

MIDSOUTH BANCORP INC
Form 10-Q
May 09, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

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

Louisiana
(State of other jurisdiction of incorporation or organization)

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

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

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

YES NO

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

YES NO

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

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

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

YES NO

As of May 9, 2011, there were 9,730,266 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

Part I – Financial Information

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Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Condition
 (dollars in thousands, except share data)

	March 31, 2011 (unaudited)	December 31, 2010* (audited)
Assets		
Cash and due from banks, including required reserves of \$4,031 and \$3,487, respectively	\$18,109	\$20,758
Interest bearing deposits in banks	81,347	69,452
Federal funds sold	1,987	1,697
Time deposits held in banks	-	5,164
Securities available-for-sale, at fair value (cost of \$283,390 at March 31, 2011 and \$257,472 at December 31, 2010)	289,820	263,809
Securities held-to-maturity (fair value of \$837 at March 31, 2011 and \$1,608 at December 31, 2010)	819	1,588
Other investments	5,059	5,062
Loans	574,254	580,812
Allowance for loan losses	(6,752)	(8,813)
Loans, net	567,502	571,999
Bank premises and equipment, net	36,425	36,592
Accrued interest receivable	4,924	4,628
Goodwill	9,271	9,271
Intangibles	94	115
Other real estate owned	1,528	1,206
Cash surrender value of life insurance	4,739	4,698
Other assets	5,175	6,300
Total assets	\$1,026,799	\$1,002,339
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$208,758	\$199,460
Interest bearing	614,770	601,312
Total deposits	823,528	800,772
Securities sold under agreements to repurchase	45,725	43,826
Junior subordinated debentures	15,465	15,465
Other liabilities	5,482	5,623
Total liabilities	890,200	865,686
Shareholders' Equity:		
Preferred stock, no par value; 5,000,000 shares authorized, 20,000 shares issued and outstanding at March 31, 2011 and at December 31, 2010	19,458	19,408
	988	988

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Common stock, \$0.10 par value; 30,000,000 shares authorized, 9,880,743 issued and 9,730,266 outstanding at March 31, 2011 and at December 31, 2010

Additional paid-in capital	89,938	89,893
Unearned ESOP shares	(76)	(104)
Accumulated other comprehensive income	4,244	4,182
Treasury stock – 150,477 shares at March 31, 2011 and at December 31, 2010, at cost	(3,286)	(3,286)
Retained earnings	25,333	25,572
Total shareholders' equity	136,599	136,653
Total liabilities and shareholders' equity	\$ 1,026,799	\$ 1,002,339

See notes to unaudited consolidated financial statements.

* Derived from audited financial statements.

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

	2011	Three Months Ended March 31, 2010
Interest income:		
Loans, including fees	\$ 9,476	\$ 9,799
Securities and other investments:		
Taxable	867	1,000
Nontaxable	929	1,025
Federal funds sold	3	-
Time and interest bearing deposits in other banks	75	80
Other investments	38	35
Total interest income	11,388	11,939
Interest expense:		
Deposits	1,008	1,567
Securities sold under agreements to repurchase	197	226
Federal funds purchased	-	2
Other borrowed money	-	3
Junior subordinated debentures	242	241
Total interest expense	1,447	2,039
Net interest income	9,941	9,900
Provision for loan losses	1,600	1,150
Net interest income after provision for loan losses	8,341	8,750
Non-interest income:		
Service charges on deposits	1,737	2,448
Gain on securities, net	41	-
ATM and debit card income	878	786
Other charges and fees	374	407
Total non-interest income	3,030	3,641
Non-interest expenses:		
Salaries and employee benefits	5,163	5,250
Occupancy expense	2,053	2,248
FDIC insurance	311	315
Other	3,200	2,921
Total non-interest expenses	10,727	10,734
Income before income taxes	644	1,657
Income tax benefit (expense)	97	(222)
Net earnings	741	1,435

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Dividends on preferred stock and accretion of warrants	299	299
Net earnings available to common shareholders	\$ 442	\$ 1,136
Earnings per common share:		
Basic	\$ 0.05	\$ 0.12
Diluted	\$ 0.05	\$ 0.12

See notes to unaudited consolidated financial statements.

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2011
(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	ESOP Shares	Accumulated Unearned Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
Balance- December 31, 2010	20,000	\$19,408	9,880,743	\$988	\$89,893	\$(104)	\$4,182	\$(3,286)	\$25,572	\$136,653
Net earnings	-	-	-	-	-	-	-	-	741	741
Unrealized holding gains on securities available-for-sale arising during the period, net of income tax expense of \$46	-	-	-	-	-	-	89	-	-	89
Reclassification adjustment for gain on securities available-for-sale, net of income tax expense of \$14	-	-	-	-	-	-	(27)	-	-	(27)
Comprehensive income	-	-	-	-	-	-	-	-	-	803
Dividends on preferred stock and accretion of common stock warrants	-	50	-	-	-	-	-	-	(299)	(249)
Dividends on common stock, \$0.07 per share	-	-	-	-	-	-	-	-	(681)	(681)
ESOP compensation expense	-	-	-	-	13	28	-	-	-	41
Stock option and restricted stock compensation expense	-	-	-	-	32	-	-	-	-	32
Balance- March 31, 2011	20,000	\$19,458	9,880,743	\$988	\$89,938	\$(76)	\$4,244	\$(3,286)	\$25,333	\$136,599

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net earnings	\$741	\$1,435
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	760	909
Provision for loan losses	1,600	1,150
Provision for deferred tax benefit (expense)	137	(107)
Amortization of premiums on securities, net	299	283
Amortization of other investments	4	3
Net gain on sale of investment securities	(41)	-
Stock option and restricted stock compensation expense	32	1
Net loss on sale of other real estate owned	-	68
Change in accrued interest receivable	(296)	(291)
Change in accrued interest payable	(231)	(280)
Other, net	1,103	929
Net cash provided by operating activities	4,108	4,100
Cash flows from investing activities:		
Net decrease in time deposits in other banks	5,164	11,062
Proceeds from maturities and calls of securities available-for-sale	11,754	7,039
Proceeds from maturities and calls of securities held-to-maturity	770	3,453
Proceeds from sale of securities available-for-sale	2,266	-
Purchases of securities available-for-sale	(40,196)	-
Purchases of other investments	(1)	(1)
Net change in loans	2,519	7,592
Purchase of premises and equipment	(579)	(102)
Proceeds from sale of premises and equipment	6	-
Proceeds from sales of other real estate owned	-	247
Purchase of other real estate owned	-	(450)
Net cash (used in) provided by investing activities	(18,297)	28,840
Cash flows from financing activities:		
Change in deposits	22,756	(2,837)
Change in securities sold under repurchase agreements	1,899	1,086
Change in federal funds purchased	-	(1,700)
Issuance of common stock and treasury stock, net of offering expenses	-	4,768
Payment of dividends on preferred stock	(249)	(250)
Payment of dividends on common stock	(681)	(463)
Net cash provided by financing activities	23,725	604
Net increase in cash and cash equivalents	9,536	33,544
Cash and cash equivalents, beginning of period	91,907	23,351

Cash and cash equivalents, end of period	\$ 101,443	\$ 56,895
Supplemental information- Noncash items		
Accretion of warrants	\$ 50	\$ 49
Transfer of loans to other real estate owned	407	-
Net change in loan to ESOP	28	28

See notes to unaudited consolidated financial statements.

MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2011
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company and its subsidiaries as of March 31, 2011 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2010 Annual Report on Form 10-K.

The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire year.

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

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2010 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — In December 2010, the FASB issued Accounting Standards Update No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (“ASU No. 2010-28”). ASU No. 2010-28 requires entities with reporting units with zero or negative carrying amounts to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In doing so, entities should consider whether there are any adverse qualitative factors indicating that an impairment may exist. For public companies this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. ASU No. 2010-28 was not applicable to the Company for the first quarter of 2011 as negative goodwill did not exist at March 31, 2011.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (“ASU No. 2010-29”). ASU No. 2010-29 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU No. 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, and was not applicable to the Company for the quarter ended March 31, 2011, as no business combinations have occurred.

Recently Issued Accounting Pronouncements — In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends guidance for evaluating whether the restructuring of a receivable by a creditor is a troubled debt restructuring ("TDR"). The ASU responds to concerns that creditors are inconsistently applying existing guidance for identifying TDRs. The main provision of this Update will require a creditor to separately conclude whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties, in order to determine if a restructuring constitutes a TDR. Guidance is also provided to assist the creditor in evaluating these two criteria. Furthermore, the amendments clarify that a creditor is precluded from using the effective interest rate test, as described in the debtors guidance on restructuring payables, when evaluating whether a restructuring constitutes a TDR. ASU 2011-02 is effective for a public entity for interim and annual periods beginning on or after June 15, 2011. Retrospective application is required for restructurings occurring on or after

the beginning of the fiscal year of adoption for purposes of identifying and disclosing TDRs. However, an entity should apply prospectively changes in the method used to calculate impairment on receivables. At the same time it adopts ASU 2011-02, a public entity will be required to disclose the activity-based information about TDRs that was previously deferred by ASU No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. Early adoption is permitted. ASU No. 2011-01 is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

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

2. Investment Securities

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

	March 31, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Government sponsored enterprises	\$111,390	\$992	\$-	\$112,382
Obligations of state and political subdivisions	100,053	4,101	55	104,099
GSE mortgage-backed securities	23,857	873	-	24,730
Collateralized mortgage obligations	48,090	701	182	48,609
	\$283,390	\$6,667	\$237	\$289,820

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Government sponsored enterprises	\$116,560	\$1,138	\$-	\$117,698
Obligations of state and political subdivisions	105,376	3,593	117	108,852
GSE mortgage-backed securities	10,642	830	-	11,472
Collateralized mortgage obligations	24,894	936	43	25,787
	\$257,472	\$6,497	\$160	\$263,809

	March 31, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Held-to-maturity:				
Obligations of state and political subdivisions	\$819	\$18	\$-	\$837

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	

Held-to-maturity:

Obligations of state and political subdivisions	\$1,588	\$20	\$-	\$1,608
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With the exception of three private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$179,000 at March 31, 2011, all of the Company’s CMOs are government-sponsored enterprise securities.

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

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$35,779	\$35,991
Due after one year through five years	126,950	129,950
Due after five years through ten years	41,174	42,908
Due after ten years	7,540	7,632
Mortgage-backed securities and collateralized mortgage obligations	71,947	73,339
	\$283,390	\$289,820
	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$130	\$131
Due after one year through five years	689	706
	\$819	\$837

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

	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized
		Loss		Loss		Loss
Available-for-sale:						
Obligations of state and political subdivisions	\$1,720	\$55	\$-	\$-	\$1,720	\$55
Collateralized mortgage obligations	22,404	178	179	4	22,583	182
	\$24,124	\$233	\$179	\$4	\$24,303	\$237
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized
		Loss		Loss		Loss
Available-for-sale:						
	\$6,919	\$117	\$-	\$-	\$6,919	\$117

Obligations of state and political subdivisions						
Collateralized mortgage obligations	4,689	36	227	7	4,916	43
	\$11,608	\$153	\$227	\$7	\$11,835	\$160

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

The unrealized losses on debt securities at March 31, 2011 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Of the 171 securities issued by state and political subdivisions, three contained unrealized losses at March 31, 2011. Eight of the 22 collateralized mortgage obligations also contained unrealized losses. Management identified no impairment related to credit quality. At March 31, 2011, management had both the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the three months ended March 31, 2011.

During the three months ended March 31, 2011, the Company sold three securities classified as available for sale. Two securities were sold with gains totaling \$45,000 and one security was sold at a loss of \$4,000 for a net gain of \$41,000; calculated using the specific identification method. The securities were sold as a result of a review performed on our municipal securities portfolio. The Company did not sell any securities for the three months ended March 31, 2010.

Securities with an aggregate carrying value of approximately \$138.6 million and \$150.6 million at March 31, 2011 and December 31, 2010, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

3. Other Investments

The Company is required to own stock in the Federal Reserve Bank of Atlanta ("FRB-Atlanta") and as a member of the Federal Home Loan Bank system, owns stock in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"). The Company accounts for FRB-Atlanta and FHLB-Dallas stock as other investments along with stock ownership in two correspondent banks and a Community Reinvestment Act ("CRA") investment in a Senior Housing Crime Prevention program in Louisiana. The CRA investment consisted of three government-sponsored agency mortgage-backed securities purchased by the Company and held by the Senior Housing Crime Prevention program. The majority of the interest earned on the securities provides income to the program.

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

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

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	March 31, 2011	December 31, 2010
FRB-Atlanta	\$ 1,624	\$ 1,624
FHLB-Dallas	585	584
Other bank stocks	713	713
CRA investment	2,137	2,141
	\$ 5,059	\$ 5,062

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4. Credit Quality of Loans and Allowance for Loan Losses

A summary of the activity in the allowance for loan losses is as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Balance, beginning of period	\$ 8,813	\$ 7,995
Provision for loan losses	1,600	1,150
Recoveries	86	53
Loans charged-off	(3,747)	(1,281)
Balance, end of period	\$ 6,752	\$ 7,917

The Company's loans individually evaluated for impairment were approximately \$21.0 million at March 31, 2011 and \$25.2 million at December 31, 2010. Specific reserves totaling \$463,000 were established for \$1.7 million of impaired loans reported at March 31, 2011. At December 31, 2010, specific reserves totaling \$3.1 million were established for \$11.9 million of impaired loans. Interest recognized on impaired loans totaled \$94,000 at March 31, 2011. Loans classified as TDRs totaled \$1.3 million and \$640,000 at March 31, 2011 and December 31, 2010, respectively. One \$711,000 loan was identified as a TDR during the first quarter of 2011 as the borrower was granted a concession in payment terms to interest only for one year. The remaining \$626,000 in TDRs consists of three loans, one of which in the amount of \$418,000 is expected to return to performing status by the end of the second quarter of 2011. The two commercial loans and one commercial real estate loan were classified as TDRs due to a reduction in monthly payments granted to the borrowers and the one small consumer loan was classified as a TDR due to a credit exception granted to the borrower. As of March 31, 2011, there have been no commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs.

To provide greater transparency on non-performing assets, additional disclosures required by ASU 2010-20 have been included below. Allowance for loan losses is reported by portfolio segment and further detail of credit quality indicators are provided by class of loans.

Allowance for Loan Losses and Recorded Investment in Loans by Portfolio Segment
For the Three Months Ended March 31, 2011 (in thousands)

	Real Estate					Finance Leases Coml	Other	Total
	Coml, Fin, and Agric	Construction	Commercial	Residential	Consumer			
Allowance for loan losses:								
Beginning balance	\$1,664	\$2,963	\$ 2,565	\$ 862	\$ 730	\$29	\$-	\$8,813
Charge-offs	(111)	(2,072)	(1,215)	(152)	(197)	-	-	(3,747)
Recoveries	54	11	-	4	17	-	-	86
Provision	404	474	310	139	269	3	1	1,600
Ending balance	\$2,011	\$1,376	\$ 1,660	\$ 853	\$ 819	\$32	\$1	\$6,752
Ending balance: individually evaluated for impairment	\$348	\$-	\$ 8	\$ 19	\$ 88	\$-	\$-	\$463

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Loans:

Ending balance	\$175,148	\$47,481	\$ 217,906	\$ 69,800	\$ 58,799	\$4,565	\$555	\$574,254
Ending balance: individually evaluated for impairment	\$3,317	\$7,477	\$ 7,904	\$ 2,004	\$ 272	\$-	\$-	\$20,974

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Credit Quality Indicators by Class of Loans
As of March 31, 2011 (in thousands)

Commercial Credit
Exposure
Credit Risk Profile by
Creditworthiness
Category

	Commercial, Financial, and Agricultural	Commercial Real Estate Construction	Commercial Real Estate -Other	Commercial Total	% of Total Commercial	
Pass	\$ 163,328	\$ 28,923	\$ 200,058	\$ 392,309	90.2	%
Special Mention	3,469	3,746	2,264	9,479	2.2	%
Substandard	8,351	9,305	15,584	33,240	7.6	%
	\$ 175,148	\$ 41,974	\$ 217,906	\$ 435,028	100.0	%

Residential Credit
Exposure
Credit Risk Profile by
Creditworthiness
Category

	Residential - Construction	Residential - Prime	Residential - Subprime	Residential Total	% of Total Residential	
Pass	\$ 5,190	\$ 64,475	\$ -	\$ 69,665	92.5	%
Special mention	-	2,335	-	2,335	3.1	%
Substandard	317	2,990	-	3,307	4.4	%
	\$ 5,507	\$ 69,800	\$ -	\$ 75,307	100.0	%

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

	Consumer - Credit Card	Consumer -Other	Finance Leases Commercial	Other Loans	Consumer Total	% of Total Consumer	
Performing	\$ 4,929	\$ 53,584	\$ 4,565	\$ 555	\$ 63,633	99.6	%
Nonperforming	2	284	-	-	286	0.4	%
	\$ 4,931	\$ 53,868	\$ 4,565	\$ 555	\$ 63,919	100.0	%

Age Analysis of Past Due Loans by Class of Loans
As of March 31, 2011 (in thousands)

	30-59 Days Past Due (1)	60-89 Days Past Due (1)	Greater than 90 Days Past Due (1)	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	\$343	\$847	\$2,504	\$3,694	\$171,454	\$175,148	\$269
Commercial real estate - construction	164	646	4,302	5,112	36,862	41,974	-
Commercial real estate - other	1,801	4,936	1,216	7,953	209,953	217,906	-
Consumer - credit card	49	9	11	69	4,862	4,931	11
Consumer - other	441	38	257	736	53,132	53,868	24
Residential - construction	-	-	-	-	5,507	5,507	-
Residential - prime	586	679	874	2,139	67,661	69,800	-
Residential - subprime	-	-	-	-	-	-	-
Other loans	82	2	-	84	471	555	-
Finance leases commercial	8	18	-	26	4,539	4,565	-
	\$3,474	\$7,175	\$9,164	\$19,813	\$554,441	\$574,254	\$304

(1) Past due amounts may include loans on nonaccrual status.

Impaired Loans by Class of Loans
For the Quarter Ended March 31, 2011 (in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	\$2,194	\$2,325	\$-	\$2,742	\$16
Commercial real estate – construction	7,477	12,207	-	6,698	44
Commercial real estate – other	7,724	8,981	-	5,065	22
Consumer – other	103	103	-	96	-
Residential – prime	1,781	1,781	-	1,665	10
Subtotal:	\$19,279	\$25,397	\$-	\$16,266	\$92
With an allowance recorded:					
Commercial	1,123	1,123	348	691	-
Commercial real estate – construction	-	-	-	2,448	-

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Commercial real estate – other	180	180	8	3,277	-
Consumer – other	169	169	88	177	-
Residential – prime	223	223	19	217	2
Subtotal:	\$1,695	\$1,695	\$463	\$6,810	\$2
Totals:					
Commercial	18,698	24,816	356	20,921	82
Consumer	272	272	88	273	-
Residential	2,004	2,004	19	1,882	12
Grand total:	\$20,974	\$27,092	\$463	\$23,076	\$94

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Modifications by Class of Loans
As of March 31, 2011 (in thousands)

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructuring occurring during the quarter ended March 31, 2011:			
Commercial, financial, and agricultural	2	\$ 906	\$ 906
Commercial real estate - other	1	418	418
Consumer - other	1	13	13
		\$ 1,337	\$ 1,337

Loans on Nonaccrual Status by Class of Loans
As of March 31, 2011 (in thousands)

Commercial, financial, and agricultural	\$	2,358
Commercial real estate - construction		4,948
Commercial real estate - other		6,594
Consumer - credit card		-
Consumer - other		259
Residential - construction		-
Residential - prime		1,411
Residential - subprime		-
Other loans		-
Finance leases commercial		-
	\$	15,570

5. Earnings Per Common Share

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

	Three Months Ended March 31,	
	2011	2010
Net earnings available to common shareholders	\$442	\$1,136
Weighted average number of common shares outstanding used in computation of basic earnings per common share	9,720	9,695
Effect of dilutive securities:		
Stock options	14	19
Restricted Stock	2	-
Warrants	-	6
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	9,736	9,720

Options to acquire 19,233 and 23,786 shares of common stock were not included in computing diluted earnings per share for the quarter ended March 31, 2011 and 2010, respectively, because the effect of these shares was anti-dilutive. As a result of the completion of a qualified equity offering in December 2009, warrants issued to the U. S. Department of the Treasury (the "Treasury") to purchase 208,768 shares of our common stock were reduced to 104,384 shares. The remaining 104,384 shares subject to the warrants were anti-dilutive and not included in the computation of diluted earnings per share for the quarter ended March 31, 2011.

6. Declaration of Dividends

A first quarter dividend of \$0.07 per share for holders of common stock of record on March 17, 2011 was declared on January 25, 2011 and was paid on April 1, 2011. On April 26, 2011, the Company declared a second quarter dividend of \$0.07 per share for holders of common stock of record on June 16, 2011, to be paid on July 1, 2011.

The Company's ability to declare and pay dividends on its common stock is subject to first having paid all accrued cumulative preferred dividends that are due. For three years following the issuance of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") to the Treasury on January 9, 2009, the Company may not increase its per share common stock dividend rate above \$0.28 without the Treasury's consent, unless the Treasury has transferred all the Series A Preferred Stock to third parties.

7. Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

Loans—For disclosure purposes, the fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans,

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

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

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

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

Cash Surrender Value of Life Insurance Policies—Fair value for life insurance policies is based on cash surrender values indicated by the insurance companies.

Deposits—The fair value of demand deposits, savings accounts, NOW accounts, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The

estimated fair value does not include customer related intangibles.

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

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

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

Assets Recorded at Fair Value

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

Description	Assets / Liabilities Measured at Fair Value at March 31, 2011	Fair Value Measurements at March 31, 2011 using:		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	\$ 112,382	\$ -	\$ 112,382	\$ -
Obligations of state and political subdivisions	104,099	-	104,099	-
GSE mortgage-backed securities	24,730	-	24,730	-
Collateralized mortgage obligations	48,609	-	48,609	-
	\$ 289,820	\$ -	\$ 289,820	\$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis and are included in the table below (in thousands). Impaired loans are level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Other real estate owned are also level 2 assets measured using appraisals from external parties.

Description	Assets / Liabilities Measured at Fair Value at March 31, 2011	Fair Value Measurements at March 31, 2011 using:		
		Level 1	Level 2	Level 3
Impaired loans	\$ 11,390	\$ -	\$ 11,390	\$ -
Other real estate owned	1,528	-	1,528	-

Limitations

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

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income

taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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The estimated fair values of the Company's financial instruments are as follows at March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$101,443	\$101,443	\$91,907	\$91,907
Time deposits held in banks	-	-	5,164	5,206
Securities available-for-sale	289,820	289,820	263,809	263,809
Securities held-to-maturity	819	837	1,588	1,608
Other investments	5,059	5,059	5,062	5,062
Loans, net	567,502	574,553	571,999	580,033
Cash surrender value of life insurance policies	4,739	4,739	4,698	4,698
Financial liabilities:				
Non-interest bearing deposits	208,758	208,758	199,460	199,460
Interest bearing deposits	614,770	615,540	601,312	602,188
Securities sold under agreements to repurchase	45,725	45,725	43,826	43,826
Junior subordinated debentures	15,465	15,949	15,465	16,031

8. Subsequent Events

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

On April 4, 2011, the Company announced that its subsidiary, MidSouth Bank, N.A., entered into an agreement with Jefferson Bank, Dallas, Texas, ("Jefferson Bank") and First Bank & Trust Company, Lubbock, Texas, ("First Bank") to acquire five Jefferson Bank branches located in the Dallas-Fort Worth, Texas area. As part of the branch acquisition, MidSouth expects to acquire approximately \$70 million in loans and to assume over \$150 million in deposits.

The branches will be acquired from First Bank following its proposed acquisition of Jefferson Bank through an announced "363" sale in connection with the bankruptcy filing by the parent holding company of Jefferson Bank. As a result, the acquisition of the branches by MidSouth will be subject to approval by the bankruptcy court. The branch acquisition is subject to a number of other conditions, including regulatory approvals and other customary closing conditions. If approved, MidSouth anticipates that the acquisition will be completed before July 31, 2011.

A Notice of Charge of Discrimination was filed against the Company on April 18, 2011 with the U.S. Equal Employment Opportunity Commission by Karen L. Hail, a Director and former officer of the Company. Ms. Hail's claim alleges gender discrimination and retaliation. The Company and its insurer believe the claim is without merit and will vigorously defend against the claim.

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

MidSouth Bancorp, Inc. (the "Company") is a bank holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly-owned subsidiary bank MidSouth Bank, N.A. (the "Bank"). We offer complete banking services to commercial and retail customers in south Louisiana and southeast Texas with 34 locations and more than 48 ATMs. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying or incorporated by reference in this report. We encourage you to read this discussion in conjunction with our consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operation in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Forward-Looking Statements

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which involve risks and uncertainties. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "could," "would," "should," "potential," "fore" expressions are typically used to identify forward-looking statements. These statements include, among others, statements regarding future results, approval of our SBLF application, improvements in classified and criticized assets, changes in the local and national economy, the work-out of nonaccrual loans, the completion of the Jefferson Bank branch acquisition and other potential acquisitions. Actual results may differ materially from the results anticipated in these forward-looking statements. Factors that might cause such a difference include, among other matters, 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; the timing and ability to reach any agreement to restructure nonaccrual loans; increased competition for deposits and loans which could affect compositions, rates and terms; failure to obtain approval of the SBLF application; failure to receive the necessary approvals for or otherwise satisfy the closing conditions for the Jefferson Bank acquisition; the timing and impact of future acquisitions, the success or failure of integrating operations, and the ability to capitalize on growth opportunities upon entering new markets; 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 Protections 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 FDIC insurance and other coverages, and changes in the U.S. Treasury's Capital Purchase Program (the "CPP"); and other factors discussed under the heading "Risk Factors" in MidSouth's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011 and in its other filings with the SEC.

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

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (“GAAP”) and general

banking practices. Our most critical accounting policy relates to the allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. 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.

Another of our critical accounting policies relates to goodwill and intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings.

Given the continued 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.

Recent Developments

In March 2011, we applied for approximately \$32.0 million in funds under the Small Business Lending Fund (“SBLF”) authorized by Congress under the Small Business Jobs Act of 2010. Pending the approval of our SBLF application, we will have an increased amount of capital to better serve our small business customers’ credit needs as they take advantage of opportunities from increased business activity in our markets. Funds from the SBLF will also be used to refinance our Series A Preferred Stock issued to the Treasury under the CPP and potentially provide a significantly lower cost of capital. The dividend rate on the shares of preferred stock issued in connection with the SBLF will be dependent on our volume of qualified small business loans. No assurances can be provided that our application under the SBLF will be approved.

On April 4, 2011, we entered into an agreement with Jefferson Bank and First Bank to acquire five Jefferson Bank branches located in the Dallas-Fort Worth, Texas area. As a part of the branch acquisition, we expect to acquire approximately \$70 million in loans and to assume over \$150 million in deposits. The transaction is subject to regulatory approval, approval of the bankruptcy court in connection with the bankruptcy filing by the holding company for Jefferson Bank, and other customary closing conditions. If approved, the acquisition is expected to be completed by July 31, 2011.

Results of Operations

Earnings Analysis

We reported net earnings available to common shareholders of \$442,000 for the first quarter of 2011, a decrease of 61.1% compared to net earnings available to common shareholders of \$1.1 million reported for the first quarter of 2010. Diluted earnings for the first quarter of 2011 were \$0.05 per common share, a decrease of 58.3% from \$0.12 per common share reported for the first quarter of 2010.

Net earnings available to common shareholders decreased due to a \$611,000 decrease in non-interest income and a \$450,000 increase in the provision for loan losses. Non-interest income decreased primarily due to a \$711,000 decrease in service charges on deposit accounts as a result of fewer insufficient funds transactions processed. The decrease in service charges on deposit accounts was partially offset by a \$92,000 increase in ATM/debit card income. Provisions totaling \$1.6 million were expensed in the first quarter 2011 primarily due to charge-offs for the first quarter of 2011, net of specific reserves, and an increase in the historical loss rates affecting the general reserve.

Net interest income increased \$41,000 in prior year quarterly comparison due to a \$592,000 decrease in interest expense on interest bearing liabilities that offset a \$551,000 decrease in interest income from earning assets. Non-interest expense decreased \$7,000 in quarterly comparison as decreases primarily consisting of \$195,000 in occupancy expenses, \$87,000 in salary and benefit costs and \$79,000 in data processing expenses were offset by increases of \$191,000 in expenses on other real estate owned and \$132,000 in legal and professional fees.

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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 4.51% and 4.74% for the three months ended March 31, 2011 and 2010, respectively. Tables 1 and 2 below analyze the changes in net interest income in the three months ended March 31, 2011 and 2010.

Fully taxable-equivalent (“FTE”) net interest income totaled \$10.3 million for the quarters ended March 31, 2011 and 2010, respectively. The FTE net interest income remained flat in prior year comparison as a \$592,000 reduction in interest expense offset a \$591,000 decrease in interest income on earning assets for the period. Interest expense decreased due to a 38 basis point reduction in the average rate paid on interest bearing liabilities, from 1.26% at March 31, 2010 to 0.88% at March 31, 2011. Interest income on loans declined \$323,000 due to a \$6.5 million decrease in the average volume and a 15 basis point decrease in the average yield on loans in quarterly comparison. Interest income on investments decreased \$269,000 due to a 39 basis point decline in the average yield on investments and a \$1.7 million decrease in the average volume. Earning asset yields were further impacted by an increase in cash held overnight earning interest at a rate of 25 basis points or less.

During March and April of 2011, we reduced excess liquidity through the purchase of approximately \$84.8 million of US Agency mortgage-backed securities. The purchases were comprised of approximately \$58.7 million in 15 year fixed rate mortgage pass-through securities, and approximately \$26.1 million in floating rate collateralized mortgage obligations, which are tied to 1-month LIBOR. We expect the net annualized incremental increase to earnings in a flat rate environment to be approximately \$1.4 million before taxes or an incremental yield improvement of approximately 2.12% on the incremental net purchases.

The average volume of interest bearing deposits increased \$7.3 million, from \$595.6 million at March 31, 2010 to \$602.9 million at March 31, 2011. A \$20.3 million increase in the volume of NOW, money market and savings deposits, primarily in consumer and commercial Platinum money market accounts, offset a \$13.0 million decrease in the average volume of time deposits. We offer competitive market rates of interest on our Platinum money market accounts, and in the current rate environment those rates are comparable to rates earned on time deposits. The average volume of retail repurchase agreements, included in securities sold under agreements to repurchase, increased \$2.2 million in quarterly comparison, despite a 34 basis point reduction in rates.

The average rate paid on the Company’s junior subordinated debentures increased 3 basis points from first quarter of 2010 to first quarter of 2011 due to the rate change on the \$8.2 million of variable rate debentures. The debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at March 31, 2011 was 2.81%. The debentures mature on September 20, 2034 but may be repaid sooner, under certain circumstances. The Company also has outstanding \$7.2 million of junior subordinated debentures due 2031 that carry a fixed interest rate of 10.20%. Pursuant to the Dodd-Frank Act, the regulatory capital treatment of the debentures may change. However, we currently believe that we qualify for certain exceptions that would allow the debentures to continue to be included in our Tier 1 capital calculations. Nevertheless, the Company continues to evaluate what impact, if any, the Dodd-Frank Act will have and what steps the Company may take with respect to outstanding debentures, including the potential early redemption of the same.

As a result of these changes in volume and yield on earning assets and interest bearing liabilities, the FTE net interest margin decreased 23 basis points, from 4.74% for the first quarter of 2010 to 4.51% for the first quarter of 2011.

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

	Three Months Ended March 31,						
	2011		2010				
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate	
Assets							
Investment securities¹							
Taxable	\$160,067	\$867	2.17 %	\$152,215	\$1,000	2.63 %	
Tax exempt ²	102,145	1,311	5.13 %	111,746	1,447	5.18 %	
Total investment securities	262,212	2,178	3.32 %	263,961	2,447	3.71 %	
Federal funds sold	5,267	3	0.23 %	261	-	-	
Time and interest bearing deposits in other banks							
Other investments	82,573	75	0.36 %	34,639	80	0.94 %	
	5,060	38	3.00 %	4,900	35	2.86 %	
Loans							
Commercial and real estate	490,655	7,797	6.44 %	476,364	7,788	6.63 %	
Installment	82,325	1,679	8.27 %	103,100	2,011	7.91 %	
Total loans ³	572,980	9,476	6.71 %	579,464	9,799	6.86 %	
Total earning assets	928,092	11,770	5.14 %	883,225	12,361	5.68 %	
Allowance for loan losses	(8,217)			(7,832)			
Nonearning assets	90,149			93,899			
Total assets	\$1,010,024			\$969,292			
Liabilities and shareholders' equity							
NOW, money market, and savings							
Time deposits	\$488,025	\$638	0.53 %	\$467,720	\$1,007	0.87 %	
Total interest bearing deposits	114,929	370	1.31 %	127,893	560	1.78 %	
	602,954	1,008	0.68 %	595,613	1,567	1.07 %	
Securities sold under repurchase agreements							
Federal funds purchased	46,211	197	1.71 %	44,001	226	2.05 %	
Other borrowings	-	-	-	987	2	0.81 %	
	-	-	-	2,766	3	0.44 %	
Junior subordinated debentures	15,465	242	6.26 %	15,465	241	6.23 %	
Total interest bearing liabilities	664,630	1,447	0.88 %	658,832	2,039	1.26 %	
Demand deposits	202,079			169,999			
Other liabilities	6,189			5,873			
Shareholders' equity	137,126			134,588			
Total liabilities and shareholders' equity	\$1,010,024			\$969,292			
Net interest income and net interest spread							
		\$10,323	4.26 %		\$10,322	4.42 %	
Net yield on interest earning assets							
			4.51 %			4.74 %	

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

2 Interest income of \$382,000 for 2011 and \$422,000 for 2010 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.

3 Interest income includes loan fees of \$713,000 for 2011 and \$722,000 for 2010. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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

	Three Months Ended		
	March 31, 2011 compared to March 31, 2010		
	Total Increase (Decrease)	Change Attributable To Volume	Change Attributable To Rates
Taxable-equivalent income earned on:			
Investment securities			
Taxable	\$(133)	\$50	\$(183)
Tax exempt	(136)	(123)	(13)
Federal funds sold	3	3	-
Time and interest bearing deposits in other banks	(5)	65	(70)
Other investments	3	1	2
Loans, including fees	(323)	(109)	(214)
Total	(591)	(113)	(478)
Interest paid on:			
Interest bearing deposits	(559)	19	(578)
Securities sold under repurchase agreements	(29)	11	(40)
Federal funds purchased	(2)	(2)	-
Other borrowings	(3)	(3)	-