MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

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

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

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

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 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 x 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 x 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 x	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 x

As of May 10, 2012, there were 10,465,506 shares of the registrant's Common Stock, par value $0.10 per share, outstanding.

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Part I – Financial Information

Item 1. Financial Statements.

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

	March 31, 2012 (unaudited)	December 31, 2011* (audited)
Assets		
Cash and due from banks, including required reserves of $5,743 and $7,990, respectively	$ 26,437	$ 26,775
Interest-bearing deposits in banks	75,664	56,128
Federal funds sold	2,225	400
Time deposits held in banks	710	710
Securities available-for-sale, at fair value (cost of $354,671 at March 31, 2012 and $355,496 at December 31, 2011)	366,010	367,241
Securities held-to-maturity (fair value of $98,033 at March 31, 2012 and $101,131 at December 31, 2011)	96,817	100,472
Other investments	5,634	5,637
Loans	747,767	746,305
Allowance for loan losses	(7,078)	(7,276)
Loans, net	740,689	739,029
Bank premises and equipment, net	44,130	44,598
Accrued interest receivable	5,741	5,607
Goodwill	24,837	24,959
Intangibles	6,948	7,147
Cash surrender value of life insurance	4,837	4,853
Other real estate	7,120	7,369
Other assets	5,840	5,831
Total assets	$ 1,413,639	$ 1,396,756
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$ 271,447	$ 254,755
Interest bearing	905,719	910,051
Total deposits	1,177,166	1,164,806
Securities sold under agreements to repurchase	49,055	46,078
Junior subordinated debentures	15,465	15,465
Other liabilities	8,618	8,570
Total liabilities	1,250,304	1,234,919
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2012 and December 31, 2011	32,000	32,000

Common stock, $0.10 par value; 30,000,000 shares authorized, 10,615,983 issued and 10,465,506 outstanding at March 31, 2012 and December 31, 2011	1,062	1,062
Additional paid-in capital	98,854	98,842
Accumulated other comprehensive income	7,484	7,752
Treasury stock – 150,477 shares at March 31, 2012 and December 31, 2011, at cost	(3,286)	(3,286)
Retained earnings	27,221	25,467
Total shareholders' equity	163,335	161,837
Total liabilities and shareholders' equity	$ 1,413,639	$ 1,396,756

See notes to unaudited consolidated financial statements.
* Derived from audited financial statements.

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

	Three Months Ended March 31, 2012	2011
Interest income:		
Loans, including fees	$ 12,403	$ 9,476
Securities and other investments:		
Taxable	2,069	867
Nontaxable	775	929
Federal funds sold	2	3
Time and interest bearing deposits in other banks	39	75
Other investments	45	38
Total interest income	15,333	11,388
Interest expense:		
Deposits	1,100	1,008
Securities sold under agreements to repurchase	181	197
Junior subordinated debentures	248	242
Total interest expense	1,529	1,447
Net interest income	13,804	9,941
Provision for loan losses	675	1,600
Net interest income after provision for loan losses	13,129	8,341
Non-interest income:		
Service charges on deposits	1,824	1,737
Gain on securities, net	-	41
ATM and debit card income	1,126	878
Other charges and fees	578	374
Total non-interest income	3,528	3,030
Non-interest expenses:		
Salaries and employee benefits	6,086	5,163
Occupancy expense	2,548	2,053
ATM and debit card expense	368	357
Other	3,666	3,154
Total non-interest expenses	12,668	10,727
Income before income taxes	3,989	644
Income tax (expense) benefit	(1,103)	97
Net earnings	2,886	741
Dividends on preferred stock and accretion of warrants	400	299
Net earnings available to common shareholders	$ 2,486	$ 442

Earnings per share:		
Basic	$ 0.24	$ 0.05
Diluted	$ 0.24	$ 0.05
Cash dividends declared per common share	$ 0.07	$ 0.07

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2012	2011
Net earnings	$ 2,886	$ 741
Other comprehensive income, net of tax:		
Unrealized gains and losses on securities available-for-sale:		
Unrealized holding gains (losses) arising during the year, net of income tax benefit of $138 for the three months ended March 31, 2012 and net of income tax expense of $46 for the three months ended March 31, 3011	(268)	89
Reclassification adjustment for gain on securities available-for-sale, net of income tax expense of $0 and $14 for the three months ended March 31, 2012 and 2011, respectively	-	(27)
Total other comprehensive income	(268)	62
Total comprehensive income	$ 2,618	$ 803

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2012
(in thousands, except share and per share data)

	Preferred Stock Series B Shares	Preferred Stock Series B Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
Balance- December 31, 2011	32,000	$ 32,000	10,615,983	$ 1,062	$ 98,842	$ 7,752	$ (3,286)	$ 25,467	$ 161,837
Net earnings	-	-	-	-	-	-	-	2,886	2,886
Dividends on Series B Preferred Stock	-	-	-	-	-	-	-	(400)	(400)
Dividends on common stock, $0.07 per share	-	-	-	-	-	-	-	(732)	(732)
Restricted stock compensation expense	-	-	-	-	12	-	-	-	12
Change in accumulated other comprehensive income	-	-	-	-	-	(268)	-	-	(268)
Balance- March 31, 2012	32,000	$ 32,000	10,615,983	$ 1,062	$ 98,854	$ 7,484	$ (3,286)	$ 27,221	$ 163,335

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net earnings	$ 2,886	$ 741
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	885	740
Amortization (accretion) of purchase accounting adjustments	(690)	20
Provision for loan losses	675	1,600
Provision for deferred tax expense	229	137
Amortization of premiums on securities, net	358	299
Amortization of other investments	4	4
Stock compensation expense	-	14
Restricted stock expense	12	18
Net gain on sale of investment securities	-	(41)
Net loss on sale of other real estate owned	94	-
Write down of other real estate owned	17	84
Gain on valuation of other real estate owned	(25)	-
Change in accrued interest receivable	(134)	(296)
Change in accrued interest payable	(250)	(231)
Change in other assets & other liabilities, net	335	1,019
Net cash provided by operating activities	4,396	4,108
Cash flows from investing activities:		
Net decrease in time deposits in other banks	-	5,164
Proceeds from maturities and calls of securities available-for-sale	20,529	11,754
Proceeds from maturities and calls of securities held-to-maturity	3,465	770
Proceeds from sale of securities available-for-sale	-	2,266
Purchases of securities available-for-sale	(19,871)	(40,196)
Purchases of other investments	(1)	(1)
Net change in loans	(1,767)	2,519
Purchases of premises and equipment	(417)	(579)
Proceeds from sale of premises and equipment	-	6
Proceeds from sale of other real estate owned	110	-
Net cash provided by (used in) investing activities	2,048	(18,297)
Cash flows from financing activities:		
Change in deposits	12,734	22,756
Change in securities sold under agreements to repurchase	2,977	1,899
Proceeds from FHLB advances	100	-
Repayments of FHLB advances	(100)	-
Payment of dividends on preferred stock	(400)	(249)

Payment of dividends on common stock		(732	)		(681	)
Net cash provided by financing activities		14,579			23,725	
Net increase in cash and cash equivalents		21,023			9,536	
Cash and cash equivalents, beginning of period		83,303			91,907	
Cash and cash equivalents, end of period	$	104,326		$	101,443	
Supplemental information- Noncash items						
Accretion of warrants	$	-		$	50	
Transfer of loans to other real estate		97			407	
Net change in loan to ESOP		-			28	
Financed sales of other real estate		150			-	

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2012
(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 MidSouth Bancorp, Inc. (the "Company") and its subsidiaries as of March 31, 2012 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 2011 Annual Report on Form 10-K.

The results of operations for the three month period ended March 31, 2012 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 2011 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. ASU No. 2011-03 was effective for the quarter ended March 31, 2012 and did not have a material impact on the Company's results of operations, financial position or disclosures.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820. The Update also reflects the FASB's consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. Non-public entities will be exempt from a number of the new disclosure requirements. The amendments in this Update are to be applied prospectively. For public entities, the amendments were effective for the quarter ended March 31, 2012 and did not have a material impact on the Company's results of operations, financial position or disclosures.

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2. Investment Securities

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

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	$ 84,283	$ 461	$ -	$ 84,744
Obligations of state and political subdivisions	86,955	5,383	-	92,338
GSE mortgage-backed securities	112,653	4,468	67	117,054
Asset-backed securities	4,436	-	56	4,380
Collateralized mortgage obligations: residential	42,267	526	12	42,781
Collateralized mortgage obligations: commercial	24,077	636	-	24,713
	$ 354,671	$ 11,474	$ 135	$ 366,010

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

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$ 340	$ 1	$ -	$ 341
GSE mortgage-backed securities	78,902	1,018	-	79,920
Collateralized mortgage obligations: commercial	17,575	197	-	17,772
	$ 96,817	$ 1,216	$ -	$ 98,033

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				

Obligations of state and political subdivisions	$	340	$	2	$	-	$	342
GSE mortgage-backed securities		82,497		550		-		83,047
Collateralized mortgage obligations: commercial		17,635		107		-		17,742
	$	100,472	$	659	$	-	$	101,131

With the exception of 3 private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $126,000 at March 31, 2012, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

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The amortized cost and fair value of debt securities at March 31, 2012 by contractual maturity are shown in the following table (in thousands) with the exception of mortgage-backed securities and CMOs. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 81,221	$ 81,800
Due after one year through five years	56,245	58,820
Due after five years through ten years	29,002	31,444
Due after ten years	4,770	5,018
Asset-backed securities	4,436	4,380
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	154,920	159,835
Commercial	24,077	24,713
	$ 354,671	$ 366,010

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$ 140	$ 140
Due after one year through five years	200	201
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	78,902	79,920
Commercial	17,575	17,772
	$ 96,817	$ 98,033

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

	March 31, 2012					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Available-for-sale:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
GSE mortgage-backed securities	$ 10,206	$ 67	$ -	$ -	$ 10,206	$ 67
Asset-backed securities	4,380	56	-	-	4,380	56
Collateralized mortgage obligations: residential	12,262	8	126	4	12,388	12
	$ 26,848	$ 131	$ 126	$ 4	$ 26,974	$ 135

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	December 31, 2011					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Available-for-sale:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Government sponsored enterprises	$ 6,204	$ 2	$ -	$ -	$ 6,204	$ 2
Collateralized mortgage obligations: residential	1,849	1	136	4	1,985	5
	$ 8,053	$ 3	$ 136	$ 4	$ 8,189	$ 7

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, 2012 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Of the 59 GSE mortgage-backed securities classified as available-for-sale, 2 contained unrealized losses at March 31, 2012. Of the 22 residential collateralized mortgage obligations classified as available-for-sale, 5 contained unrealized losses at March 31, 2012. The only asset-backed security held by the Company at March 31, 2012 contained an unrealized loss. Management identified no impairment related to credit quality. At March 31, 2012, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the three months ended March 31, 2012.

During the three months ended March 31, 2012, the Company did not sell any securities. 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.

Securities with an aggregate carrying value of approximately $152.4 million and $154.1 million at March 31, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, based upon quarterly reviews, management determined that there was no impairment in the bank stocks held as other investments.

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

	March 31, 2012	December 31, 2011
FRB-Atlanta	$ 2,071	$ 2,071
FHLB-Dallas	587	586
Other bank stocks	853	853
CRA investment	2,123	2,127
	$ 5,634	$ 5,637

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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, 2012	Three Months Ended March 31, 2011
Balance, beginning of period	$ 7,276	$ 8,813
Provision for loan losses	675	1,600
Recoveries	66	86
Loans charged-off	(939)	(3,747)
Balance, end of period	$ 7,078	$ 6,752

The Company monitors loan concentrations and evaluates individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity for each major standard industry classification segment. At March 31, 2012, one industry segment concentration, the oil and gas industry, aggregate more than 10% of the loan portfolio. The Company's exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately $118.1 million, or 15.8% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At March 31, 2012, loan secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately $327.9 million. Of the $327.9 million, $266.7 million represent CRE loans, 62% of which are secured by owner-occupied commercial properties. Of the $327.9 million in loans secured by commercial real estate, $4.0 million, or 1.2%, were on nonaccrual status at March 31, 2012.

Modifications by Class of Loans
(in thousands)

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings as of March 31, 2012:			
Commercial, financial, and agricultural	3	$ 427	$ 410
Consumer - other	1	14	11
		$ 441	$ 421

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

Trouble Debt Restructurings that Subsequently Defaulted
(in thousands)

	March 31, 2012	March 31, 2011

	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial, and agricultural	3	$251	-	$-

For purposes of the determination of an allowance for loan losses on these troubled debt restructurings ("TDRs"), as an identified TDR, the Company considers a loss probable on the loan and, as a result is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined that losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of March 31, 2012, there have been no commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs.

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Allowance for Loan Losses and Recorded Investment in Loans
For the Three Months Ended March 31, 2012 (in thousands)

	Coml, Fin, and Agric	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Consumer	Finance Leases Coml	Other	Total
Allowance for loan losses:								
Beginning balance	$ 1,734	$ 1,661	$ 2,215	$ 936	$ 710	$ 19	$ 1	$ 7,276
Charge-offs	(254)	-	(478)	(52)	(155)	-	-	(939)
Recoveries	43	4	1	-	18	-	-	66
Provision	193	212	133	54	81	2	-	675
Ending balance	$ 1,716	$ 1,877	$ 1,871	$ 938	$ 654	$ 21	$ 1	$ 7,078
Ending balance: individually evaluated for impairment	$ 232	$ 2	$ 14	$ 32	$ 124	$ -	$ -	$ 404
Loans:								
Ending balance	$ 221,855	$ 55,320	$ 283,114	$ 112,142	$ 70,085	$ 3,840	$ 1,411	$ 747,767
Ending balance: individually evaluated for impairment	$ 2,096	$ 843	$ 3,140	$ 1,698	$ 343	$ -	$ -	$ 8,120

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2011 (in thousands)

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

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Credit Quality Indicators by Class of Loans
As of March 31, 2012 (in thousands)

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, Financial, and Agricultural	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial Total	% of Total Commercial
Pass	$ 215,534	$ 39,814	$ 269,300	$ 524,648	95.43 %
Special mention	1,937	1,055	8,641	11,633	2.12 %
Substandard	4,199	3,915	5,173	13,287	2.42 %
Doubtful	185	-	-	185	0.03 %
	$ 221,855	$ 44,784	$ 283,114	$ 549,753	100.00 %

Residential Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Residential Construction	Residential Prime	Residential Subprime	Residential Total	% of Total Residential
Pass	$ 10,471	$ 104,283	$ -	$ 114,754	93.54 %
Special mention	-	4,553	-	4,553	3.71 %
Substandard	65	3,306	-	3,371	2.75 %
	$ 10,536	$ 112,142	$ -	$ 122,678	100.00 %

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	$ 5,069	$ 64,691	$ 3,840	$ 1,411	$ 75,011	99.57 %
Nonperforming	12	313	-	-	325	0.43 %
	$ 5,081	$ 65,004	$ 3,840	$ 1,411	$ 75,336	100.00 %

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

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, Financial, and Agricultural	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial Total	% of Total Commercial
Pass	$ 216,465	$ 36,631	$ 264,542	$ 517,638	94.88 %
Special Mention	1,705	1,104	10,755	13,564	2.49 %
Substandard	4,809	3,728	5,501	14,038	2.57 %
Doubtful	304	-	-	304	0.06 %
	$ 223,283	$ 41,463	$ 280,798	$ 545,544	100.00 %

Residential Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Residential Construction	Residential Prime	Residential Subprime	Residential Total	% of Total Residential
Pass	$ 9,041	$ 104,965	$ -	$ 114,006	91.33 %
Special mention	1,077	5,152	-	6,229	4.99 %
Substandard	1,131	3,465	-	4,596	3.68 %
	$ 11,249	$ 113,582	$ -	$ 124,831	100.00 %

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	$ 5,182	$ 64,497	$ 4,276	$ 1,674	$ 75,629	99.60 %
Nonperforming	18	283	-	-	301	0.40 %
	$ 5,200	$ 64,780	$ 4,276	$ 1,674	$ 75,930	100.00 %

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

As of March 31, 2012	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	$730	$148	$1,975	$2,853	$219,002	$221,855	$400
Commercial real estate – construction	214	111	279	604	44,180	44,784	-
Commercial real estate - other	566	188	2,568	3,322	279,792	283,114	-
Consumer - credit card	36	19	12	67	5,014	5,081	12
Consumer - other	224	76	275	575	64,429	65,004	6
Residential - construction	-	-	-	-	10,536	10,536	-
Residential - prime	1,510	422	696	2,628	109,514	112,142	-
Residential - subprime	-	-	-	-	-	-	-
Other loans	70	4	-	74	1,337	1,411	-
Finance leases commercial	-	-	-	-	3,840	3,840	-
	$3,350	$968	$5,805	$10,123	$737,644	$747,767	$418

As of December 31, 2011	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	$622	$242	$1,856	$2,720	$220,563	$223,283	$64
Commercial real estate - construction	673	166	358	1,197	40,266	41,463	-
Commercial real estate - other	3,185	-	1,878	5,063	275,735	280,798	-

Consumer - credit card	79	-	19	98	5,102	5,200	19
Consumer - other	410	193	269	872	63,908	64,780	8
Residential - construction	-	-	-	-	11,249	11,249	-
Residential - prime	2,457	469	685	3,611	109,971	113,582	140
Residential - subprime	-	-	-	-	-	-	-
Other loans	118	-	-	118	1,556	1,674	-
Finance leases commercial	-	-	-	-	4,276	4,276	-
	$7,544	$1,070	$5,065	$13,679	$732,626	$746,305	$231

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

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Impaired Loans by Class of Loans
(in thousands)

As of March 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$962	$1,110	$-	$1,060	$-
Commercial real estate – construction	839	905	-	868	1
Commercial real estate – other	3,028	3,502	-	2,029	-
Consumer – other	67	77	-	57	-
Residential – prime	1,447	1,447	-	1,149	11
Subtotal:	$6,343	$7,041	$-	$5,163	$12
With an allowance recorded:					
Commercial, financial, and agricultural	1,134	1,134	232	1,159	1
Commercial real estate – construction	4	4	2	4	-
Commercial real estate – other	111	111	14	676	-
Consumer – other	276	276	124	258	1
Residential – prime	252	252	32	271	-
Subtotal:	$1,777	$1,777	$404	$2,368	$2
Totals:					
Commercial	6,078	6,766	248	5,796	$2
Consumer	343	353	124	315	1
Residential	1,699	1,699	32	1,420	11
Grand total:	$8,120	$8,818	$404	$7,531	$14

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

Residential	1,142	1,142	21	1,589	29
Other	-	-	-	3	-
Grand total:	$6,942	$7,113	$682	$16,002	$ 240

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Loans on Nonaccrual Status
(in thousands)

	March 31, 2012	December 31, 2011
Commercial, financial, and agricultural	$ 1,917	$ 1,897
Commercial real estate - construction	843	902
Commercial real estate - other	3,139	2,271
Consumer - credit card	-	-
Consumer - other	307	275
Residential - construction	-	-
Residential - prime	1,449	884
Residential - subprime	-	-
Other loans	-	-
Finance leases commercial	-	-
	$ 7,655	$ 6,229

The amount of interest that would have been recorded on nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately $177,000 and $296,000 for the three months ended March 31, 2012 and 2011, respectively. Interest actually received on nonaccrual loans at March 31, 2012 and 2011 was $20,000 and $35,000, respectively.

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, 2012	Three Months Ended March 31, 2011
Net earnings available to common shareholders	$ 2,486	$ 442
Weighted average number of common shares outstanding used in computation of basic earnings per common share	10,465	9,720
Effect of dilutive securities:		
Stock options	8	14
Restricted Stock	7	2
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	10,480	9,736

Options to acquire 18,331 and 19,233 shares of common stock were not included in computing diluted earnings per share for the quarter ended March 31, 2012 and 2011, respectively, because the effect of these shares was anti-dilutive. The remaining 104,384 shares subject to the outstanding warrant issued in connection with the Capital Purchase Plan transaction were anti-dilutive and not included in the computation of diluted earnings per share for the quarters ended March 31, 2012 and 2011.

6. Declaration of Dividends

A first quarter dividend of $0.07 per share for holders of common stock of record on March 15, 2012 was declared on January 25, 2012 and was paid on April 2, 2012. On April 18, 2012, the Company declared a second quarter dividend of $0.07 per share for holders of common stock of record on June 15, 2012, to be paid on July 2, 2012.

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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.

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For non-performing loans, collateral valuations currently in file are reviewed for acceptability in terms of timeliness and applicability. Although each determination is made based on the facts and circumstances of each credit, generally valuations are no longer considered acceptable when there has been physical deterioration of the property from when it was last appraised, or there has been a significant change in the underlying assumptions of the appraisal. If the valuation is deemed to be unacceptable, a new appraisal is ordered. New appraisals are typically received within 4-6 weeks. While awaiting new appraisals, the valuation in 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 ("ORE") properties are adjusted to fair value upon transfer of the loans to other real estate, and annually thereafter to insure other real estate assets are carried at the lower of carrying value or fair value. Exceptions to obtaining initial appraisals are properties where a buy/sell agreement exists for the loan value or greater, or where a Sheriff's valuation has been received for properties liquidated through a Sheriff sale. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market prices, the Company records the other real estate asset as nonrecurring Level 3.

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

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

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.

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Assets Recorded at Fair Value

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

Description	Assets / Liabilities Measured at Fair Value at March 31, 2012	Fair Value Measurements at March 31, 2012 using: Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	$ 84,744	$ -	$ 84,744	$ -
Obligations of state and political subdivisions	92,338	-	92,338	-
GSE mortgage-backed securities	117,054	-	117,054	-
Asset-backed securities	4,380	-	4,380	-
Collateralized mortgage obligations: residential	42,781	-	42,781	-
Collateralized mortgage obligations: commercial	24,713	-	24,713	-
	$ 366,010	$ -	$ 366,010	$ -

Description	Assets / Liabilities Measured at Fair Value at December 31, 2011	Fair Value Measurements at December 31, 2011 using: Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	$ 94,999	$ -	$ 94,999	$ -
Obligations of state and political subdivisions	96,149	-	96,149	-
GSE mortgage-backed securities	109,487	-	109,487	-
Collateralized mortgage obligations: residential	41,468	-	41,468	-
Collateralized mortgage obligations: commercial	25,138	-	25,138	-
	$ 367,241	$ -	$ 367,241	$ -

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 properties are also level 2 assets measured using appraisals from external parties.

Description	Assets / Liabilities Measured at Fair Value at March 31, 2012	Fair Value Measurements at March 31, 2012 using: Level 1	Level 2	Level 3
Impaired loans	$ 2,630	$ -	$ 2,630	$ -
Other real estate	$ 7,120			