	837	10	24,802
	$312,584	$ 1,961	$ 5,354	$309,191

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	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$30,550	$ 162	$ 113	$30,599
GSE mortgage-backed securities	33,930	—	598	33,332
Collateralized mortgage obligations: residential	7,120	—	387	6,733
Collateralized mortgage obligations: commercial	1,655	—	12	1,643
	$73,255	$ 162	$ 1,110	$72,307

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$35,908	$ 265	$ 22	$36,151
GSE mortgage-backed securities	35,751	171	219	35,703
Collateralized mortgage obligations: residential	7,450	—	321	7,129
Collateralized mortgage obligations: commercial	1,943	—	6	1,937
	$81,052	$ 436	$ 568	$80,920

With the exception of one private-label collateralized mortgage obligations ("CMOs") with a balance remaining of $7,000 at March 31, 2018, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

The following table presents the amortized cost and fair value of debt securities at March 31, 2018 by contractual maturity (in thousands). Actual maturities will differ from contractual maturities because of rights to call or repay obligations with or without penalties and scheduled and unscheduled principal payments on mortgage-backed securities and collateralized mortgage obligations.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$—	$—
Due after one year through five years	7,124	7,116
Due after five years through ten years	43,042	43,443
Due after ten years	249,145	241,385
	$299,311	$291,944

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$1,392	$1,389
Due after one year through five years	5,061	5,023
Due after five years through ten years	45,316	44,731
Due after ten years	21,486	21,164
	$73,255	$72,307

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

	March 31, 2018 Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	$1,622	$ 28	$12,343	$ 797	$13,965	$ 825
GSE mortgage-backed securities	35,985	791	5,568	185	41,553	976
Collateralized mortgage obligations: residential	54,829	1,208	130,399	5,535	185,228	6,743
Collateralized mortgage obligations: commercial	—	—	2,183	47	2,183	47
Mutual funds	2,026	74	—	—	2,026	74
Corporate debt securities	4,496	94	—	—	4,496	94
	$98,958	$ 2,195	$150,493	$ 6,564	$249,451	$ 8,759

	December 31, 2017 Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	$596	$ 5	$12,716	$ 437	$13,312	$ 442
GSE mortgage-backed securities	29,725	224	5,858	97	35,583	321
Collateralized mortgage obligations: residential	57,665	548	137,598	3,960	195,263	4,508
Collateralized mortgage obligations: commercial	—	—	2,240	34	2,240	34
Mutual funds	2,061	39	—	—	2,061	39
Corporate debt securities	2,990	10	—	—	2,990	10
	$93,037	$ 826	$158,412	$ 4,528	$251,449	$ 5,354

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	March 31, 2018					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	$9,893	$ 113	$—	$ —	$9,893	$ 113
GSE mortgage-backed securities	$28,673	$ 380	$4,658	$ 218	$33,331	$ 598
Collateralized mortgage obligations: residential	$—	$ —	$6,734	$ 387	$6,734	$ 387
Collateralized mortgage obligations: commercial	1,643	12	—	—	1,643	12
	$40,209	$ 505	$11,392	$ 605	$51,601	$ 1,110

	December 31, 2017					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	$6,340	$ 22	$—	$ —	$6,340	$ 22
GSE mortgage-backed securities	11,201	89	4,961	130	16,162	219
Collateralized mortgage obligations: residential	—	—	7,129	321	7,129	321
Collateralized mortgage obligations: commercial	1,937	6	—	—	1,937	6
	$19,478	$ 117	$12,090	$ 451	$31,568	$ 568

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. For equity securities, management reviews the near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors when determining if an unrealized loss is other than temporary. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

As of March 31, 2018, 106 securities had unrealized losses totaling 3.17% of the individual securities' amortized cost basis and 2.63% of the Company's total amortized cost basis. Of the 106 securities, 45 had been in an unrealized loss position for over twelve months at March 31, 2018. These 45 securities had an amortized cost basis and unrealized loss of $169.1 million and $7.2 million, respectively. The unrealized losses on debt securities at March 31, 2018 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 March 31, 2018, 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, 2018.

During the three months ended March 31, 2018, the Company sold 1 security classified as available-for-sale. The security was sold at book value; therefore, no gain or loss was recorded on the transaction. During the three months ended March 31, 2017, the Company sold 10 securities classified as available-for-sale and 1 security classified as held-to-maturity. Of the available-for-sale securities, 7 securities were sold with gains totaling $108,000 and 3 securities were sold at a loss of $109,000 for a net loss of $1,000. The decision

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to sell the 1 held-to-maturity security, which was sold at a gain of $7,000, was based on the pre-refunding of the bond which would accelerate the maturity of the bond by 15 years with an anticipated call date within six months.

Securities with an aggregate carrying value of approximately $187.0 million and $177.9 million at March 31, 2018 and December 31, 2017, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

3. Credit Quality of Loans and Allowance for Loan Losses

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

	March 31, 2018	December 31, 2017
Commercial, financial and agricultural	$401,048	$435,207
Real estate – construction	94,679	90,287
Real estate – commercial	438,779	448,406
Real estate – residential	145,671	146,751
Installment loans to individuals	50,888	56,398
Lease financing receivable	692	732
Other	5,498	5,645
	1,137,255	1,183,426
Less allowance for loan losses	(25,371)	(26,888)
	$1,111,884	$1,156,538

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, 2018, 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 $172.8 million, or 15.2% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At March 31, 2018, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $502.5 million, 54% of which are secured by owner-occupied commercial properties. Of the $502.5 million in loans secured by commercial real estate, $26.2 million, or 5.2%, were on nonaccrual status at March 31, 2018.

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

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

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

The Company has an internal loan review department that is independent of the lending function to challenge and corroborate the loan grade assigned by the lender and to provide additional analysis in determining the adequacy of the allowance for loan losses. Additionally, the Company utilizes the services of a third party to supplement its loan review efforts.

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A rollforward of the activity within the allowance for loan losses by loan type and recorded investment in loans for the three months ended March 31, 2018 and 2017 is as follows (in thousands):

	March 31, 2018							
		Real Estate						
	Coml, Fin, and Agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$20,577	$596	$3,893	$837	$957	$ 3	$25	$26,888
Charge-offs	(1,524)	(2)	(86)	(3)	(221)	—	—	(1,836)
Recoveries	276	—	6	1	36	—	—	319
Provision	(264)	159	(106)	64	146	—	1	—
Ending balance	$19,065	$753	$3,707	$899	$918	$ 3	$26	$25,371
Ending balance: individually evaluated for impairment	$5,968	$94	$76	$20	$6	$ —	$—	$6,164
Ending balance: collectively evaluated for impairment	$13,097	$659	$3,631	$879	$912	$ 3	$26	$19,207
Loans:								
Ending balance	$401,048	$94,679	$438,779	$145,671	$50,888	$ 692	$5,498	$1,137,255
Ending balance: individually evaluated for impairment	$55,092	$192	$26,005	$2,088	$50	$ —	$—	$83,427
Ending balance: collectively evaluated for impairment	$345,956	$94,487	$412,774	$143,583	$50,838	$ 692	$5,498	$1,053,828

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	March 31, 2017							
		Real Estate						
	Coml, Fin, and Agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$16,057	$585	$5,384	$940	$1,395	$5	$6	$24,372
Charge-offs	(1,705)	—	(823)	(117)	(261)	—	—	(2,906)
Recoveries	154	—	10	90	58	—	—	312
Provision	3,832	(321)	(238)	(249)	(222)	(2)	—	2,800
Ending balance	$18,338	$264	$4,333	$664	$970	$3	$6	$24,578
Ending balance: individually evaluated for impairment	$4,173	$9	$1,656	$217	$160	$—	$—	$6,215
Ending balance: collectively evaluated for impairment	$14,165	$255	$2,677	$447	$810	$3	$6	$18,363
Loans:								
Ending balance	$469,815	$100,248	$464,859	$159,426	$75,258	$969	$1,425	$1,272,000
Ending balance: individually evaluated for impairment	$35,346	$26	$20,623	$1,956	$487	$—	$—	$58,438
Ending balance: collectively evaluated for impairment	$434,469	$100,222	$443,802	$157,401	$74,771	$969	$1,425	$1,213,059
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$434	$69	$—	$—	$—	$503

Non-Accrual and Past Due Loans

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

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

	March 31, 2018						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$2,235	$3,156	$12,816	$18,207	$382,841	$401,048	$ 1
Real estate - construction	927	1,179	192	2,298	92,381	94,679	—
Real estate - commercial	5,681	6,079	11,330	23,090	415,689	438,779	—
Real estate - residential	657	1,137	1,187	2,981	142,690	145,671	—
Installment loans to individuals	202	125	50	377	50,511	50,888	—
Lease financing receivable	—	—	—	—	692	692	—
Other loans	65	16	—	81	5,417	5,498	—
	$9,767	$11,692	$25,575	$47,034	$1,090,221	$1,137,255	$ 1

	December 31, 2017						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$1,195	$1,893	$14,847	$17,935	$417,272	$435,207	$ 545
Real estate - construction	616	—	190	806	89,481	90,287	125
Real estate - commercial	5,889	6,402	4,163	16,454	431,952	448,406	58
Real estate - residential	1,065	235	559	1,859	144,892	146,751	—
Installment loans to individuals	276	32	34	342	56,056	56,398	—
Lease financing receivable	—	—	—	—	732	732	—
Other loans	—	—	—	—	5,645	5,645	—
	$9,041	$8,562	$19,793	$37,396	$1,146,030	$1,183,426	$ 728

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

	March 31, 2018	December 31, 2017
Commercial, financial, and agricultural	$ 53,939	$ 37,418
Real estate - construction	192	66
Real estate - commercial	26,006	11,128
Real estate - residential	2,088	618
Installment loans to individuals	50	48
Lease financing receivable	—	—
Other	—	—
	$ 82,275	$ 49,278

The amount of interest that would have been recorded on non-accrual loans, had the loans not been classified as non-accrual, totaled approximately $1.5 million and $931,000 for the three months ended March 31, 2018 and 2017, respectively. Interest actually received on non-accrual loans subsequent to their transfer to non-accrual status totaled $68,000 and $244,000 for the three months ended March 31, 2018 and 2017, respectively.

Impaired Loans

Loans are considered impaired when, based upon current information, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans classified as special mention, substandard, or doubtful, based on credit risk rating factors, are reviewed to determine whether impairment testing is appropriate. All loan relationships with an outstanding commitment balance above a specified threshold are evaluated for potential impairment. All loan relationships with an outstanding commitment balance below the specified threshold are assigned an allowance allocation percentage that is determined by management and adjusted periodically based on certain factors. An allowance for each impaired loan is calculated based on the present value of expected future cash flows discounted at the loan’s effective interest rate or at the loan’s observable market price or the fair value of the collateral if the loan is collaterally dependent. All impaired loans are reviewed, at a minimum, on a quarterly basis. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. After this review, when comparing the resulting collateral valuation to the outstanding loan balance, if the discounted collateral value exceeds the loan balance no specific allocation is reserved.

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The following table presents loans that are individually evaluated for impairment (in thousands). Interest income recognized represents interest on accruing loans modified in a TDR.

	March 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$44,445	$ 50,416	$ —	$ 34,552	$ 18
Real estate - construction	—	—	—	—	—
Real estate - commercial	25,250	27,514	—	17,861	—
Real estate - residential	1,400	1,400	—	851	—
Installment loans to individuals	24	24	—	12	—
Finance leases	—	—	—	—	—
Subtotal:	71,119	79,354	—	53,276	18
With an allowance recorded:					
Commercial, financial, and agricultural	10,647	10,802	5,968	12,383	—
Real estate - construction	192	192	94	129	—
Real estate - commercial	755	755	76	706	—
Real estate - residential	688	688	20	502	—
Installment loans to individuals	26	26	6	37	—
Finance leases	—	—	—	—	—
Subtotal:	12,308	12,463	6,164	13,757	—
Totals:					
Commercial	81,097	89,487	6,044	65,502	18
Construction	192	192	94	129	—
Residential	2,088	2,088	20	1,353	—
Consumer	50	50	6	49	—
Grand total:	$83,427	$ 91,817	$ 6,164	$ 67,033	$ 18

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	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$24,659	$30,630	$ —	$ 19,880	$ 90
Real estate - construction	—	—	—	5	—
Real estate - commercial	10,471	11,965	—	11,590	—
Real estate - residential	302	302	—	602	—
Installment loans to individuals	—	—	—	37	—
Subtotal:	35,432	42,897	—	32,114	90
With an allowance recorded:					
Commercial, financial, and agricultural	14,119	14,150	7,197	15,245	1
Real estate - construction	66	136	23	33	—
Real estate - commercial	657	657	131	8,318	—
Real estate - residential	316	316	5	620	—
Installment loans to individuals	48	50	14	258	—
Subtotal:	15,206	15,309	7,370	24,474	1
Totals:					
Commercial	49,906	57,402	7,328	55,033	91
Construction	66	136	23	38	—
Residential	618	618	5	1,222	—
Consumer	48	50	14	295	—
Grand total:	$50,638	$58,206	$ 7,370	$ 56,588	$ 91

Credit Quality

The Company manages credit risk by observing written underwriting standards and the lending policy established by the Board of Directors and management to govern all lending activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by a loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors.

Loans are categorized into risk categories based on relevant information about the ability of borrowers to serve their debt, such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, and other factors. Loans are analyzed individually and classified according to their credit risk. This analysis is performed on a continuous basis. The following definitions are used for risk ratings:

Special Mention: Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status, and questionable management capabilities. Collateral values generally afford adequate coverage but may not be immediately marketable.

Substandard: Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. Currently the borrower maintains the capacity to service the debt. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful: Specific weaknesses characterized as Substandard exist that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment. Loans classified as Doubtful will usually be placed

on non-accrual status. The probability of some loss is extremely high but because of certain important and reasonably specific factors, the amount of loss cannot be determined.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be Pass rated loans.

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

March 31, 2018

Commercial Credit Exposure Credit Risk Profile by Creditworthiness Category	Commercial, financial, and agricultural	Real estate - commercial	Total	% of Total
Pass	$ 326,697	$ 393,327	$ 720,024	85.73 %
Special mention	8,718	5,798	14,516	1.73 %
Substandard	65,633	39,654	105,287	12.54 %
	$ 401,048	$ 438,779	$ 839,827	100.00 %

Construction Credit Exposure Credit Risk Profile by Creditworthiness Category	Real estate - construction	% of Total
Pass	$ 92,978	98.20 %
Special mention	167	0.18 %
Substandard	1,534	1.62 %
	$ 94,679	100.00 %

Residential Credit Exposure Credit Risk Profile by Creditworthiness Category	Real estate - residential	% of Total
Pass	$ 140,883	96.71 %
Special mention	854	0.59 %
Substandard	3,934	2.70 %
	$ 145,671	100.00 %

Consumer and Other Credit Exposure Credit Risk Profile Based on Payment Activity	Installment loans to individuals	Lease financing receivable	Other	Total	% of Total
Performing	$ 50,837	$ 692	$ 5,498	$ 57,027	99.91 %
Nonperforming	51	—	—	51	0.09 %
	$ 50,888	$ 692	$ 5,498	$ 57,078	100.00 %

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December 31, 2017

Commercial Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Commercial, financial, and agricultural	Real estate - commercial	Total	% of Total
Pass	$ 358,373	$ 411,280	$ 769,653	87.10 %
Special mention	9,687	3,823	13,510	1.53 %
Substandard	67,147	33,303	100,450	11.37 %
	$ 435,207	$ 448,406	$ 883,613	100.00 %

Construction Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Real estate - construction	% of Total
Pass	$ 89,323	98.93 %
Special mention	600	0.66 %
Substandard	364	0.40 %
	$ 90,287	100.00 %

Residential Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Real estate - residential	% of Total
Pass	$ 144,250	98.30 %
Special mention	1,233	0.84 %
Substandard	1,268	0.86 %
	$ 146,751	100.00 %

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

	Installment loans to individuals	Lease financing receivable	Other	Total	% of Total
Performing	$ 56,041	$ 699	$ 5,645	$ 62,385	99.38 %
Nonperforming	357	33	—	390	0.62 %
	$ 56,398	$ 732	$ 5,645	$ 62,775	100.00 %

Troubled Debt Restructurings

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

The following tables present information about TDRs that were modified during the periods presented by portfolio segment (in thousands):

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	Three months ended			
	March 31, 2018		March 31, 2017	
	Number of loans	Pre-modification recorded investment	Number of loans	Pre-modification recorded investment
Commercial, financial and agricultural	—	$ —	1	$ 1,984

During the three month periods ending March 31, 2018 and 2017, there were no defaults on any loans that were modified as TDRs during the preceding twelve months. The Company defines a payment default as any loan that is greater than 30 days past due or was past due greater than 30 days at any point during the reporting period, or since the date of modification, whichever is shorter.

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, 2018, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

4. Intangibles

A summary of core deposit intangible assets as of March 31, 2018 and December 31, 2017 is as follows (in thousands):

	March 31, 2018	December 31, 2017
Gross carrying amount	$ 11,674	$ 11,674
Less accumulated amortization	(8,436)	(8,159)
Net carrying amount	$ 3,238	$ 3,515

5. Derivatives

On July 6, 2016, the Company entered into two forward interest rate swap contracts on a reverse repurchase agreement and long-term FHLB advances. The interest rate swap contracts were designated as derivative instruments in a cash flow hedge under ASC Topic 815, Derivatives and Hedging to convert forecasted variable interest payment to a fixed rate and the Company has concluded that the forecasted transactions are probable of occurring. For cash flow hedges, the effective portion of the gain or loss related to the derivative instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. The ineffective portion of the gain or loss is reported in earnings immediately.

No ineffectiveness related to the interest rate swaps designated as cash flow hedges was recognized in the consolidated statements of income for the three months ended March 31, 2018. The accumulated net after-tax income related to the effective cash flow hedge included in accumulated other comprehensive income is reflected in Note 6 - Other Comprehensive (Loss) Income.

The following table discloses the notional amounts and fair value of derivative instruments in the Company's balance sheet as of March 31, 2018 and December 31, 2017 (in thousands):

	Notional Amounts	Fair Value

	Type of Hedge	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Derivatives designated as hedging instruments:					
Interest rate swaps included in other assets	Cash Flow	$27,500	$ 27,500	$1,387	$ 1,078

The following tables present the pre-tax effect of hedging derivative instruments on the Company's consolidated statements of operations:

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	Amount of Gain Recognized in OCI on Derivative (Effective Portion)		Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	
	Three Months Ended March 31,			Three Months Ended March 31,	
	2018	2017		2018	2017
Interest rate swaps	309	13	Interest Expense	40	—

6. Other Comprehensive (Loss) Income

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

	Three Months Ended March 31,					
	2018			2017		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Other comprehensive (loss) income:						
Securities available-for-sale:						
Change in unrealized gains/losses during period	$(4,048)	$850	$(3,198)	$820	$(287)	$ 533
Reclassification adjustment for gains included in net income	—	—	—	(6)	2	(4)
Derivative instruments designated as cash flow hedges:						
Change in fair value of derivative instruments designated as cash flow hedges	349	(73)	276	13	(5)	8
Reclassification adjustment for gains included in net income	(40)	8	(32)	—	—	—
Total other comprehensive (loss) income	$(3,739)	$785	$(2,954)	$827	$(290)	$ 537

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

	Three Months Ended March 31,			
	2018		2017	
Details about Accumulated Other Comprehensive (Loss) Income Components	Reclassifications Out of Accumulated Other Comprehensive (Loss) Income	Income Statement Line Item	Reclassifications Out of Accumulated Other Comprehensive (Loss) Income	Income Statement Line Item

Unrealized gains and losses on securities available-for-sale:				
	$—	Gain on sale of securities, net	$(6)	Gain on sale of securities, net
	—	Tax expense	2	Tax expense
	$—	Net of tax	$(4)	Net of tax
Gains on derivative instruments:				
	$(40)	Interest expense	$—	Interest expense
	8	Tax expense	—	Tax expense
	$(32)	Net of tax	$—	Net of tax

7. Earnings Per Common Share

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

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	Three Months Ended March 31,	
	2018	2017
Net (loss) earnings available to common shareholders	$(450)	$1,680
Dividends on Series C preferred stock	—	—
Adjusted net earnings available to common shareholders	$(450)	$1,680
Weighted average number of common shares outstanding used in computation of basic earnings per common share	16,495	11,264
Effect of dilutive securities:		
Stock options	5	14
Restricted stock	—	4
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	16,500	11,282

On July 11, 2017, the Company completed the sale of an additional 516,700 shares of its common stock, pursuant to the partial exercise of the option to purchase additional shares granted to the underwriter in connection with the Company's recently completed public offering of 4,583,334 shares at $12.00 per share. The partial exercise of the underwriter's option to purchase additional shares resulted in additional gross proceeds of approximately $6.2 million bringing the total gross proceeds to approximately $61.2 million and total net proceeds to approximately $57.2 million.

Following is a summary of the securities that were excluded from the computation of diluted earnings per share because the effects of the shares were anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2018	2017
Stock options	43	84
Restricted stock	—	4
Shares subject to the outstanding warrant issued in connection with the CPP transaction	104	104
Convertible preferred stock	—	507

8. Fair Value Measurement

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

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

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

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

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

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

Securities Available-for-Sale—Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the

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New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. Agency securities, mortgage-backed securities, asset-backed securities, municipal securities, single issue trust preferred securities, certain pooled trust preferred securities, collateralized debt obligations and certain equity securities that are not actively traded.

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

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

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

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

The following sources are utilized to set appropriate discounts: in-market real estate agents, current local sales data, bank history for devaluation of similar property, Sheriff's valuations and buy/sell contracts. If a real estate agent is used to market and sell the property, values are discounted 10% for selling costs. Additional discounts may be applied if research from the above sources indicates a discount is appropriate given devaluation of similar property from the time of the initial valuation.

Other Real Estate—Other real estate ("ORE") properties are adjusted to fair value upon transfer of the loans to other real estate, and annually thereafter to insure other real estate assets are carried at the lower of carrying value or fair value.

Exceptions to obtaining initial appraisals are properties where a buy/sell agreement exists for the loan value or greater, or where a Sheriff's valuation has been received for properties liquidated through a Sheriff sale. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the ORE as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market prices, the Company records the ORE asset as nonrecurring Level 3.

Assets Held For Sale—Assets held for sale are carried at the lower of carrying value or fair value. Fair value is based upon appraised values.

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.

Derivative Financial Instruments—The fair value of derivatives are determined by an independent valuation firm and are estimated using prices of financial instruments with similar characteristics. As a result, they are classified within Level 2 of the fair value hierarchy.

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

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

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

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

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

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

Assets Recorded at Fair Value

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

Description	Assets / Liabilities Measured at Fair Value at March 31, 2018	Fair Value Measurements at March 31, 2018		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$ 20,193	$—	$ 20,193	$ —
GSE mortgage-backed securities	55,511	—	55,511	—
Collateralized mortgage obligations: residential	188,007	—	188,007	—
Collateralized mortgage obligations: commercial	2,183	—	2,183	—
Mutual funds	2,026	2,026	—	—
Corporate debt securities	26,050	—	26,050	—
Total available-for-sale securities	$ 293,970	$ 2,026	$ 291,944	$ —
Derivative assets	$ 1,387	$—	$ 1,387	$ —

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Description	Assets / Liabilities Measured at Fair Value at December 31, 2017	Fair Value Measurements at December 31, 2017		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$ 22,809	$ —	$ 22,809	$ —
GSE mortgage-backed securities	59,124	—	59,124	—
Collateralized mortgage obligations: residential	198,155	—	198,155	—
Collateralized mortgage obligations: commercial	2,240	—	2,240	—
Mutual funds	2,061	2,061	—	—
Corporate debt securities	24,802	—	24,802	—
Total available-for-sale securities	$ 309,191	$ 2,061	$ 307,130	$ —
Derivative assets	$ 1,078	$ —	$ 1,078	$ —

The Company records impaired loans at fair value, measured at the fair value of the collateral for collateral-dependent loans. Impaired loans are considered level 3 assets when measured using appraisals from third parties, discounted for selling costs and other collateral-based discounts. Other real estate properties are considered level 3 assets when measured using appraisals from third parties, discounted for selling costs, information from comparable sales and marketability of the property. Assets held for sale are considered level 2 assets when measured using appraisals from third parties. The following tables present the Company's financial assets that are measured at fair values on a nonrecurring basis (in thousands):

Description	Assets / Liabilities Measured at Fair Value at March 31, 2018	Fair Value Measurements at March 31, 2018		
		Level 1	Level 2	Level 3
Impaired loans	$ 13,758	$ —	$ —	$ 13,758
Loans held for sale	1,117	—	1,117	—
Other real estate	1,803	—	—	1,803
Assets held for sale	3,995	—	3,995	—

Description	Assets / Liabilities Measured at Fair Value at December 31, 2017	Fair Value Measurements at December 31, 2017		
		Level 1	Level 2	Level 3
Impaired loans	$ 10,227	$ —	$ —	$ 10,227
Loans held for sale	15,737	—	15,737	—
Other real estate	2,001	—	—	2,001
Assets held for sale	3,572	—	3,572	—

The following table shows the significant unobservable inputs used in the fair value measurement of Level 3 assets:

Description	Fair Value at March 31, 2018	Technique	Unobservable Inputs
Impaired loans	$ 13,758	Third party appraisals	Collateral discounts and estimated costs to sell
Other real estate	1,803	Third party appraisals	Collateral discounts and estimated costs to sell

Description	Fair Value at December 31, 2017	Technique	Unobservable Inputs
Impaired loans	$ 10,227	Third party appraisals	Collateral discounts and estimated costs to sell
Other real estate	2,001	Third party appraisals	Collateral discounts and estimated costs to sell

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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 holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

The carrying amounts and estimated fair values of the Company's financial instruments are as follows at March 31, 2018 and December 31, 2017 (in thousands):

	Carrying Value	Fair Value Measurements at March 31, 2018 Using: Level 1	Level 2	Level 3
Financial assets:				
Cash and due from banks, interest-bearing deposits in banks and federal funds sold	$211,486	$211,486	$ —	$ —
Securities held-to-maturity	73,255	—	72,307	—
Other investments	12,896	12,896	—	—
Loans, net	1,111,884	—	—	1,115,895
Cash surrender value of life insurance policies	14,948	—	14,948	—
Financial liabilities:				
Non-interest-bearing deposits	427,504	—	427,504	—
Interest-bearing deposits	1,076,433	—	901,846	171,757
Securities sold under agreements to repurchase	33,026	33,026	—	—
Short-term Federal Home Loan Bank advances	27,500	27,500	—	—
Long-term Federal Home Loan Bank advances	10,016	—	9,991	—
Junior subordinated debentures	22,167	—	22,167	—

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	Carrying Value	Fair Value Measurements at December 31, 2017 Using:		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and due from banks, interest-bearing deposits in banks and federal funds sold	$ 152,964	$ 152,964	$ —	$ —
Securities held-to-maturity	81,052	—	80,920	—
Other investments	12,214	12,214	—	—
Loans, net	1,156,538	—	—	1,160,614
Cash surrender value of life insurance policies	14,896	—	14,896	—
Financial liabilities:				
Non-interest-bearing deposits	416,547	—	416,547	—
Interest-bearing deposits	1,063,142	—	881,139	179,910
Securities sold under agreements to repurchase	67,133	67,133	—	—
Short-term Federal Home Loan Bank advances	40,000	40,000	—	—
Long-term Federal Home Loan Bank advances	10,021	—	10,011	—
Junior subordinated debentures	22,167	—	22,167	—

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

MidSouth Bancorp, Inc. (the "Company") is a bank holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly owned subsidiary bank, MidSouth Bank, N.A. (the "Bank"). We offer complete banking services to commercial and retail customers in Louisiana and south and central Texas with 42 locations and are connected to a worldwide ATM network that provides customers with access to more than 55,000 surcharge-free ATMs. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying this report. We encourage you to read this discussion in conjunction with our consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operation in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-Looking Statements

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

The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "will," "would," "could," "should," "guidanc "continue," "project," "forecast," "confident," and similar expressions are typically used to identify forward-looking statements. These statements are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are

subject to risks and uncertainties and may be affected by various factors that may cause actual results, developments and business decisions to differ materially from those in the forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include the factors discussed under the caption "Risk Factors" in this Report and in our 2017 Annual Report on form 10-K and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report and the following:

- changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels;
- changes in local economic and business conditions in the markets we serve, 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;
- increases in competitive pressure in the banking and financial services industries;
- 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;
- our ability to successfully implement and manage our recently announced strategic initiatives;
- costs and expenses associated with our strategic initiatives and possible changes in the size and components of the expected costs and charges associated with our strategic initiatives;
- our ability to realize the anticipated benefits and cost savings from our strategic initiatives within the anticipated time frame, if at all;
- the ability of the Company to comply with the terms of the formal agreement with the Office of the Comptroller of the Currency;
- credit losses due to loan concentration, particularly our energy lending and commercial real estate portfolios;
- a deviation in actual experience from the underlying assumptions used to determine and establish our allowance for loan losses ("ALL"), which could result in greater than expected loan losses;
- the adequacy of the level of our ALL and the amount of loan loss provisions required in future periods including the impact of implementation of the new CECL (current expected credit loss) methodology;
- future examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, impose conditions on our operations or require us to increase our allowance for loan losses or write-down assets;
- changes in the availability of funds resulting from reduced liquidity or increased costs;
- the timing and impact of future acquisitions or divestitures, 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 and other changes in banking, securities and tax laws and regulations and their application by our regulators, changes in the scope and cost of FDIC insurance and other coverage;
- regulations and restrictions resulting from our participation in government-sponsored programs such as the U.S. Treasury's Small Business Lending Fund, including potential retroactive changes in such programs;
- changes in accounting principles, policies, and guidelines applicable to financial holding companies and banking;
- increases in cybersecurity risk, including potential business disruptions or financial losses;
- acts of war, terrorism, cyber intrusion, weather, or other catastrophic events beyond our control; and

- the ability to manage the risks involved in the foregoing

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

Critical Accounting Policies

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

Another of our critical accounting policies relates to the valuation of goodwill, intangible assets and other purchase accounting adjustments. We account for acquisitions in accordance with ASC Topic No. 805, which requires the use of the purchase method of accounting. Under this method, we are required to record assets acquired and liabilities assumed at their fair value, including intangible assets. Determination of fair value involves estimates based on internal valuations of discounted cash flow analyses performed, third party valuations, or other valuation techniques that involve subjective assumptions. Additionally, the term of the useful lives and appropriate amortization periods of intangible assets is subjective. Resulting goodwill from an acquisition under the purchase method of accounting represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings. Given the instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses and goodwill impairment could change in the near-term or could result in impairment going forward.

A third critical accounting policy relates to deferred tax assets and liabilities. We record deferred tax assets and deferred tax liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. In the event the future tax consequences of differences between the financial reporting bases and the tax bases of our assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided when it is more likely than not that a portion or the full amount of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance. Such a deferred tax liability will only be recognized

when it becomes apparent that those temporary differences will reverse in the foreseeable future. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% more likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Results of Operations

For the Three Months Ended March 31, 2018 and 2017

Net loss available to common shareholders totaled $450,000 for the three months ended March 31, 2018, compared to net earnings available to common shareholders of $1.7 million for the three months ended March 31, 2017. The first quarter of 2018 included non-operating expenses totaling $5.0 million which consisted of $145,000 of costs related to branch closures, $3.9 million of regulatory remediation costs, an $875,000 loss on the transfer of loans to held for sale and $88,000 of legal fees related to the bulk loan sale. Excluding these non-operating expenses, diluted earnings for the first quarter of 2018 were $0.21 per common share, compared to earnings of $0.15 per diluted share for the first quarter of 2017.

Fully taxable-equivalent ("FTE") net interest income was $17.5 million for the first quarter of 2018, an $828,000 decrease compared to $18.3 million for the first quarter of 2017. Our annualized net interest margin, on a FTE basis, decreased 1 basis point in prior year

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quarterly comparison, from 4.18% for the first quarter of 2017 to 4.17% for the first quarter of 2018. Excluding the impact of purchase accounting adjustments, the FTE margin increased 3 basis points, from 4.11% to 4.14% for the three months ended March 31, 2017 and 2018, respectively.

Noninterest income decreased $215,000 in quarterly comparison and consisted primarily of a $274,000 decrease in service charges on deposit accounts.

Excluding non-operating expenses of $5.0 million for the first quarter of 2018, noninterest expenses decreased $391,000 in quarterly comparison and consisted primarily of a $970,000 decrease in salaries and employee benefits costs and a $579,000 decrease in occupancy expense, which were partially offset by a $1.3 million increase in legal and professional fees. The provision for loan losses decreased $2.8 million in quarterly comparison. We recorded an income tax benefit of $34,000 for the first quarter of 2018, compared to income tax expense of $589,000 for the first quarter of 2017.

Dividends on preferred stock totaled $810,000 for the three months ended March 31, 2018 and $811,000 for the three months ended March 31, 2017. Dividends on the Series B Preferred Stock were $720,000 for the first quarter of 2018, unchanged from $720,000 for the first quarter of 2017. Dividends on the Series C Preferred Stock issued with the December 28, 2012 acquisition of PSB Financial Corporation ("PSB") totaled $90,000 for the three months ended March 31, 2018 and $91,000 for the three months ended March 31, 2017.

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 4.17% and 4.18% for the three months ended March 31, 2018 and 2017, respectively. Tables 1 and 2 below analyze the changes in net interest income in the three months ended March 31, 2018 and 2017.

FTE net interest income decreased $828,000 in prior year quarterly comparison. Interest income on loans decreased $607,000 due to a decrease in the average balance of loans of $114.5 million in prior year quarterly comparison. The average yield on loans increased 31 basis points in prior year quarterly comparison, from 5.29% to 5.60%.

Investment securities totaled $367.2 million, or 19.8% of total assets at March 31, 2018, versus $390.2 million, or 20.7% of total assets at December 31, 2017. The investment portfolio had an effective duration of 3.6 years and a net unrealized loss of $8.3 million at March 31, 2018. FTE interest income on investments decreased $503,000 in prior year quarterly comparison. The average volume of investment securities decreased $57.8 million in prior year quarterly comparison, and the average tax equivalent yield on investment securities decreased 12 basis points, from 2.66% to 2.54%.

The average yield on all earning assets increased 5 basis points in prior year quarterly comparison, from 4.51% for the first quarter of 2017 to 4.56% for the first quarter of 2018.

Interest expense increased $162,000 in prior year quarterly comparison. Increases in interest expense included a $303,000 increase in interest expense on deposits and a $41,000 increase in interest expense on FHLB advances, which were partially offset by a $194,000 decrease in interest expense on repurchase agreements.

As a result of these changes in volume and yield on earning assets and interest-bearing liabilities, the FTE net interest margin decreased 1 basis point, from 4.18% for the first quarter of 2017 to 4.17% for the first quarter of 2018.

Excluding purchase accounting adjustments on loans, deposits and FHLB borrowings, the FTE margin increased 3 basis points, from 4.11% for the first quarter of 2017 to 4.14% for the first quarter of 2018.

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

	Three Months Ended March 31,					
	2018			2017		
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate
Assets						
Investment securities[1]						
Taxable	$334,419	$2,047	2.45 %	$382,105	$2,327	2.44 %
Tax exempt[2]	50,550	397	3.14 %	60,618	620	4.09 %
Total investment securities	384,969	2,444	2.54 %	442,723	2,947	2.66 %
Federal funds sold	4,978	18	1.45 %	3,571	6	0.67 %
Time and interest bearing deposits in other banks	132,940	514	1.55 %	41,785	85	0.81 %
Other investments	12,721	87	2.74 %	11,355	84	2.96 %
Total loans[3]	1,159,671	16,015	5.60 %	1,274,213	16,622	5.29 %
Total earning assets	1,695,279	19,078	4.56 %	1,773,647	19,744	4.51 %
Allowance for loan losses	(26,476)			(24,021)		
Nonearning assets	191,267			183,192		
Total assets	$1,860,070			$1,932,818		
Liabilities and shareholders’ equity						
Total interest bearing deposits	$1,056,417	$1,238	0.47 %	$1,155,407	$935	0.33 %
Securities sold under repurchase agreements	40,115	40	0.40 %	92,571	234	1.03 %
Short-term FHLB advances	28,722	84	1.17 %	—	—	— %
Long-term FHLB advances	10,019	45	1.80 %	25,370	88	1.39 %
Junior subordinated debentures	22,167	220	3.97 %	22,167	208	3.75 %
Total interest bearing liabilities	1,157,440	1,627	0.57 %	1,295,515	1,465	0.46 %
Demand deposits	439,490			413,781		
Other liabilities	7,970			7,627		
Shareholders’ equity	255,170			215,895		
Total liabilities and shareholders’ equity	$1,860,070			$1,932,818		
Net interest income and net interest spread		$17,451	3.99 %		$18,279	4.05 %
Net interest margin			4.17 %			4.18 %

1. Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.
2. Interest income of $81,000 for 2018 and $213,000 for 2017 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a tax rate of 21% and 35%, respectively.
3. Interest income includes loan fees of $1,008,000 for 2018 and $707,000 for 2017. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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Table 2
Changes in Taxable-Equivalent Net Interest Income
(in thousands)

	Three Months Ended March 31, 2018 compared to March 31, 2017		
	Total Increase (Decrease)	Change Attributable To Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	$(280)	$(292)	$12
Tax exempt	(223)	(93)	(130)
Federal funds sold	12	3	9
Time and interest bearing deposits in other banks	429	305	124
Other investments	3	9	(6)
Loans, including fees	(607)	(1,548)	941
Total	(666)	(1,616)	950
Interest paid on:			
Interest bearing deposits	303	(86)	389
Securities sold under repurchase agreements	(194)	(94)	(100)
Short-term FHLB advances	84	84	—
Long-term FHLB advances	(60)	(45)	(15)
Junior subordinated debentures	12	—	12
Total	145	(141)	286
Taxable-equivalent net interest income	$(811)	$(1,475)	$664

Note: In Table 2, changes due to volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

Non-interest Income

Total non-interest income was $4.8 million for the three months ended March 31, 2018, compared to $5.0 million for the three months ended March 31, 2017. Our recurring non-interest income includes service charges on deposit accounts, ATM and debit card income, credit card income and mortgage lending.

Table 3 presents non-interest income for the three-month periods ended March 31, 2018 and 2017.

Table 3
Non-Interest Income
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Service charges on deposit accounts	$2,206	$2,480
ATM and debit card income	1,784	1,703
Gain on sales of securities, net	—	6
Mortgage lending	92	143

Increase in cash value of life insurance	52	63
Credit card interchange income	286	294
Credit card merchant fee income	67	69
Check cashing income	59	—
Other	283	286
Total non-interest income	$4,829	$5,044

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Non-interest income decreased $215,000 in quarterly comparison. A $274,000 decrease in service charges on deposit accounts and a $51,000 decrease in mortgage lending income were partially offset by an $81,000 increase in ATM/debit card income and a $59,000 increase in check cashing income.

Non-interest Expense

Total non-interest expense was $21.9 million for the three months ended March 31, 2018, compared to $17.2 million for the three months ended March 31, 2017. Our recurring non-interest expense consists of salaries and employee benefits, occupancy expense, ATM and debit card expense and other operating expenses.

Table 4 presents non-interest expense for the three-month periods ended March 31, 2018 and 2017.

Table 4
Non-Interest Expense
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Salaries and employee benefits	$7,719	$8,689
Occupancy expense	3,045	3,624
ATM and debit card	576	721
Legal and professional fees	1,689	385
FDIC premiums	430	397
Marketing	195	280
Corporate development	237	316
Data processing	665	621
Printing and supplies	123	183
Expenses on ORE, net	76	79
Amortization of core deposit intangibles	277	277
Loss on transfer of loans to held for sale (non-operating)	875	—
One-time charge related to closure of branches (non-operating)	145	—
Regulatory remediation costs (non-operating)	3,926	—
Legal fees related to bulk loan sale (non-operating)	88	—
Other non-interest expense	1,807	1,658
Total non-interest expense	$21,873	$17,230

Non-interest expenses increased $4.6 million in quarterly comparison. The first quarter of 2018 included non-operating expenses totaling $5.0 million which consisted of $145,000 of costs related to branch closures, $3.9 million of regulatory remediation costs, an $875,000 loss on the transfer of loans to held for sale and $88,000 of legal fees related to the bulk loan sale. Excluding these non-operating expenses, noninterest expenses decreased $391,000 in quarterly comparison and consisted primarily of a $970,000 decrease in salaries and employee benefits costs and a $579,000 decrease in occupancy expense, which were partially offset by a $1.3 million increase in legal and professional fees.

The $3.9 million of regulatory remediation costs incurred during the first quarter of 2018 represented consulting and outsourcing costs for assistance in complying with terms of our regulatory written agreement.

Salaries and employee benefits costs decreased $970,000 in quarterly comparison and included a $392,000 decrease in salary costs, a $249,000 decrease in bonus and incentive costs and a $160,000 decrease in stock compensation

expense. A decrease in the number of employees on a full-time equivalent basis of 71 during the same period, from 515 at March 31, 2017 to 444 at March 31, 2018, contributed to the decrease in salaries expense.

Occupancy expense decreased $579,000 in quarterly and was primarily due to the closure and sale of 9 branches during 2017.

ATM and debit card expense decreased $145,000 in quarterly comparison. We changed processors during the first quarter of 2017, which resulted in lower processing costs.

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The increase in legal and professional fees is primarily due to increased legal fees related to the elevated level of non-performing loans as well as increased outsourcing costs related to internal audit services.

Analysis of Balance Sheet

Consolidated assets remained constant at $1.9 billion at March 31, 2018 and December 31, 2017.

Securities available-for-sale totaled $294.0 million at March 31, 2018, a decrease of $15.2 million from December 31, 2017. Securities held-to-maturity decreased $7.8 million, from $81.1 million at December 31, 2017 to $73.3 million at March 31, 2018. The investment securities portfolio had an effective duration of 3.6 years and a net unrealized loss of $8.3 million at March 31, 2018.

Total loans decreased $46.2 million during the three months ended March 31, 2018.

Table 5
Composition of Loans
(in thousands)

	March 31, 2018	December 31, 2017
Commercial, financial, and agricultural (C&I)	$401,048	$435,207
Real estate – construction	94,679	90,287
Real estate – commercial (CRE)	438,779	448,406
Real estate – residential	145,671	146,751
Installment loans to individuals	50,888	56,398
Lease financing receivable	692	732
Other	5,498	5,645
Total loans	$1,137,255	$1,183,426
Less allowance for loan losses	(25,371)	(26,888)
Net loans	$1,111,884	$1,156,538

Our energy-related loan portfolio at March 31, 2018 totaled $172.8 million, or 15.2% of total loans, down from $179.7 million at December 31, 2017. The majority of MidSouth's energy lending is focused on oil field service companies. Of the 269 total relationships in our energy-related loan portfolio, 32 relationships totaling $64.5 million were classified, with $56.4 million on nonaccrual status at March 31, 2018. At March 31, 2018, reserves for potential energy-related loan losses approximated 6.7% of energy loans.

Within the $438.8 million commercial real estate portfolio, $413.0 million is secured by commercial property, $18.5 million is secured by multi-family property, and $7.3 million is secured by farmland. Of the $413.0 million secured by commercial property, $271.0 million, or 65.6%, is owner-occupied. Of the $145.7 million residential real estate portfolio, 76.9% represented loans secured by first liens.

Assets held for sale totaled $4.0 million at March 31, 2018 and December 31, 2017 and consisted of seven former branch buildings that were previously closed.

Deposits increased $24.2 million from year-end 2017. Our stable core deposit base, which excludes time deposits, totaled $1.3 billion at March 31, 2018 and December 31, 2017 and accounted for 88.3% of deposits compared to 87.7% of deposits, respectively.

Long-term FHLB advances totaled $10.0 million at March 31, 2018, compared to $25.3 million at March 31, 2017. Long-term FHLB advances at March 31, 2018 consisted of one advance that matures in January 2019 and bears a fixed interest rate of 1.985%. The FHLB advances are collateralized by a blanket lien on first mortgages and other qualifying loans. Short-term FHLB advances totaled $27.5 million at March 31, 2018 and consisted of two advances with a maturity of 1 month at a fixed interest rate of 1.88%. There were no short-term FHLB advances outstanding at March 31, 2017.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For the period ended March 31, 2018, we did not engage in any off-balance sheet transactions reasonably likely to have a material impact on our financial condition, results of operations, or cash flows.

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Liquidity and Capital

Bank Liquidity

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

Liquidity is available through four sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, borrowing lines with correspondent banks and brokered deposits. 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 $49.5 million in projected cash flows from securities repayments for the remainder of 2018 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB–Dallas. As of March 31, 2018, we had no borrowings with the FRB-Atlanta. Long-term FHLB-Dallas advances totaled $10.0 million at March 31, 2018 and consisted of one advance that matures in January 2019 and bears a fixed interest rate of 1.985%. Short-term FHLB advances totaled $27.5 million at March 31, 2018 and consisted of two advances with a maturity of 1 month at a fixed interest rate of 1.88%. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled $301.3 million at March 31, 2018. The Bank has the ability to post additional collateral of approximately $138.1 million if necessary to meet liquidity needs. Additionally, $171.8 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Unsecured borrowing lines totaling $33.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividends on our common stock and dividend payments on the Series B and Series C Preferred Stocks. The dividend rate on the $32.0 million of Series B Preferred Stock issued to the U.S. Treasury for participation in the Small Business Lending Fund ("SBLF") was 9.0% for the three month period ended March 31, 2018.

On December 28, 2012, the Company issued 756,511 shares of common stock and 99,971 shares of Series C Preferred Stock in connection with the PSB acquisition. As of March 31, 2018, there were 89,875 shares of Series C Preferred Stock issued and outstanding. The Series C Preferred Stock is entitled to the payment of noncumulative dividends, if and when declared by the Company's Board of Directors, at the rate of 4.00% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year. The Series C Preferred Stock paid dividends totaling $90,000 for the three months ended March 31, 2018.

On June 13, 2017, the Company completed the sale of 4,583,334 shares of its common stock pursuant to an underwritten public offering, and on July 11, 2017, the Company completed the sale of an additional 516,700 shares of common stock, pursuant to the partial exercise of the option to purchase additional shares granted to the underwriter. After deducting the underwriting discount and costs associated with the capital raise, the offering resulted in net proceeds of $57.2 million. The Company, subject to regulatory approval, intends to use $32.0 million of the net proceeds to redeem all of the outstanding Series B Preferred Stock issued to the U.S. Treasury as a result of its participation in the SBLF. The Company intends to use the remaining portion of the net proceeds to enhance its capital structure, to fund future organic growth, for working capital, and other general corporate purposes.

Due to the loss reported for year ended December 31, 2017, we currently do not have the ability to approve dividends from the Bank to the Company without prior approval from the OCC. As of March 31, 2018, the Company had $49.2 million of cash to fund general corporate obligations. The Company renewed a $75.0 million Universal Shelf Registration during the third quarter of 2015 and has $13.8 million remaining after completion of its recent capital raise and overallotment issuance.

Capital

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

In addition, the Basel III rules subject banking organizations to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer phased in by 2019 of 2.5% above the new regulatory

minimum capital ratios. The effect of the capital conservation buffer once fully implemented in 2019 will be to increase the minimum common equity Tier 1 capital ratio to 7.0%, the minimum Tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5% for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers. The new minimum capital requirements were effective on January 1, 2015 for community banking organizations, such as MidSouth, whereas other requirements of the Basel III rules including the conservation buffer phase in over time.

At March 31, 2018, the Company and the Bank were in compliance with statutory minimum capital requirements and were classified as “well capitalized.” Minimum capital requirements include a total risk-based capital ratio (total risk-based capital to risk-weighted assets) of 8.0%, with Tier 1 capital not less than 6.0%, a Tier 1 leverage ratio (Tier 1 to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution, and a common equity Tier 1 capital to total risk-weighted assets of 4.5%. However, effective July 19, 2017, the OCC established higher individual minimum capital ratios for the Bank. Specifically, the Bank must maintain a Tier 1 leverage ratio of at least 8%, and a total risk-based capital ratio of at least 12%. As of March 31, 2018, the Company’s Tier 1 leverage ratio was 12.80%, Tier 1 capital to risk-weighted assets was 17.08%, total capital to risk-weighted assets was 18.34% and common equity Tier 1 capital to risk-weighted assets was 12.50%. The Bank had a Tier 1 leverage capital ratio of 10.12% and a total risk-based capital ratio of 14.76% at March 31, 2018.

Asset Quality

Credit Risk Management

We manage credit risk primarily by observing written, board approved policies that govern all credit underwriting and approval activities. Our Chief Credit Officer (“CCO”) is responsible for credit underwriting as well as management of classified and criticized assets for the Bank. The role of the CCO includes on-going review and development of lending policies, commercial credit analysis, centralized consumer underwriting, 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.

Credit concentrations are monitored and reported quarterly whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At March 31, 2018, one industry segment concentration, the oil and gas industry, aggregated more than 10% of our loan portfolio. Our exposure in the oil and gas (energy-related) industry, including related service and manufacturing industries, totaled approximately $172.8 million, or 15.2% of total loans. Of the 269 credit relationships in the energy-related loan portfolio, 32 relationships totaling $64.5 million were classified with $56.4 million on nonaccrual status at March 31, 2018.

The federal banking agencies, including the OCC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (1) total reported loans for construction, land development and other land represent 100% or more of total capital or (2) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital. Owner occupied loans are excluded from this second category. We monitor our exposure to each of these segments to ensure the concentration in consistent with our risk tolerance. At March 31, 2018, loans for construction, land development and other land totaled approximately $94.7 million, or 47% of our bank's risk-based capital. Loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land totaled approximately $255.9 million at March 31, 2018, or 127% of our bank's risk-based capital. Additional information regarding credit

quality by loan classification is provided in Note 3 – Credit Quality of Loans and Allowance for Loan Losses and Note 8 – Fair Value Measurement in the notes to the interim consolidated financial statements.

Nonperforming Assets and Allowance for Loan Loss

Table 6 summarizes the Company's nonperforming assets for the quarters ending March 31, 2018 and 2017, and December 31, 2017.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Nonaccrual loans	$82,275	$49,278	$56,443
Loans past due 90 days and over and still accruing	1	728	775
Total nonperforming loans	82,276	50,006	57,218
Nonperforming loans held for sale	808	5,067	—
Other real estate	1,803	2,001	1,643
Other foreclosed assets	194	192	30
Total nonperforming assets	$85,081	$57,266	$58,891
Troubled debt restructurings, accruing	$1,153	$1,360	$1,995
Nonperforming assets to total assets	4.58 %	3.04 %	3.04 %
Nonperforming assets to total loans + ORE + other assets repossessed	7.47 %	4.83 %	4.62 %
ALL to nonperforming loans	30.84 %	53.77 %	42.96 %
ALL to total loans	2.23 %	2.27 %	1.93 %
QTD charge-offs	$1,836	$8,931	$2,906
QTD recoveries	319	166	312
QTD net charge-offs	$1,517	$8,765	$2,594
Annualized net charge-offs to total loans	0.54 %	2.94 %	0.83 %

Nonperforming assets totaled $85.1 million at March 31, 2018, an increase of $27.8 million from the $57.3 million reported at year-end 2017 and an increase of $26.2 million from the $58.9 million reported at March 31, 2017. The increase since December 31, 2017 is primarily attributable to $37.5 million of loans placed on non-accrual during the quarter. This increase was partially offset by the payoffs/paydowns of $3.7 million of non-accrual loans and the decrease of $4.3 million in nonperforming loans held for sale.

Allowance coverage for nonperforming loans was 30.84% at March 31, 2018 compared to 53.77% at December 31, 2017 and 42.96% at March 31, 2017. The ALL/total loans ratio was 2.23% at March 31, 2018, compared to 2.27% at year-end 2017 and 1.93% at March 31, 2017. Including valuation accounting adjustments on acquired loans, the total adjustments and ALL was 2.31% of loans at March 31, 2018. The ratio of annualized net charge-offs to total loans decreased to 0.54% for the three months ended March 31, 2018, compared to 2.94% for the three months ended December 31, 2017, and 0.83% for the three months ended March 31, 2017.

Total nonperforming assets to total loans plus ORE and other assets repossessed increased to 7.47% at March 31, 2018 from 4.83% at December 31, 2017 and 4.62% at March 31, 2017. Performing troubled debt restructurings ("TDRs") totaled $1.2 million at March 31, 2018, compared to $1.4 million at December 31, 2017 and $2.0 million at March 31, 2017. Classified assets, including ORE, were $113.7 million at March 31, 2018 compared to $118.2 million at December 31, 2017. Additional information regarding impaired loans is included in Note 3 – Credit Quality of Loans and Allowance for Loan Losses and Note 8 – Fair Value Measurement in the notes to the interim consolidated financial statements.

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

portfolio where historical loss experience is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the ALL, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. We believe the $25.4 million in the ALL as of March 31, 2018 is sufficient to cover probable losses in the loan portfolio.

Impact of Inflation and Changing Prices

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The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are financial. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Non-GAAP Financial Measures

Certain financial information included in the Management's Discussion and Analysis of Financial Condition and Results of Operations is determined by methods other than in accordance with GAAP. Table 7 below presents a reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures include “core net interest income”, “core net interest margin”, "diluted earnings per share, operating" and "operating earnings available to common shareholders". “Core net interest income” is defined as net interest income excluding net purchase accounting adjustments. “Core net interest margin” is defined as core net interest income expressed as a percentage of average earnings assets. "Diluted earnings per share, operating" is defined as net earnings available to common shareholders adjusted for specified one-time items divided by diluted weighted-average shares. "Operating earnings available to common shareholders" is defined as net earnings available to common shareholders adjusted for specified one-time items.
We use non-GAAP measures because we believe they are useful for evaluating our financial condition and performance over periods of time, as well as in managing and evaluating our business and in discussions about our performance. We also believe these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial condition as well as comparison to financial results for prior periods. These results should not be viewed as a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures that other companies may use.

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Table 7
Reconciliation of Non-GAAP Financial Measures
(in thousands except per share data)

		Three Months Ended March 31,	
		2018	2017
Core Net Interest Margin			
Net interest income (FTE)		$17,451	$18,279
Less purchase accounting adjustments		(115)	(274)
Core net interest income, net of purchase accounting adjustments	A	$17,336	$18,005
Total average earning assets		$1,695,279	$1,773,647
Add average balance of loan valuation discount		971	1,964
Average earnings assets, excluding loan valuation discount	B	$1,696,250	$1,775,611
Core net interest margin	A/B	4.14 %	4.11 %
Diluted Earnings Per Share, Operating			
Diluted (loss) earnings per share		$(0.03)	$0.15
Effect of one-time charge related to closure of branches		0.01	—
Effect of loss on transfer of loans to held for sale		0.04	—
Effect of regulatory remediation costs		0.19	—
Diluted earnings per share, operating		$0.21	$0.15
Operating Earnings Available to Common Shareholders			
Net (loss) earnings available to common shareholders		$(450)	$1,680
Net gain on sales of securities, after-tax		—	(4)
One-time charge related to closure of branches, after-tax		115	—
Loss on transfer of loans to held for sale, after-tax		691	—
Regulatory remediation costs		3,102	
Legal fees related to bulk loan sale		70	—
Operating earnings available to common shareholders		$3,528	$1,676

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes from the information regarding market risk disclosed under the heading “Funding Sources - Interest Rate Sensitivity” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures.

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

During the first quarter of 2018, there was no change in the Company’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II – Other Information

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2017.

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

The Company did not sell any unregistered equity securities or repurchase any equity securities during the quarter ended March 31, 2018.

Item 3. Defaults Upon Senior Securities.

None.

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Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
3.1	Amended and Restated Articles of Incorporation of MidSouth Bancorp, Inc. (restated solely for purposes of Item 601(b)(3) of Regulation S-K) (filed as Exhibit 3.1 to MidSouth's Annual Report on Form 10-K filed on March 18, 2013 and incorporated herein by reference)
3.2	Amended and Restated By-laws of MidSouth Bancorp, Inc. effective as of September 26, 2012 (restated solely for purposes of Item 601(b)(3) of Regulation S-K (filed as Exhibit 3.3 to MidSouth's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference)
10.1	MidSouth Bancorp, Inc. 2018 Annual Incentive Compensation Plan
10.2	Amended and Restated MidSouth Bancorp, Inc. Deferred Compensation Plan Effective December 29, 2010
10.3	First Amendment to the MidSouth Bancorp, Inc. Amended and Restated Deferred Compensation Plan, effective October 19, 2016
31.1	Certification pursuant to Exchange Act Rules 13(a) – 14(a)
31.2	Certification pursuant to Exchange Act Rules 13(a) – 14(a)
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.*

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

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Signatures

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

MidSouth Bancorp, Inc.
(Registrant)

Date: May 10, 2018

/s/ James R. McLemore
James R. McLemore, President and CEO
(Principal Executive Officer)

/s/ Lorraine D. Miller
Lorraine D. Miller, CFO
(Principal Financial Officer and Principal Accounting Officer)