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

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: none
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No
Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. A large accelerated filer An accelerated filer þ A nonaccelerated filer A smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)
Yes No þ
The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant at June 30, 2015 was approximately $112,618,052 based upon the closing market price per share of the registrant’s common stock as reported on The New York Stock Exchange, Inc. as of such date. As of March 15, 2016 there were 11,362,150 outstanding shares of MidSouth Bancorp, Inc. common stock.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Company’s Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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2015 Annual Report on Form 10-K
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

We can give no assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. We disclaim any intent or

obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

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Part I

Item 1 - Business

Overview

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

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

Products and Services

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

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

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

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

Markets

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

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

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

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Competition

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

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

Employees

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

Additional Information

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

Supervision and Regulation

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

Regulatory Reform

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

2010 and, in part, is intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act is discussed in more detail below.

Bank Holding Companies and Financial Holding Companies

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

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

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

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

Dodd-Frank Act

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

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

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

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

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

Capital Requirements

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

Regulatory Capital Requirement in Effect through December 31, 2014

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

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

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

Basel III Capital Framework Effective January 1, 2015

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

requirements, and make selected changes to the calculation of risk-weighted assets. The final rules, among other things:

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

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

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

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

The Volcker Rule

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

The Durbin Amendment

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

interchange fees that financial institutions with less than $10 billion in assets, including the Bank, are able to collect.

Prompt Corrective Action

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

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

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

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

Insurance of Accounts and FDIC Insurance Assessments

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

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

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

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

On June 16, 2015, the FDIC proposed changes to the deposit insurance assessments for small insured banks having total assets less than $10 billion which have been insured for at least five years, based upon experience with bank failures. The changes, among other matters, revise the financial ratios method of determining assessments to reflect a

statistical model estimating the probability of failure over three years and updating the financial measures used in the financial ratios method consistent with the statistical model. The FDIC proposed additional changes on October 22, 2015 to require banks with over $10 Billion in assets to be responsible for the recapitalization of the DIF to 1.35% of insured deposits after achieving a 1.15% reserve ratio. On January 21, 2016, the FDIC proposed further revisions to the small insured bank assessments as the result of comments and recommendations received in response to its earlier proposal. The FDIC proposes that a final rule would go into effect the quarter after adoption, but the amendments would not become operative until the quarter after the DIF reserve ratio reaches 1.15%.

Allowance for Loan and Lease Losses

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

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

Safety and Soundness Standards

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

Interagency Appraisal and Evaluation Guidelines

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

Community Reinvestment Act

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

Restrictions on Transactions with Affiliates

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

letter of credit issued on behalf of an affiliate.

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

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

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

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

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

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

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

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

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

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

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

Consumer Protection

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

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

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

Stress Testing

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

Other Regulations

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

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

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

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

Effect of Governmental Monetary Policies

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

Item 1A – Risk Factors

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

Risks Relating to Our Business

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

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

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

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

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

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

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

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

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

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, including: (i) changes in banking, securities and tax laws and regulations and their application by our regulators, including pursuant to the Dodd-Frank Act, as discussed above in Item 1 under the heading “Business – Supervision

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In periods of increasing interest rates, loan originations may decline, depending on the performance of the overall economy, which may adversely affect income from lending activities. Also, increases in interest rates could adversely

affect the market value of fixed income assets. In addition, an increase in the general level of interest rates may affect the ability of certain borrowers to pay the interest and principal on their obligations.

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

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

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

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

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

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

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

failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

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

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

Risks Relating to an Investment in Our Common Stock

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

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

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

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

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

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

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

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

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aware that our directors and executive officers may have interests that are different from, or in addition to, the interests of our stockholders generally.

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

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

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

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

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

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

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

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

Item 1B – Unresolved Staff Comments

None.

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Item 2 - Properties

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

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

Item 3 - Legal Proceedings

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

Item 4 – Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

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

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

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

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

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

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

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PART II

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

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

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

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

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

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

MidSouth Bancorp, Inc.

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

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

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Item 6 – Five Year Summary of Selected Financial Data

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

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

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

Overview

We are a financial holding company, headquartered in Lafayette, Louisiana, that through our community banking subsidiary, MidSouth Bank, N.A., operates 58 offices in Louisiana and Texas. We had approximately $1.9 billion in consolidated assets as of December 31, 2015. We derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Approximately 75.9% of our total deposits are interest-bearing. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. The resulting ratio of that difference as a percentage of our average earning assets

represents our net interest margin. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread. In addition to earning interest on our loans and investments, we earn income through fees and other charges to our customers. We have also included a discussion of the various components of this noninterest income, as well as of our noninterest expense.

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

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

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

Critical Accounting Policies

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

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

economic outlook in our markets, our financial performance and common stock value as compared to our peers, we determined it is more likely than not that the fair value of our acquired assets is greater than the carrying amount and, accordingly, no impairment of goodwill was recorded for the year ended December 31, 2015.

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

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

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

Results of Operations

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

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

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

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

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

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Table 1
Summary of Return on Equity and Assets

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

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

Earnings Analysis

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

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

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

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

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

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

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

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

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

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

Net interest income on a fully taxable-equivalent ("FTE") basis increased $659,000 for 2014 over 2013, primarily due to a $732,000 decrease in interest expense. Interest income remained relatively flat in year-over-year comparison, as a $1.4 million decrease in FTE interest income on investments was offset by a $1.3 million increase in interest income on loans. Interest income on loans increased $1.3 million despite a $2.9 million reduction in purchase accounting adjustments on acquired loans. The average volume of loans increased $115.1 million in year-over-year comparison, and the average yield on loans decreased 51 basis points, from 6.47% to 5.96%. The average yield on earning assets decreased in year-over-year comparison, from 5.10% at December 31, 2013

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to 4.97% at December 31, 2014. The purchase accounting adjustments added 60 basis points to the average yield on loans for the year ended December 31, 2013 and 28 basis points for the year ended December 31, 2014. Net of purchase accounting adjustments, the average yield on earning assets increased 6 basis points, from 4.71% at December 31, 2013 to 4.77% at December 31, 2014. Interest expense decreased $732,000 in year-over-year comparison primarily due to a 7 basis point decrease in the average rate paid on interest-bearing liabilities, from 0.52% at December 31, 2013 to 0.45% at December 31, 2014. Net of purchase accounting adjustments, the average rate paid on interest-bearing liabilities decreased 10 basis points, from 0.60% at December 31, 2013 to 0.50% at December 31, 2014. The FTE net interest margin decreased 8 basis points, from 4.71% for the year ended December 31, 2013 to 4.63% for the year ended December 31, 2014. Net of purchase accounting adjustments, the FTE net interest margin increased 13 basis points, from 4.26% to 4.39% for the years ended December 31, 2013 and 2014, respectively, due to a favorable shift in earning assets from investment securities to loans.

Noninterest Income

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

Noninterest Expense

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

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

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

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

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

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

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

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

Income Taxes

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

Balance Sheet Analysis

Investment Securities

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

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

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

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

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

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

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

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

Obligations of state and political subdivisions[1]									
GSE mortgage-backs and CMOs: residential	—	—	66,499	2.43 %	—	—	—	—	66,499
GSE mortgage-backs and CMOs: commercial	—	—							