Cars.com Inc.
Form SC 13G/A
January 24, 2019

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No: 2)

CARS.COM INC

(Name of Issuer)

Common Stock

(Title of Class of Securities)

14575E105

(CUSIP Number)

December 31, 2018

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 14575E105

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group

(a) [ ]
(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

7445679

(6) Shared voting power

0

(7) Sole dispositive power

7769635

(8) Shared dispositive power

0

(9) Aggregate amount beneficially owned by each reporting person

7769635

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

11.3%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

CARS.COM INC

Item 1(b) Address of issuer's principal executive offices:
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300 S. RIVERSIDE PLAZA SUITE 1000
CHICAGO IL 60606

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:

BlackRock, Inc.
55 East 52nd Street
New York, NY 10055

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

7769635

Percent of class

11.3%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

7445679

Shared power to vote or to direct the vote

0

Sole power to dispose or to direct the disposition of

7769635

Shared power to dispose or to direct the disposition of

0

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [ ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
CARS.COM INC.
No one person's interest in the common stock of
CARS.COM INC
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 24, 2019
BlackRock, Inc.

Signature: Spencer Fleming

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to

sign on behalf of such person shall be filed with the statement,
provided, however, that a power of attorney for this purpose
which is already on file with the Commission may be incorporated
by reference. The name and any title of each person who
signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute
Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Life Limited
BlackRock Advisors, LLC
BlackRock (Netherlands) B.V.
BlackRock Fund Advisors*
BlackRock Institutional Trust Company, National Association
BlackRock Asset Management Ireland Limited
BlackRock Financial Management, Inc.
BlackRock Japan Co., Ltd.
BlackRock Asset Management Schweiz AG
BlackRock Investment Management, LLC
BlackRock Investment Management (UK) Limited
BlackRock Asset Management Canada Limited
BlackRock Investment Management (Australia) Limited

*Entity beneficially owns 5% or greater of the outstanding
shares of the security class being reported on this
Schedule 13G.
Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized
under the laws of the State of Delaware, United States (the
"Company"), does hereby make, constitute and appoint each of
Christopher Meade, Daniel Waltcher, Una Neary, Richard Cundiff,
Charles Park, Enda McMahon, Arlene Klein, Con Tzatzakis, Karen Clark,
David Maryles, Daniel Ronnen, John Stelley, Daniel Riemer,
Elizabeth Kogut, Maureen Gleeson, Daniel Kalish and Spencer Fleming acting
severally, as its true and lawful attorneys-in-fact, for the purpose of, from
time to time, executing in its name and on its behalf, whether the Company
individually or as representative of others, any and all documents, is acting
certificates, instruments, statements, other filings and amendments to the
foregoing (collectively, "documents") determined by such person to
be necessary or appropriate to comply with ownership or control-person
reporting requirements imposed by any United States or non-United States
governmental or regulatory authority, Including without limitation
Forms 3, 4, 5, 13D, 13F, 13G and 13H and any amendments to any of the
Foregoing as may be required to be filed with the Securities and
Exchange Commission, and delivering, furnishing or filing any
such documents with the appropriate governmental, regulatory

authority or other person, and giving and granting to each such
attorney-in-fact power and authority to act in the premises as fully
and to all intents and purposes as the Company might or could
do if personally present by one of its authorized signatories,
hereby ratifying and confirming all that said attorney-in-fact shall
lawfully do or cause to be done by virtue hereof. Any such
determination by an attorney-in-fact named herein shall be
conclusively evidenced by such person's execution, delivery,
furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney
dated 8th day of December, 2015 in respect of the subject matter hereof,
shall be valid from the date hereof and shall remain in full force and
effect until either revoked in writing by the Company, or, in respect of
any attorney-in-fact named herein, until such person ceases to be an
employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of
attorney to be executed as of this 2nd day of January, 2019.

BLACKROCK, INC.

By:_ /s/ Daniel Waltcher
Name: Daniel Waltcher
Title: Deputy General Counsel

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—

—

—
%

—

—

3,082

1.99
%

3,082

Corporate debt securities

—

—
%

1,560

6.13
%

12,251

6.14
%

—

—
%

13,811

Total fair value

$
2,179

$
11,540

$
51,053

$
275,042

$
339,814

Within 1 Year

After 1 but
Within 5 Years

After 5 but
Within 10 Years

After 10 Years

Held-to-Maturity:

Amount

Yield

Amount

Yield

Amount

Yield

Amount

Yield

Total
Obligations of state and political subdivisions[1]

$
347

2.99
%

$
6,427

2.70
%

$
8,181

3.35
%

$
25,560

3.47
%

$
40,515

GSE mortgage-backs and CMOs: residential

—

—
%

—

—
%

24,656

2.83
%

28,688

2.04
%

53,344

CMOs: commercial

—

—
%

—

—
%

—

—
%

4,352

2.22
%

4,352

Total cost

$
347

$
6,427

$
32,837

$
58,600

$
98,211

[1] Tax exempt yields are expressed on a fully taxable equivalent basis.

Loan Portfolio

The loan portfolio increased $20.4 million, or 1.6%, during 2016 primarily as a result of increased demand for real estate loans, particularly construction loans. Increases of $26.0 million, $10.0 million and $8.8 million were in the construction, commercial real estate and residential real estate portfolios, respectively. These increases were partially offset by a $28.3 million decrease in our consumer loan portfolio.

Our loan portfolio is diversified throughout our Louisiana and Texas markets, with a focus on C&I and CRE loans. Our C&I and CRE loans are primarily underwritten on cash flow analyses versus collateral valuations. The C&I portfolio consists primarily of term loans or revolving lines of credit which are generally structured with annual maturity. The term loans are generally structured with fixed rates and three to five year maturities. The CRE portfolio consists primarily of credits that have fifteen to twenty year amortization terms with rates fixed primarily for three years, but up to five years. We believe the shorter term structure of our C&I and CRE credits allows greater flexibility in controlling interest rate risk.

The loan portfolio at December 31, 2016 consisted of approximately 33.6% in fixed rate loans, with the majority maturing within five years. Approximately 66.4% of the portfolio earns a variable rate of interest, the greater majority

of which adjusts simultaneous with changes in the Prime rate and a smaller portion that adjusts on a scheduled repricing date. The mix of variable and fixed rate loans provides some protection from changes in market rates of interest. Additionally, we have established rate floors, primarily for our commercial loans, that provided some protection to our net interest margin during the current sustained low interest rate environment.

Table 8
Composition of Loans
December 31,
(in thousands)

	2016	2015	2014	2013	2012
Commercial, financial, and agricultural	$459,574	$454,028	$467,147	$403,976	$315,655
Real estate – construction	100,959	74,952	68,577	82,691	75,334
Real estate – commercial	481,155	471,141	467,172	397,135	414,384
Real estate – residential	157,872	149,064	154,602	146,841	142,858
Installment loans to individuals	82,660	111,009	119,328	97,459	90,561
Lease financing receivable	1,095	1,968	4,857	5,542	5,769
Other	767	1,483	2,748	3,910	2,379
Total loans	$1,284,082	$1,263,645	$1,284,431	$1,137,554	$1,046,940

Table 9
Loan Maturities and Sensitivity to Interest Rates
For the Year Ended December 31, 2016
(in thousands)

	Fixed and Variable Rate Loans at Stated Maturities				Amounts Over One Year With		
	1 Year or Less	1 Year – 5 Years	Over 5 years	Total	Predetermined Rates	Floating Rates	Total
Commercial, financial, and agricultural	$195,927	$194,479	$69,168	$459,574	$126,801	$136,846	$263,647
Real estate – construction	54,372	21,822	24,765	100,959	14,930	31,657	46,587
Real estate – commercial	61,780	73,424	345,951	481,155	53,483	365,892	419,375
Real estate – residential	13,246	33,158	111,468	157,872	66,090	78,536	144,626
Installment loans to individuals	27,228	49,079	6,353	82,660	50,341	5,091	55,432
Lease financing receivable	43	1,052	—	1,095	1,052	—	1,052
Other	560	118	89	767	118	89	207
Total	$353,156	$373,132	$557,794	$1,284,082	$312,815	$618,111	$930,926

Asset Quality

Credit Risk Management

We manage credit risk by observing written, board approved policies that govern all underwriting activities. Our Chief Credit Officer ("CCO") is responsible for credit underwriting as well as management of classified and criticized assets for the Bank. The role of CCO includes on-going review and development of lending policies, commercial credit analysis, centralized consumer underwriting, loan operations documentation and funding, and overall credit risk management procedures. The current risk management process requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by the loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. We believe the conservative nature of our underwriting practices has resulted in strong credit quality in our loan portfolio. Completed loan applications, credit bureau reports, financial statements, and a committee approval process remain a part of credit decisions. Documentation of the loan decision process is required on each credit application, whether approved or denied, to ensure thorough and consistent procedures. Additionally, we have historically recognized and disclosed significant problem loans quickly and taken prompt action to address material weaknesses in those credits.

Our loan review process also includes monitoring and reporting of loan concentrations whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At December 31, 2016, one industry segment concentration, the oil and gas

industry, aggregated more than 10% of our loan portfolio. We define an energy loan as any loan where the borrower's ability to repay is disproportionately impacted

by a prolonged downturn in energy prices. Under this definition, the Bank includes direct C&I loans to energy borrowers, as well as CRE loans, Residential Real Estate loans and loans to energy-related borrowers where the loan's primary collateral is cash and marketable securities. Although this definition has resulted in a lack of comparability with some other energy-related banks, management believes it to be the prudent approach to monitoring and managing the Bank's energy exposure. Our exposure in the oil and gas industry, as defined above, totaled approximately $237.4 million, or 18.5% of total loans. The average loan size is approximately $458,000, and the average loan size per relationship is roughly $609,000. Of the $237.4 million to borrowers in the oil and gas industry, $31.9 million or 13.4% were on nonaccrual status at December 31, 2016. We are closely monitoring the effects of the sharp decline in oil prices on our energy related loan portfolio. MidSouth Bank began as an energy lender during the oil downturn of the 1980’s and we have a strong thirty year track record of lending to this industry. We continue to communicate with our customers who provide valuable insight on the present energy cycle. In light of the downturn in oil prices, we expensed provisions during the last three years to establish a special reserve for potential future energy loan losses that have not yet been identified. We felt it was a prudent risk management strategy to establish a reserve of $2.5 million. During the fourth quarter of 2016, $2.0 million of the reserve was used to partially offset a $2.9 million energy-related impairment identified during the fourth quarter of 2016. At December 31, 2016, the balance in this reserve totaled $500,000. Combined with $11.1 million in specific and general reserves allocated to energy-related loans, the energy reserve as a percentage of total energy loans was 4.9% at December 31, 2016. Energy-related charge-offs during 2016 totaled $1.6 million.

We also monitor our exposure to CRE loans. At December 31, 2016, CRE loans (including commercial construction and multifamily loans) totaled approximately $559.4 million, 48% of which are secured by owner-occupied commercial properties. Our non-owner occupied CRE loans as a percentage of our risk-based capital totaled 136% at December 31, 2016. A total of $28.7 million, or 5.1%, in loans secured by commercial real estate was on nonaccrual status at December 31, 2016.

Nonperforming Assets

Table 10 contains information about nonperforming assets, including loans past due 90 days or greater (“90 days or >”) and still accruing.

Table 10
Asset Quality Information
December 31,
(dollars in thousands)

	2016	2015	2014	2013	2012
Loans on nonaccrual	$62,580	$50,051	$10,701	$5,099	$8,276
Loans past due 90 days or > and still accruing	268	147	187	178	1,986
Total nonperforming loans	62,848	50,198	10,888	5,277	10,262
Other real estate owned	2,175	4,187	4,234	6,687	7,496
Other assets repossessed	16	38	—	20	151
Total nonperforming assets	$65,039	$54,423	$15,122	$11,984	$17,909
Troubled debt restructurings, accruing (1)	$152	$164	$176	$179	$3,905
Nonperforming loans to total loans + ORE + other foreclosed assets	5.06 %	4.29 %	1.17 %	1.05 %	1.70 %
Nonperforming assets to total assets	3.35 %	2.82 %	0.78 %	0.65 %	0.97 %
ALLL to nonperforming loans	38.78 %	37.87 %	103.10 %	166.36 %	71.82 %
ALLL to total loans	1.90 %	1.50 %	0.87 %	0.77 %	0.70 %

(1) Does not include $25.1 million, $20.9 million, $234,000, $233,000 and $232,000 of TDRs reported in nonaccrual loans at December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

Nonperforming assets totaled $65.0 million at December 31, 2016, an increase of $10.6 million over the $54.4 million reported for year-end 2015. The increase resulted from a $12.5 million increase in nonaccrual loans, which included the addition of three CRE relationships totaling $9.0 million unrelated to energy that were placed on nonaccrual status during the year and two energy related credit relationships totaling $8.1 million that were placed on nonaccrual status during 2016. The allowance coverage for nonperforming loans increased during 2016, from 37.87% at December 31, 2015 to 38.78% at December 31, 2016. Classified assets, including ORE, increased $57.6 million or 75.2%, from $76.6 million at December 31, 2015 to $134.2 million at December 31, 2016. The increase in classified assets was primarily due to the downgrades of several energy-related credits during 2016. Year-to-date net charge-offs were 0.41% of average total loans as of December 31, 2016 compared to 0.47% as of December

31, 2015. The ALL/total loans ratio improved by 40 basis points to 1.90% at December 31, 2016 compared to 1.50% at December 31, 2015 as a result of a $10.6 million provision for loan losses recorded during the year ended December 31, 2016.

Loans classified as TDRs totaled $25.3 million at December 31, 2016 compared to $21.0 million at December 31, 2015. These totals included $25.1 million and $20.9 million, respectively, of loans reported in nonaccrual loans. Additional information regarding impaired loans and TDRs is included in the notes to the consolidated financial statements.

Consumer and commercial loans are placed on nonaccrual status when principal or interest is 90 days past due, or sooner if the full collectibility of principal or interest is doubtful, except if the underlying collateral fully supports both the principal and accrued interest and the loan is in the process of collection. Our policy provides that retail (consumer) loans that become 120 days delinquent be routinely charged off. Loans classified for regulatory purposes but not included in Table 10 do not represent material amounts that we have serious doubts as to the ability of the borrower to comply with loan repayment terms. Further information regarding loan policy is provided in the notes to the consolidated financial statements.

Allowance for Loan Losses

Provisions totaling $10.6 million, $13.9 million, and $5.6 million, for the years 2016, 2015, and 2014, respectively, were considered necessary to bring the allowance for loan losses to a level we believe sufficient to cover probable losses in the loan portfolio. In light of the downturn in oil prices, we established a special reserve during fourth quarter of 2014 for potential future energy loan losses that have not yet been identified. Table 11 analyzes activity in the allowance for 2016, 2015, 2014, 2013, and 2012.

Table 11
Summary of Loan Loss Experience
For the Year Ended December 31,
(dollars in thousands)

	2016	2015	2014	2013	2012
Balance at beginning of year	$19,011	$11,226	$8,779	$7,370	$7,276
Charge-offs:					
Commercial, financial, and agricultural	4,366	4,936	2,843	935	1,054
Real estate – construction	—	105	1	—	—
Real estate – commercial	218	183	93	18	550
Real estate – residential	24	87	273	129	126
Installment loans to individuals	1,407	1,263	706	824	526
Lease financing receivable	—	—	—	—	—
Other	—	—	—	—	—
Total charge-offs	6,015	6,574	3,916	1,906	2,256
Recoveries:					
Commercial, financial, and agricultural	459	235	164	80	181
Real estate – construction	—	3	—	8	18
Real estate – commercial	123	26	407	29	1
Real estate – residential	5	12	47	39	2
Installment loans to individuals	189	183	120	109	98
Lease financing receivable	—	—	—	—	—
Other	—	—	—	—	—
Total recoveries	776	459	738	265	300
Net charge-offs	5,239	6,115	3,178	1,641	1,956
Additions to allowance charged to operating expenses	10,600	13,900	5,625	3,050	2,050

Balance at end of year	$24,372	$19,011	$11,226	$8,779	$7,370
Net charge-offs to average loans	0.41 %	0.47 %	0.26 %	0.15 %	0.26 %
Year-end allowance to year-end loans	1.90 %	1.50 %	0.87 %	0.77 %	0.70 %

Table 12
Allocation of Loan Loss by Category
December 31,
(dollars in thousands)

	2016		2015		2014		2013		2012	
	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans
Commercial, financial, and agricultural	$16,057	35.8	$11,268	35.9	$5,729	36.4	$3,906	35.5	$1,535	30.1
Real estate - construction	585	7.8	819	5.9	954	5.3	1,046	7.3	2,147	7.2
Real estate - commercial	5,384	37.5	4,614	37.3	2,402	36.4	1,389	34.9	2,166	39.6
Real estate - residential	940	12.3	816	11.8	810	12.0	1,141	12.9	936	13.6
Installment loans to individuals	1,395	6.4	1,468	8.8	1,311	9.3	1,273	8.6	543	8.7
Lease financing receivable	5	0.1	14	0.2	16	0.4	21	0.5	41	0.6
Other	6	0.1	12	0.1	4	0.2	3	0.3	2	0.2
	$24,372	100.0	$19,011	100.0	$11,226	100.0	$8,779	100.0	$7,370	100.0

Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The allowance is comprised of specific reserves assigned to each impaired loan for which probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the allowance, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. Additional information regarding the allowance for loan losses is included in the notes to the consolidated financial statements.

Funding Sources

Deposits
As of December 31, 2016, total deposits increased $28.6 million, or 1.8%, to $1.6 billion following a decrease of $34.4 million in 2015. Noninterest-bearing deposits increased $40.7 million to $414.9 million and represented 26.3% of total deposits at December 31, 2016, compared to 24.1% at December 31, 2015 and 24.7% at December 31, 2014. Interest-bearing deposits in money market and savings accounts increased $8.4 million and NOW account deposits decreased $2.9 million. Time deposits, which are comprised mostly of certificates of deposits (“CDs”), decreased $17.6 million in 2016. The decrease in total deposits during 2015 resulted primarily from decreases of $81.7 million and $16.6 million in time deposits and noninterest-bearing deposits, respectively. These decreases were partially offset by an increase of $58.2 million in money market and savings accounts and a $5.7 million increase in NOW accounts. Core deposits, defined as all deposits other than time deposits, remained strong at 90.4% of total deposits at year-end 2016 compared to 89.1% of total deposits at year-end 2015. Core deposits totaled 84.1% of total deposits at year-end 2014. To manage the net interest margin and core deposit balances, we typically offer low- to mid-market rates on CDs. Additional information on deposits appears in the tables below and in the notes to the consolidated financial statements.

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Table 13
Summary of Average Deposits
(in thousands)

	2016		2015		2014	
	Average Amount	Average Yield	Average Amount	Average Yield	Average Amount	Average Yield
Noninterest-bearing demand deposits	$390,585	—	$405,571	—	$386,664	—
Interest-bearing deposits:						
Savings, NOW, and money market	1,014,772	0.29 %	943,615	0.23 %	921,631	0.23 %
Time deposits	161,926	0.46 %	226,188	0.61 %	228,856	0.60 %
Total	$1,567,283	0.23 %	$1,575,374	0.23 %	$1,537,151	0.23 %

Table 14
Maturity Schedule Time Deposits of $250,000 or More
December 31,
(in thousands)

	2016	2015	2014
3 months or less	$9,785	$10,765	$11,795
Over 3 months through 6 months	7,730	8,689	9,098
Over 6 months through 12 months	9,052	10,932	59,642
Over 12 months	5,244	7,059	4,534
Total	$31,811	$37,445	$85,069

Borrowed Funds

As of December 31, 2016, we had securities sold under repurchase agreements totaling $94.5 million and no federal funds purchased. At December 31, 2015, we had $86.0 million in securities sold under repurchase agreements and no federal funds purchased. Retail repurchase agreements, included in securities sold under agreements to repurchase, increased $8.5 million, from $73.5 million at December 31, 2015 to $82.0 million at December 31, 2016. Also included in securities sold under agreements to repurchase is a $12.5 million reverse repurchase agreement we entered into with Citigroup Markets, Inc. ("CGMI") in July of 2007 to meet liquidity demands. Under the terms of the agreement, interest is payable at a fixed rate of 4.57% for the remainder of the term. The repurchase date is scheduled for August 9, 2017; however, the agreement is subject to call by CGMI quarterly.

Long-term FHLB-Dallas advances totaled $25.4 million, compared to $25.9 million at December 31, 2015. The long-term advances are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from January 2017 to January 2019. The short-term FHLB-Dallas advance totaled $25.0 million at December 31, 2015. There were no short-term FHLB-Dallas advances outstanding at December 31, 2016. The short-term FHLB-Dallas advance at December 31, 2015 consisted of one advance with a maturity of 4 months at a fixed interest rate of 0.30%. The FHLB advances are collateralized by a blanket lien on first mortgages and other qualifying loans.

A description of the junior subordinated debentures outstanding as of December 31, 2016 is as follows:

Table 15
Junior Subordinated Debentures
(dollars in thousands)

Date Issued	Maturity Date	Interest Rate	Callable After	Amount
July 31, 2001	July 9, 2031	3 month LIBOR plus 3.30%	July 31, 2006	$5,671
September 20, 2004	September 20, 2034	3 month LIBOR plus 2.50%	September 20, 2009	8,248
October 12, 2006	October 12, 2036	3 month LIBOR plus 1.85%	June 26, 2011	5,155
June 21, 2007	June 21, 2037	3 month LIBOR plus 1.70%	June 15, 2012	3,093

$22,167

During 2014, we paid off the $7.2 million junior subordinated debenture that was issued in February 2001. The early redemption of the 10.20% fixed rate junior subordinated debentures resulted in an after-tax charge of $168,000 in the third quarter of 2014.

Our outstanding debentures currently qualify as Tier 1 capital and are presented in the Consolidated Balance Sheets as junior subordinated debentures. Additional information regarding long-term debt is provided in the notes to the consolidated financial statements.

Regulations adopted as a result of the Dodd-Frank Act have resulted in changes to the regulatory capital treatment of securities similar to our debentures. However, because of the issue date of our debentures and our asset size, we are allowed to continue to include the debentures in our Tier 1 capital.

In 2016, 2015, and 2014, we did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or FRB discount window that exceeded 30% of our stockholders' equity for such year.

Capital

As described under "Business - Supervision and Regulation," we are required to maintain certain minimum capital levels for the Company and the Bank. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. In July 2013, the Federal Reserve and the OCC issued final rules establishing a new comprehensive capital framework for U.S. banking organizations that implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. Details regarding the final rule and changes to capital requirements and prompt corrective action thresholds are included under Part I, Item 1 – Business, Supervision and Regulation. The final rules became effective as of January 1, 2015, for most banking organizations including the Company and the Bank, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Requirements to maintain higher levels of capital could adversely impact our return on equity. We believe we will continue to exceed all estimated well-capitalized regulatory requirements under these new rules on a fully phased-in basis.

At December 31, 2016, the Company and the Bank were in compliance with statutory minimum capital requirements. Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 6.0%, common equity Tier 1 capital not less than 4.5% and a leverage ratio (Tier 1 capital to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of December 31, 2016, the Company's leverage ratio was 10.11% compared to 10.10% at December 31, 2015. Tier 1 capital to risk weighted assets was 13.02% and 13.25% for 2016 and 2015, respectively. Total capital to risk weighted assets was 14.28% and 14.50%, respectively, for the same periods. Common equity Tier 1 capital to risk weighted assets was 8.81% and 8.91%, respectively, for the same periods. For regulatory purposes, Tier 1 Capital includes $21.5 million of the junior subordinated debentures issued by the Company. For financial reporting purposes, these funds are included as a liability under GAAP. The Bank's leverage ratio was 9.32% and 9.36% at December 31, 2016 and 2015, respectively.

The FDIC Improvement Act of 1991 established a capital-based supervisory system for all insured depository institutions that imposes increasing restrictions on the institution as its capital deteriorates. The Bank was classified as "well capitalized" as of December 31, 2016. No significant restrictions are placed on the Bank as a result of this classification.

As discussed under the heading Balance Sheet Analysis - Securities, $2.5 million in unrealized losses on securities available-for-sale, less a deferred tax asset of $890,000, was recorded as a reduction to stockholders' equity as of

December 31, 2016. In addition, the effective portion of the gain or loss of our derivative instruments designated as cash flow hedges is recorded as a component of other comprehensive income. As of December 31, 2016, a $989,000 gain on our derivative instruments designated as cash flow hedges, less a deferred tax liability of $346,000, was recorded as an addition to stockholders' equity. As of December 31, 2015, $784,000 in unrealized gains on securities available-for-sale, less a deferred tax liability of $275,000, was recorded as an addition to stockholders’ equity. While the net unrealized gain or loss on securities available-for-sale and the fair vale of derivative instruments designated as cash flow hedges are required to be reported as a separate component of stockholders' equity, they do not affect operating results or regulatory capital ratios. The net unrealized gains and losses reported for December 31, 2016 and 2015, however, did affect the equity-to-assets ratio for financial reporting purposes. The ratio of equity-to-assets was 11.03% at December 31, 2016 and 11.06% at December 31, 2015.

Asset/Liability Management and Interest Rate Sensitivity

Interest rate sensitivity is the sensitivity of net interest income and economic value of equity to changes in market rates of interest. The primary objective of our asset and liability management process is to evaluate interest rate sensitivity inherent in our balance sheet components and establish guidelines to manage that risk within acceptable performance levels. Management and our Board of Directors are responsible for determining the appropriate level of acceptable risk based on our strategic focus, regulatory requirements for capital and liquidity, and the market environment. Our Board of Directors established an Asset/Liability management committee ("ALCO"), comprised of certain executive and senior officers of the Bank, to measure and monitor interest rate risk within defined parameters. We utilize an external model for asset and liability management from our core processor. The model captures data directly from our operating system along with additional information regarding rates and prepayment characteristics to construct an analysis that presents differences in repricing, cash flows and the maturity characteristics of earning assets and interest-bearing liabilities for selected time periods.

This data, combined with additional assumptions including repricing rates and payment characteristics, were used to perform instantaneous parallel rate shift, gradual parallel rate shift, and alternate rate shift simulations. Instantaneous parallel rate shifts are known as "rate shocks" because all rates are modeled to change instantaneously by the indicated shock amount. Gradual parallel rate shifts are called "Ramps" and reflect incremental rate increases over a 12 month period. Alternate rate shifts include floor rates that generally provide more realistic projections of changes in net interest income and market risk, although given the current low rate environment deposits costs are overstated in a down 100 basis point scenario as the model does not currently allow for negative interest rates. Results of the simulations were compared to a base case scenario that provided projected net interest income over the next 12 months with no change in the balance sheet. The estimated percentage changes in projected net interest income due to changes in interest rates of alternate down 100 basis points, ramp up 100, parallel up 200, and up 300 basis points as determined through the simulations are detailed below. At December 31, 2016, the interest rate risk model results were within policy guidelines and indicated that our balance sheet is slightly liability sensitive. The results of the interest rate risk modeling are reviewed by ALCO and discussed quarterly at Funds Management committee meetings of our Board of Directors. The model captures data directly from our operating system along with additional information regarding rates and prepayment characteristics to construct an analysis that presents differences in repricing, cash flows and the maturity characteristics of earning assets and interest-bearing liabilities for selected time periods. As a result of an independent non-maturity deposit study commissioned in 2016, we updated our deposit beta assumptions, which are correlation assumptions between deposit rates and market rates, in rising rate scenarios on a consolidated basis from 40% to 60%. The actual deposit betas experienced in a rising rate scenario could be materially different from those assumed in the model, and therefore actual net income could be materially different from estimated net interest income indicated in the table below.

Net Interest Income at Risk in Year 1

Changes in Interest Rates	Estimated Increase / Decrease in NII at December 31, 2016
Shock Up 300 basis points	(8.00)%
Shock Up 200 basis points	(5.87)%
Ramp Up 100 basis points	(1.80)%
Alternate Down 100 basis points	(2.84)%

Liquidity

Bank Liquidity

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

Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. Our core deposits are our most stable and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately $73.9 million in projected cash flows from securities repayments during 2017 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB–Dallas. As of December 31, 2016, we had no borrowings with the FRB-Atlanta. Long-term FHLB-Dallas advances totaled $25.4 million at December 31, 2016 and are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from January 2017 to January

2019. The Bank has the ability to post additional collateral of approximately $144.6 million if necessary to meet liquidity needs. Additionally, $180.5 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled $240.9 million at December 31, 2016. Additional unsecured borrowing lines totaling $53.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity
In August 2011, the Company repaid $20.0 million in Series A Preferred Stock issued in 2009 to the Treasury under the CPP with funds from the Treasury's SBLF program authorized by Congress under the Small Business Jobs Act of 2010. As a result of the repurchase of the Series A Preferred Stock, all of the TARP limitations affecting the Company were removed. In connection with the SBLF transaction, the Company issued $32.0 million in Series B Preferred Stock to the Treasury. Net of $20.0 million used to repay the Series A Preferred Stock, the remaining $12.0 million was injected into the Bank as additional common equity capital. The dividend rate was set at 1.00% for the fourth quarter of 2013 due to attaining the target 10% growth rate in qualified small business loans during the second quarter of 2013. As a result of qualified small business loan growth as of September 30, 2013, the dividend rate was set at 1.00% for the period from January 1, 2014 through February 25, 2016. On February 25, 2016, the dividend rate increased to 9% per annum.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividend payments on the Series B and Series C Preferred Stock and dividends on the common stock. We issued $8,248,000 in unsecured junior subordinated debentures in September 2004 and $7,217,000 in February 2001. In August 2014, we paid off the $7.2 million junior subordinated debenture. In December 2012, we acquired $13.9 million in unsecured junior subordinated debentures from PSB Financial Corporation. The terms of the junior subordinated debentures are described in the notes to the consolidated financial statements. Dividends from the Bank totaling $9,000,000 provided additional liquidity for the Company to meet interest and dividend payments in 2016 and continued to build cash reserves for repayment of the Series B Preferred Stock in the future. The Series B Preferred Stock can be paid off in full or in $8 million increments with 30 days' notice to the Treasury and approval from the Federal Reserve Bank. Dividends totaling $9,000,000 were paid by the Bank to the Company in 2015. As of January 1, 2017, the Bank had the ability to pay dividends to the Company of approximately $8.8 million without prior approval from the OCC. At December 31, 2016, the parent company had approximately $16.7 million cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock, preferred stock and other securities to provide funds as needed for operations and future growth of the Company and the Bank.

Dividends
The primary source of cash dividends on the Company's common stock is dividends from the Bank. The Bank has the ability to declare dividends to the Company of up to $8.8 million as of December 31, 2016 without prior approval of the OCC. However, the Bank's ability to pay dividends would be prohibited if the result would cause the Bank's regulatory capital to fall below minimum requirements.

Cash dividends totaling $4.1 million and were declared to common stockholders during 2016 and 2015.

Off Balance Sheet Arrangements and Other Contractual Obligations
In the normal course of business we use various financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. We did not have an average balance in any category of short-term borrowings detailed below in 2016, 2015, or 2014 that exceeded 30% of our

stockholders' equity for such year. Additional information regarding contractual obligations appears in the notes to the consolidated financial statements. The following table presents significant contractual obligations as of December 31, 2016.

Table 16
Contractual Obligations
December 31, 2016
(in thousands)

	Payment due by period				
	Total	1 year or less	> 1-3 years	> 3-5 years	More than 5 years
Time deposits	$152,210	$115,515	$23,686	$13,007	$2
Long-term debt obligations	47,591	15,403	10,021	—	22,167
Retail repurchase agreements	81,961	81,961	—	—	—
Reverse repurchase agreements	12,500	12,500	—	—	—
Operating lease obligations	14,859	1,929	3,684	3,244	6,002
Total	$309,121	$227,308	$37,391	$16,251	$28,171

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, which generally require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are financial in nature. As a result, interest rates generally have a greater impact on our performance than do the effects of general levels of inflation. For additional information, see “Funding Sources – Asset Liability Management and Interest Rate Sensitivity.”

Non-GAAP Financial Measures

Certain financial information included in the Management’s Discussion and Analysis of Financial Condition and Results of Operations is determined by methods other than in accordance with GAAP. Table 17 below presents a reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures include “core net interest income”, “core net interest margin”, “diluted earnings per share, operating” and “operating earnings available to common shareholders”. “Core net interest income” is defined as net interest income excluding net purchase accounting adjustments. “Core net interest margin” is defined as core net interest income expressed as a percentage of average earnings assets. “Diluted earnings per share, operating” is defined as net earnings available to common shareholders adjusted for specified one-time items divided by diluted weighted-average shares. “Operating earnings available to common shareholders” is defined as net income available to common shareholders less tax-effected nonoperating income and expense items, including securities gains/losses.
We use non-GAAP measures because we believe they are useful for evaluating our financial condition and performance over periods of time, as well as in managing and evaluating our business and in discussions about our performance. We also believe these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial condition as well as comparison to financial results for prior periods. These results should not be viewed as a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures that other companies may use.

Table 17
Reconciliation of Non-GAAP Financial Measures
(in thousands except per share data)

		Year Ended December 31,		
		2016	2015	2014
Core Net Interest Margin				
Net interest income (FTE)		$74,362	$77,470	$79,071
Less purchase accounting adjustments		(1,857)	(2,342)	(3,647)
Core net interest income, net of purchase accounting adjustments	A	$72,505	$75,128	$75,424
Total average earning assets		$1,770,796	$1,783,824	$1,709,168
Add average balance of loan valuation discount		2,799	4,507	6,791
Average earnings assets, excluding loan valuation discount	B	$1,773,595	$1,788,331	$1,715,959
Core net interest margin	A/B	4.09%	4.20%	4.39%
Diluted Earnings Per Share, Operating				
Diluted earnings per share		$0.58	$0.90	$1.58
Effect of efficiency consultant expenses, after-tax		—	—	0.03
Effect of loss on disposal of fixed assets, after-tax		—	—	0.02
Effect of loss on redemption of Trust Preferred Securities, after-tax		—	—	0.02
Effect of gain on sale of other real estate, after-tax		—	—	(0.06)
Executive officer life insurance proceeds, net of related expenses, after-tax		—	—	(0.24)
Effect of net gain on sale of securities, after-tax		—	(0.07)	—
Effect of income from death benefit on bank owned life insurance		—	(0.01)	—
Diluted earnings per share, operating		$0.58	$0.82	$1.35
Operating Earnings Available to Common Shareholders				
Net earnings available to common shareholders		$6,578	$10,330	$18,412
Non-interest income adjustments:				
Effect of efficiency consultant expenses, after-tax		—	—	335
Effect of loss on disposal of fixed assets, after-tax		—	—	256
Effect of loss on redemption of Trust Preferred Securities, after-tax		—	—	168
Effect of gain on sale of other real estate, after-tax		—	—	(700)
Executive officer life insurance proceeds, net of related expenses, after-tax		—	—	(2,840)
Income from death benefit on bank owned life insurance		—	(160)	—
Net gain on sale of securities, after-tax		(13)	(808)	—
Operating earnings available to common shareholders		$6,565	$9,362	$15,631

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Information regarding market risk appears under the heading “Funding Sources – Asset Liability Management and Interest Rate Sensitivity” under Item 7 – Management’s Discussion and Analysis of Financial Position and Results of Operations included in this filing.

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Item 8 – Financial Statements and Supplementary Data

Consolidated Balance Sheets
December 31, 2016 and 2015
(dollars in thousands, except share data)

	2016	2015
Assets		
Cash and due from banks, including required reserves of $6,669 and $8,522, respectively	$31,687	$37,170
Interest-bearing deposits in banks	47,091	48,331
Federal funds sold	3,450	3,700
Securities available-for-sale, at fair value (cost of $344,416 and $317,375 at December 31, 2016 and 2015, respectively)	341,873	318,159
Securities held-to-maturity (estimated fair value of $98,261 and $117,698 at December 31, 2016 and 2015, respectively)	98,211	116,792
Other investments	11,355	11,188
Loans	1,284,082	1,263,645
Allowance for loan losses	(24,372)	(19,011)
Loans, net	1,259,710	1,244,634
Bank premises and equipment, net	68,954	69,105
Accrued interest receivable	7,576	6,594
Goodwill	42,171	42,171
Intangibles	4,621	5,728
Cash surrender value of life insurance	14,335	13,622
Other real estate	2,175	4,187
Other assets	10,131	6,352
Total assets	$1,943,340	$1,927,733
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$414,921	$374,261
Interest-bearing	1,164,509	1,176,589
Total deposits	1,579,430	1,550,850
Securities sold under agreements to repurchase	94,461	85,957
Short-term Federal Home Loan Bank advances	—	25,000
Long-term Federal Home Loan Bank advances	25,424	25,851
Junior subordinated debentures	22,167	22,167
Other liabilities	7,482	4,771
Total liabilities	1,728,964	1,714,596
Commitments and contingencies		
Stockholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at December 31, 2016 and 2015	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,098 and 91,200 shares issued and outstanding at December 31, 2016 and 2015, respectively	9,110	9,120
Common stock, $0.10 par value; 30,000,000 shares authorized, 11,362,716 and 11,362,150 shares issued and outstanding at December 31, 2016 and 2015, respectively	1,136	1,136
Additional paid-in capital	111,166	110,771

Unearned ESOP shares	(1,233)	(1,093)
Accumulated other comprehensive (loss) income	(1,010)	509
Retained earnings	63,207	60,694
Total stockholders' equity	214,376	213,137
Total liabilities and stockholders' equity	$1,943,340	$1,927,733

See notes to consolidated financial statements.

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Consolidated Statements of Earnings
Years Ended December 31, 2016, 2015 and 2014
(in thousands, except per share data)

	2016	2015	2014
Interest income:			
Loans, including fees	$68,682	$71,633	$72,327
Investment securities:			
Taxable	7,924	7,559	8,100
Nontaxable	1,756	2,188	2,637
Other interest income	766	517	423
Total interest income	79,128	81,897	83,487
Interest expense:			
Deposits	3,654	3,587	3,515
Short-term borrowings	966	1,017	840
Long-term borrowings	366	364	378
Junior subordinated debentures	704	613	1,074
Total interest expense	5,690	5,581	5,807
Net interest income	73,438	76,316	77,680
Provision for loan losses	10,600	13,900	5,625
Net interest income after provision for loan losses	62,838	62,416	72,055
Noninterest income:			
Service charges on deposit accounts	9,612	9,523	9,780
ATM and debit card income	6,579	6,463	7,209
Gain on securities, net	20	1,243	128
Executive officer life insurance proceeds	—	—	3,000
Other charges and fees	2,797	3,092	2,843
Total noninterest income	19,008	20,321	22,960
Noninterest expenses:			
Salaries and employee benefits	32,932	32,036	33,847
Occupancy expense	14,630	15,052	15,064
ATM and debit card expense	3,239	2,951	2,889
Other	17,749	17,098	16,747
Total noninterest expense	68,550	67,137	68,547
Income before income taxes	13,296	15,600	26,468
Income tax expense	3,857	4,583	7,358
Net earnings	9,439	11,017	19,110
Dividends on preferred stock	2,861	687	698
Net earnings available to common stockholders	$6,578	$10,330	$18,412
Earnings per common share:			
Basic	$0.58	$0.91	$1.63
Diluted	$0.58	$0.90	$1.58

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016, 2015 and 2014
(in thousands)

	2016	2015	2014
Net earnings	$9,439	$11,017	$19,110
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on securities available-for-sale:			
Unrealized holding (losses) gains arising during the year	(3,307)	(2,369)	4,687
Less: reclassification adjustment for net gains on sales of securities available-for-sale	(20)	(1,243)	(128)
Unrealized (losses) gains on securities available-for-sale	(3,327)	(3,612)	4,559
Fair value of derivative instruments designated as cash flow hedges:			
Change in fair value of derivative instruments designated as cash flow hedges during the year	989	—	—
Total other comprehensive (loss) income, before tax	(2,338)	(3,612)	4,559
Income tax effect related to items of other comprehensive (loss) income	819	1,264	(1,596)
Total other comprehensive (loss) income, net of tax	(1,519)	(2,348)	2,963
Total comprehensive income	$7,920	$8,669	$22,073

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2016, 2015 and 2014
(in thousands, except share and per share data)

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Surplus	Unearned ESOP Shares	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Retained Earnings	Total
Balance December 31, 2013	131,971	$41,997	11,407,196	$1,141	$111,017	$—	$(106)	$(3,286)	$39,986	$190,749
Net earnings	—	—	—	—	—	—	—	—	19,110	19,110
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(320)	(320)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(378)	(378)
Dividends on common stock - $0.35 per share	—	—	—	—	—	—	—	—	(3,959)	(3,959)
Conversion of Series C preferred stock to common stock	(6,291)	(629)	34,947	3	626	—	—	—	—	—
	—	—	—	—	—	—	—	(9)	—	(9)

Treasury stock acquired at cost										
Exercise of stock options	—	—	49,560	5	638	—	—	—	—	643
Tax benefit resulting from exercise of stock options, net adjustment	—	—	—	—	21	—	—	—	—	21
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(250)	—	—	—	(250)
Stock option expense	—	—	—	—	442	—	—	—	—	442
Change in accumulated other comprehensive income/loss	—	—	—	—	—	—	2,963	—	—	2,963
Balance December 31, 2014	125,680	41,368	11,491,703	1,149	112,744	(250)	2,857	(3,295)	54,439	209,012
Net earnings	—	—	—	—	—	—	—	—	11,017	11,017
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(320)	(320)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(367)	(367)
Dividends on common stock - $0.36 per share	—	—	—	—	—	—	—	—	(4,075)	(4,075)
Conversion of Series C preferred stock to common stock	(2,480)	(248)	13,759	1	247	—	—	—	—	—
Reclassification of treasury stock per the LCBA	—	—	(150,967)	(15)	(3,280)	—	—	3,295	—	—
Exercise of stock options	—	—	7,655	1	98	—	—	—	—	99
Tax benefit resulting from distribution from Directors Deferred Compensation	—	—	—	—	420	—	—	—	—	420

Plan										
Tax benefit for dividends paid to the ESOP	—	—	—	—	187	—	—	—	—	187
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(843)	—	—	—	(843)
Stock option and restricted stock compensation expense	—	—	—	—	355	—	—	—	—	355
Change in accumulated other comprehensive income/loss	—	—	—	—	—	—	(2,348)	—	—	(2,348)
Balance December 31, 2015	123,200	41,120	11,362,150	1,136	110,771	(1,093)	509	—	60,694	213,137
Net earnings	—	—	—	—	—	—	—	—	9,439	9,439
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(2,496)	(2,496)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(365)	(365)
Dividends on common stock - $0.36 per share	—	—	—	—	—	—	—	—	(4,065)	(4,065)
Conversion of Series C preferred stock to common stock	(102)	(10)	566	—	10	—	—	—	—	—
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	—	—	—	—	127	—	—	—	—	127
Tax benefit for dividends paid to the ESOP	—	—	—	—	154	—	—	—	—	154
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(140)	—	—	—	(140)

Stock option and restricted stock compensation expense	—	—	—	—	210	—	—	—	—	210
ESOP compensation expense	—	—	—	—	(106)	—	—	—	—	(106)
Change in accumulated other comprehensive income/loss	—	—	—	—	—	—	(1,519)	—	—	(1,519)
Balance December 31, 2016	123,098	$41,110	11,362,716	$1,136	$111,166	$(1,233)	$(1,010)	$—	$63,207	$214,376

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2016, 2015 and 2014
(in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net earnings	$9,439	$11,017	$19,110
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	5,920	6,168	6,062
Accretion of purchase accounting adjustments	(750)	(1,235)	(2,540)
Provision for loan losses	10,600	13,900	5,625
Deferred tax benefit	(1,582)	(1,785)	(1,489)
Amortization of premiums on securities, net	2,963	2,815	3,047
(Accretion) amortization of other investments	—	(1)	3
Net loss (gain) on sale of other real estate	57	1	(1,061)
Net write down of other real estate owned	130	111	91
Net (gain) loss on sale/disposal of premises and equipment	(35)	(24)	182
Income recognized from death benefit on bank owned life insurance	—	(160)	—
Stock-based compensation expense	210	355	442
Tax benefit from exercise of stock options	—	—	(21)
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	(127)	(420)	—
Tax benefit for dividends paid to ESOP	(154)	(187)	—
Excess of book value over market value of ESOP shares released	(106)	—	—
Gain on sale and liquidation of securities available-for-sale	(20)	(1,243)	(128)
Change in accrued interest receivable	(982)	41	57
Change in accrued interest payable	(9)	(114)	(234)
Change in other assets and liabilities, net	1,289	(54)	612
Net cash provided by operating activities	26,843	29,185	29,758
Cash flows from investing activities:			
Proceeds from maturities and calls of securities available-for-sale	68,696	70,934	48,464
Proceeds from maturities and calls of securities held-to-maturity	17,589	23,288	14,344
Proceeds from sale of securities available-for-sale	6,803	40,277	22,153
Purchases of securities available-for-sale	(104,491)	(156,449)	(1,250)
Purchases of securities held-to-maturity	—	—	(1,104)
Proceeds from redemption of other investments	600	2,180	150
Purchases of other investments	(767)	(3,377)	(580)
Redemption of Capital Securities related to MidSouth Statutory Trust I	—	—	217
Proceeds from bank owned life insurance death benefit	—	498	—
Net change in loans	(25,698)	14,480	(147,642)
Purchases of premises and equipment	(5,823)	(5,374)	(5,588)
Proceeds from sale of premises and equipment	89	83	1,729
Proceeds from sale of other real estate owned	3,170	1,514	3,794
Purchase of other real estate owned	—	(351)	—
Net cash used in investing activities	(39,832)	(12,297)	(65,313)
Cash flows from financing activities:			
Change in deposits	28,615	(34,285)	66,679
Change in securities sold under agreements to repurchase	8,504	23,859	8,182
Borrowings on Federal Home Loan Bank advances	25,000	150,000	120,000
Repayments of Federal Home Loan Bank advances	(50,068)	(150,064)	(120,061)
Repayments of notes payable	—	—	(1,000)

Redemption of MidSouth Statutory Trust I	—	—	(7,217)
Proceeds from exercise of stock options	—	99	643
Tax benefit from exercise of stock options	—	—	21
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	127	420	—
Tax benefit for dividends paid to ESOP	154	187	—
Purchase of treasury stock	—	—	(9)
Payment of dividends on preferred stock	(2,221)	(689)	(704)
Payment of dividends on common stock	(4,095)	(4,086)	(3,838)
Net cash provided by (used in) financing activities	6,016	(14,559)	62,696
Net (decrease) increase in cash and cash equivalents	(6,973)	2,329	27,141
Cash and cash equivalents, beginning of year	89,201	86,872	59,731
Cash and cash equivalents, end of year	$82,228	$89,201	$86,872

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2016, 2015 and 2014
(in thousands)

	2016	2015	2014
Supplemental cash flow information:			
Interest paid	$5,700	$5,695	$6,041
Income taxes paid	4,473	6,641	8,065
Noncash investing and financing activities:			
Change in accrued common stock dividends	—	(10)	121
Change in accrued preferred stock dividends	640	(3)	(6)
Net change in loan to ESOP	(140)	(843)	(250)
Change in unrealized gains/losses on securities available-for-sale, net of tax	(2,162)	(2,348)	2,963
Transfer of loans to other real estate	1,345	1,228	447
Financed portion of sales of other real estate	—	—	84

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2016, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements include the accounts of MidSouth Bancorp, Inc. (the "Company") and its wholly owned subsidiaries MidSouth Bank, N.A. (the "Bank"), Financial Services of the South, Inc. (the "Finance Company"), which has liquidated its loan portfolio, and Peoples General Agency ("PGA"). All significant intercompany accounts and transactions have been eliminated in consolidation. We are subject to regulation under the Bank Holding Company Act of 1956. The Bank is primarily regulated by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC").

We are a financial holding company headquartered in Lafayette, Louisiana operating principally in the community banking business by providing banking services to commercial and retail customers through the Bank. The Bank is community oriented and focuses primarily on offering competitive commercial and consumer loan and deposit services to individuals and small to middle market businesses in Louisiana and central and east Texas.

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 with general practices within the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, the assessment of goodwill for impairment, and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income. Given the current instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses, losses on other real estate owned, goodwill impairment, and other fair value measurements could change in the near term or could result in impairment going forward.

A summary of significant accounting policies follows:

Cash and cash equivalents—Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in other banks with original maturities of less than 90 days, and federal funds sold.

Investment Securities—We determine the appropriate classification of debt securities at the time of purchase and reassesses this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Securities not classified as held-to-maturity or trading are classified as available-for-sale. We had no trading account securities during the three years ended December 31, 2016. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholders' equity.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Amortization, accretion, and accrued interest are included in interest income on securities. Realized gains and losses on the sale of securities available-for-sale are included in earnings and are determined using the specific-identification method.

Management evaluates investment securities for other than temporary impairment on a quarterly basis. A decline in the fair value of available-for-sale and held-to-maturity securities below cost that is deemed other than temporary is charged to earnings for a decline in value deemed to be credit related and a new cost basis for the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Other Investments—Other investments include Federal Reserve Bank and Federal Home Loan Bank stock, as well as other correspondent bank stocks and our CRA investment, which have no readily determined market value and are carried at cost. Due to the redemption provisions of the investments, the fair value equals cost and no impairment exists.

Loans—Loans that we have the intent and ability to hold for the foreseeable future or until maturity are reported at the principal amount outstanding, net of the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on commercial and real estate mortgage loans is calculated by using the simple interest method on the daily balance of the principal amount outstanding. Unearned income on installment loans is credited to operations based on a method which approximates the interest method. In-house legal counsel and the collections department are responsible for validating loans past due for reporting purposes. Once loans are determined to be past due, the collections department actively works with customers to bring loans back to current status.

We consider a loan to be impaired when, based upon current information and events, we believe it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans classified as special mention, substandard, or doubtful, based on credit risk rating factors, are reviewed for potential impairment. Our impaired loans include troubled debt restructurings and performing and nonperforming major loans in which full payment of principal or interest is not expected. Although our policy requires that non-major homogenous loans, which include all loans under $250,000, be evaluated on an overall basis, our current volume of impaired loans allows us to evaluate each impaired loan individually. We calculate the allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan may be impaired but not on nonaccrual status when available information suggests that it is probable the Bank may not receive all contractual principal and interest, however, the loan is still current and payments are received in accordance with the terms of the loan. Payments received for impaired loans not on nonaccrual status are applied to principal and interest.

All impaired loans are reviewed, at minimum, on a quarterly basis. Reviews may be performed more frequently if material information is available before the next scheduled quarterly review. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. After this review, when comparing the resulting collateral valuation to the outstanding loan balance, if the discounted collateral value exceeds the loan balance no specific allocation is reserved. All loans included in our impairment analysis are subject to the same procedure and review, with no distinction given to the dollar amount of the loan.

Our Special Assets Committee meets monthly to review loans with adverse classifications. Loan officers, loan review officers, and in-house legal counsel contribute updated information on each credit, reviewing potential declines or improvements in the borrower's repayment ability and our collateral position. If deterioration in our collateral position is determined, additional discounts may be applied to the impairment analysis before the new appraisal is received. The committee makes a determination of whether the loans reviewed have reached a point of collateral dependency and sufficient doubt exists as to collectibility. As a matter of policy, loans are placed on nonaccrual status when, in the judgment of committee members, the probability of collection of interest is deemed insufficient to warrant further accrual. For loans placed on nonaccrual status, the accrual of interest is discontinued and subsequent payments received are applied to the principal balance. Interest income is recorded after principal has been satisfied and as payments are received. Additionally, loans may be placed on nonaccrual status when the loan becomes 90 days past due and any of the following conditions exist: it becomes evident that the borrower will not make payments or will not or cannot meet the Bank's terms for the renewal of a matured loan, full repayment of principal and interest is not expected, the loan has a credit risk rating of substandard, the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or foreclosure action is initiated. When a loan is placed on nonaccrual status, previously accrued but unpaid interest for the current year is deducted from interest income. Prior year unpaid interest is charged to the allowance for loan losses. Some loans may continue accruing after 90 days if the loan is in the process of renewing, being paid off, or the underlying collateral fully supports both the principal and accrued interest and the loan is in the process of collection.

Nonaccrual loans may be returned to accrual status if all principal and interest amounts contractually owed are reasonably assured of repayment within a reasonable period and there is a period of at least six months to one year of repayment performance by the borrower depending on the contractual payment terms. When loans are returned to accrual status, interest income that was previously applied to the principal balance is not reversed but is recognized into interest income as an adjustment to the yield over the remaining life of the loan. Our Special Assets Committee must approve the return of loans to accrual status as well as exceptions to any requirements of the non-accrual policy.

Generally, commercial, financial, and agricultural loans; construction loans; commercial real estate loans; consumer loans; and finance leases which become 90 days delinquent are either in the process of collection through repossession or foreclosure or are deemed currently uncollectible. The portion of loans deemed currently uncollectible, due to insufficient collateral, are charged-off against the allowance for loan losses. All loans requested to be charged-off must be specifically authorized by in-house legal counsel and the CEO. Requests may be initiated by collection personnel, bank counsel, loan review, and lending personnel.

Charge-offs will be reviewed by in-house legal counsel and the CEO to ensure the propriety and accuracy of charge-off recommendations. Factors considered when determining loan collectibility and amount to be charged off for all segments in our loan portfolio include delinquent principal or interest repayment, the ability of borrower to make future payments, collateral value of outstanding debt, and the adequacy of guarantors support. It is the responsibility of in-house legal counsel to report all charge-offs to the Board of Directors or its designated Committee for ratification.

Credit Risk Rating—We manage credit risk by observing written underwriting standards and lending policy established by the Board of Directors and management to govern all lending activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by a loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. Additionally, Bank concentrations are monitored and reported quarterly for risk rating distributions, major standard industry classification segments, real estate concentrations, and collateral distributions.

Consumer and residential real estate loans are normally graded at inception, and the grade generally remains the same throughout the life of the loan. Loan grades on commercial, financial, and agricultural; construction; commercial real estate; and finance leases may be changed at any time when circumstances warrant, and are at a minimum reviewed quarterly.

Loans can be classified into the following three risk rating groupings: pass, special mention, and substandard/doubtful. Factors considered in determining a risk rating grade include debt service capacity, capital structure/liquidity, management, collateral quality, industry risk, company trends/operating performance, repayment source, revenue diversification/customer concentration, quality of financial information, and financing alternatives. Pass grade signifies the highest quality of loans to loans with reasonable credit risk, which may include borrowers with marginally adequate financial performance, but have the ability to repay the debt. Special mention loans have potential weaknesses that warrant extra attention from the loan officer and other management personnel, but still have the ability to repay the debt. Substandard classification includes loans with well-defined weaknesses with risk of potential loss. Loans classified as doubtful are considered to have little recovery value and are charged off.

Allowance for Loan Losses—The allowance for loan losses is a valuation account available to absorb probable losses on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance for loan losses at the time of recovery. Quarterly, we estimate the probable level of losses in the existing portfolio through consideration of such factors including, but not limited to, past loan loss experience; estimated losses in significant credits; known deterioration in concentrations of credit; trends in nonperforming assets; volume and composition of the loan portfolio, including percentages of special mention, substandard and past due loans; lending policies and control systems; known inherent risks in the portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; current national and local economic conditions, including the unemployment rate, the price of oil, and real estate absorption time; the experience, ability and depth of lending management; collections personnel experience; and the results of examinations of the loan portfolio by regulatory agencies and others. Based on these estimates, the allowance for loan losses is increased by charges to earnings and decreased by charge-offs (net of recoveries).

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment's historical loss experience, generally over the past three to five years, and adjustment factors derived from conditions in the Bank's internal and external environment. All loans considered to be impaired are evaluated on an individual basis to

determine specific reserve allocations in accordance with GAAP. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

We have an internal loan review department that is independent of the lending function to challenge and corroborate the loan grade assigned by the lender and to provide additional analysis in determining the adequacy of the allowance for loan losses.

Management and the Board of Directors believe the allowance for loan losses is appropriate at December 31, 2016. While determination of the allowance for loan losses is based on available information at a given point in time, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions or deductions to the allowance based on their judgment and information available to them at the time of their examination.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to compute depreciation are:

Buildings and improvements	10 - 40 years
Furniture, fixtures, and equipment	3 - 10 years
Automobiles	3 - 5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

Other Real Estate Owned—Real estate properties acquired through, or in lieu of, loan foreclosures are initially recorded at fair value less estimated costs to sell based on a current valuation at the time of foreclosure. After foreclosure, valuations are periodically performed by management and a charge to earnings is recorded if the carrying value of a property exceeds its fair value less estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are charged to earnings.

Goodwill and Other Intangible Assets—Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary. Also, in connection with business combinations involving banks and branch locations, we generally record core deposit intangibles representing the value of the acquired core deposit base. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on either a straight-line basis not exceeding 15 years or an accelerated basis over 10 years. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization.

Cash Surrender Value of Life Insurance—Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

Derivatives—Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheets and, as required by ASC 815, the Company records all derivatives at fair value. Accounting for changes in fair value of derivatives differs depending on whether the derivative has been designated and qualifies as part of a hedge relationship, and further, on the type of relationship.

Derivatives Designated as Hedging Relationships

The Company has entered into forward interest rate swap contracts to minimize the variability of future cash flows that is caused by changes in interest rates or other economic factors. These derivative instruments were designated as cash flow hedges under ASC Topic 815, Derivatives and Hedging. For cash flow hedges, the effective portion of the gain or loss related to the derivative instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. The ineffective portion of the gain or loss is reported in earnings immediately.

Derivatives Not Designated as Hedging Relationships

The Company offers certain derivative instruments directly to qualified commercial lending clients seeking to manage their interest rate risk. These derivative instruments, including interest rate swap agreements, are not designated for hedge accounting and changes in fair value are recognized in earnings immediately. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional balance of interest rate swap agreements held by the Company at December 31, 2016 and 2015 was minimal and not material to the consolidated balance sheets.

Repurchase Agreements—Securities sold under agreements to repurchase are secured borrowings treated as financing activities and are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements.

Deferred Compensation—We record the expense of deferred compensation agreements over the service periods of the persons covered under these agreements.

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

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of our assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided when it is more likely than not that a portion or the full amount of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance. Such a deferred tax liability will only be recognized when it becomes apparent that those temporary differences will reverse in the foreseeable future.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent more likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Stock-Based Compensation—We expense stock-based compensation based upon the grant date fair value of the related equity award over the requisite service period of the employee.

Basic and Diluted Earnings Per Common Share—Basic earnings per common share (“EPS”) excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is computed by dividing net earnings by the total of the weighted-average number of shares outstanding plus the dilutive effect of outstanding options. The amounts of common stock and additional paid-in capital are adjusted to give retroactive effect to large stock dividends. Small stock dividends, or dividends less than 25% of issued shares at the declaration date, are reflected as an increase in common stock and additional paid-in capital and a decrease in retained earnings for the market value of the shares on the date the dividend is declared.

Comprehensive Income—Generally all recognized revenues, expenses, gains and losses are included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net earnings, are components of comprehensive income. We present comprehensive income in a separate consolidated statement of comprehensive income.

Statements of Cash Flows—For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits in other banks with original maturities of less than 90 days. Generally, federal funds are sold for one-day periods.

Recent Accounting Pronouncements — ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities is the first ASU issued under the FASB's financial instruments project. ASU 2016-01 primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The guidance in this ASU requires all equity securities with readily determinable fair values to be measured at fair value on the balance sheet, with changes in fair value recorded through earnings. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires changes in the fair value of a financial liabilities attributable to a change in instrument-specific credit risk to be recorded separately in other comprehensive income. This ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate fair value. It does require public entities to use the exit price when measuring the fair value of financial instruments

measured at amortized cost for disclosure purposes. In addition, the new guidance requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. The effective date of this Update is for fiscal years beginning on or after December 15, 2017. The Company is evaluating the impact, if any, that ASU 2016-01 will have on its financial position, results of operations, and its financial statement disclosures.

ASU 2016-02, Leases (Topic 842) was issued with the intention of improving financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the balance sheet - the guidance in the ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The effective date of this Update is for fiscal years beginning on or after December 15, 2018. The Company is evaluating the impact that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures.

ASU 2016-09, Compensation - Stock Compensation (Topic 718) was issued as part of the FASB's simplification initiative. Under the new guidance, several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The effective date of this Update is for fiscal years beginning on or after December 15, 2016. The Company is evaluating the impact that ASU 2016-09 will have on its financial position, results of operations, and its financial statement disclosures.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments was issued with the intention of improving financial reporting by requiring timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets not recorded at fair value based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will be required to be implemented through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are effective. The effective date of this Update is for fiscal years beginning on or after December 15, 2019. The Company is evaluating the impact that ASU 2016-13 will have on its financial position, results of operations, and its financial statement disclosures. We expect the new accounting guidance to increase the allowance for loan losses with a resulting negative adjustment to retained earnings, and we will be implementing a new software program during 2017 to enable us to determine the extent of the impact, which could be material.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments was issued to address diversity in practice of how certain cash receipts and cash payments are currently presented and classified in the statement of cash flows. The amendments in the ASU provide guidance on the following issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees and beneficial interests in securitization transactions. Further, the ASU addresses the topic of separately identifiable cash flows and application of the predominance principle. The effective date of this Update is for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is evaluating the impact that ASU 2016-15 will have, if any, on its financial statement disclosures.

Reclassifications—Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2016. The reclassifications had no impact on net income or stockholders' equity.

2. INVESTMENT SECURITIES

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

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$29,935	$ 226	$ 1,020	$29,141
GSE mortgage-backed securities	72,144	1,736	302	73,578
Collateralized mortgage obligations: residential	223,602	206	3,606	220,202
Collateralized mortgage obligations: commercial	3,135	—	53	3,082
Mutual funds	2,100	—	41	2,059
Corporate debt securities	13,500	311	—	13,811
	$344,416	$ 2,479	$ 5,022	$341,873

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$30,750	$ 770	$ 27	$31,493
GSE mortgage-backed securities	84,946	2,321	229	87,038
Collateralized mortgage obligations: residential	194,067	297	2,276	192,088
Collateralized mortgage obligations: commercial	5,512	1	65	5,448
Mutual funds	2,100	—	8	2,092
	$317,375	$ 3,389	$ 2,605	$318,159

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$40,515	$ 309	$ 39	$40,785
GSE mortgage-backed securities	44,375	426	311	44,490
Collateralized mortgage obligations: residential	8,969	—	323	8,646
Collateralized mortgage obligations: commercial	4,352	—	12	4,340
	$98,211	$ 735	$ 685	$98,261

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$43,737	$ 697	$ 6	$44,428
GSE mortgage-backed securities	55,696	705	131	56,270
Collateralized mortgage obligations: residential	10,803	—	361	10,442
Collateralized mortgage obligations: commercial	6,556	2	—	6,558
	$116,792	$ 1,404	$ 498	$117,698

With the exception of two private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $18,000 and $27,000 at December 31, 2016 and 2015, respectively, all of the Company’s CMOs are government-sponsored enterprise securities.

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The amortized cost and fair value of debt securities at December 31, 2016 by contractual maturity are shown below (in thousands). Actual maturities may differ from contractual maturities because of rights to call or repay obligations with or without penalties and scheduled and unscheduled principal payments on mortgage-backed securities and collateralized mortgage obligations.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$2,166	$2,179
Due after one year through five years	11,341	11,540
Due after five years through ten years	49,661	51,053
Due after ten years	279,148	275,042
	$342,316	$339,814

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$ 347	$347
Due after one year through five years	6,427	6,445
Due after five years through ten years	32,837	33,310
Due after ten years	58,600	58,159
	$ 98,211	$98,261

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

	December 31, 2016					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	$13,402	$ 1,020	$—	$ —	$13,402	$ 1,020
GSE mortgage-backed securities	29,119	302	—	—	29,119	302
Collateralized mortgage obligations: residential	187,235	3,099	14,194	507	201,429	3,606
Collateralized mortgage obligations: commercial	961	4	2,121	49	3,082	53
Mutual funds	2,059	41	—	—	2,059	41
	$232,776	$ 4,466	$16,315	$ 556	$249,091	$ 5,022

	December 31, 2015					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	$1,192	$ 27	$—	$ —	$1,192	$ 27
GSE mortgage-backed securities	21,607	229	—	—	21,607	229
Collateralized mortgage obligations: residential	140,999	1,207	30,029	1,069	171,028	2,276
Collateralized mortgage obligations: commercial	—	—	2,946	65	2,946	65
Mutual funds	2,092	8	—	—	2,092	8
	$165,890	$ 1,471	$32,975	$ 1,134	$198,865	$ 2,605

	December 31, 2016					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	$8,054	$ 39	$—	$ —	$8,054	$ 39
GSE mortgage-backed securities	19,408	311	—	—	19,408	311
Collateralized mortgage obligations: residential	—	—	8,645	323	8,645	323
Collateralized mortgage obligations: commercial	$4,340	$ 12	—	—	4,340	12
	$31,802	$ 362	$8,645	$ 323	$40,447	$ 685

	December 31, 2015					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	$541	$ 1	$505	$ 5	$1,046	$ 6
GSE mortgage-backed securities	—	—	7,021	131	7,021	131
Collateralized mortgage obligations: residential	—	—	10,442	361	10,442	361
	$541	$ 1	$17,968	$ 497	$18,509	$ 498

Management evaluates whether unrealized losses on securities represent impairment that is other than temporary on a quarterly basis. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance

of the debt security, and changes in the market's perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred other than temporary impairment, then the amount of the credit related impairment is determined. For equity securities, management reviews the near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors when determining if an unrealized loss is other than temporary. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

As of December 31, 2016, 80 securities had unrealized losses totaling 1.93% of the individual securities' amortized cost basis and 1.29% of the Company's total amortized cost basis. 10 of the 80 securities had been in an unrealized loss position for over twelve months at December 31, 2016. These 10 securities had an amortized cost basis and unrealized loss of $25.8 million and $879,000, respectively. The unrealized losses on securities at December 31, 2016 and 2015 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At December 31, 2016 and 2015, management had both the intent and ability to hold impaired securities, and no impairment was evaluated as other than temporary. As a result, no impairment losses were recognized on securities during the years ended December 31, 2016, 2015, or 2014.

During the year ended December 31, 2016, the Company sold 2 securities classified as available-for-sale at a gross gain of $20,000. During the year ended December 31, 2015, the Company sold 22 securities classified as available-for-sale at a net gain of $1.2 million. Of the 22 securities sold, 12 were sold with gains totaling $1.4 million and 10 securities were sold at a loss of $135,000.

Securities with an aggregate carrying value of approximately $293.4 million and $285.4 million at December 31, 2016 and 2015, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

3. LOANS

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

	December 31,	
	2016	2015
Commercial, financial and agricultural	$459,574	$454,028
Real estate – construction	100,959	74,952
Real estate – commercial	481,155	471,141
Real estate – residential	157,872	149,064
Installment loans to individuals	82,660	111,009
Lease financing receivable	1,095	1,968
Other	767	1,483
	1,284,082	1,263,645
Less allowance for loan losses	(24,372)	(19,011)
	$1,259,710	$1,244,634

The amounts reported in other loans at December 31, 2016 and 2015 includes the overdrawn demand deposit accounts and loans primarily made to non-profit entities reported for each period.

An analysis of the activity in the allowance for loan losses is as follows (in thousands):

	December 31,		
	2016	2015	2014
Balance, beginning of year	$19,011	$11,226	$8,779

Provision for loan losses	10,600	13,900	5,625
Recoveries	776	459	738
Loans charged-off	(6,015)	(6,574)	(3,916)
Balance, end of year	$24,372	$19,011	$11,226

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 December 31, 2016, one industry segment concentration, the oil and gas industry, aggregates 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 $237.4 million, or 18.5% of total loans. Of the $237.4 million loans to borrowers in the oil and gas industry, $31.9 million or 13.4% were on nonaccrual status at December 31, 2016. Additionally, the Company's exposure to CRE loans. At December 31, 2016, CRE loans (including commercial construction and multifamily loans) totaled approximately $559.4 million, 48% of which are secured by owner-occupied commercial properties. Of the $559.4 million in loans secured by commercial real estate, $28.7 million or 5.1% were on nonaccrual status at December 31, 2016.

A rollforward of the activity within the allowance for loan losses by loan type and recorded investment in loans for the years ended December 31, 2016 and 2015 is as follows (in thousands):

	December 31, 2016							
		Real Estate						
	Coml, fin, and agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$11,268	$819	$4,614	$816	$1,468	$14	$12	$19,011
Charge-offs	(4,366)	—	(218)	(24)	(1,407)	—	—	(6,015)
Recoveries	459	—	123	5	189	—	—	776
Provision	8,696	(234)	865	143	1,145	(9)	(6)	10,600
Ending balance	$16,057	$585	$5,384	$940	$1,395	$5	$6	$24,372
Ending balance: individually evaluated for impairment	$4,369	$—	$2,216	$260	$308	$—	$—	$7,153
Ending balance: collectively evaluated for impairment	$11,688	$585	$3,168	$680	$1,087	$5	$6	$17,219
Loans:								
Ending balance	$459,574	$100,959	$481,155	$157,872	$82,660	$1,095	$767	$1,284,082
Ending balance: individually evaluated for impairment	$31,473	$9	$28,689	$1,826	$541	$—	$—	$62,538
Ending balance: collectively evaluated for impairment	$428,101	$100,950	$451,887	$155,975	$82,119	$1,095	$767	$1,220,894
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$579	$71	$—	$—	$—	$650

	December 31, 2015							
		Real Estate						
	Coml, fin, and agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$5,729	$954	$2,402	$810	$1,311	$16	$4	$11,226
Charge-offs	(4,936)	(105)	(183)	(87)	(1,263)	—	—	(6,574)
Recoveries	235	3	26	12	183	—	—	459
Provision	10,240	(33)	2,369	81	1,237	(2)	8	13,900
Ending balance	$11,268	$819	$4,614	$816	$1,468	$14	$12	$19,011
Ending balance: individually evaluated for impairment	$961	$—	$1,585	$160	$221	$—	$—	$2,927
Ending balance: collectively evaluated for impairment	$10,307	$819	$3,029	$656	$1,247	$14	$12	$16,084
Loans:								
Ending balance	$454,028	$74,952	$471,141	$149,064	$111,009	$1,968	$1,483	$1,263,645
Ending balance: individually evaluated for impairment	$27,718	$37	$19,890	$1,903	$404	$—	$—	$49,952
Ending balance: collectively evaluated for impairment	$426,310	$74,915	$450,631	$147,080	$110,605	$1,968	$1,483	$1,212,992
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$620	$81	$—	$—	$—	$701

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

	December 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$2,297	$902	$31,425	$34,624	$424,950	459,574	$ 96
Real estate - construction	2,613	399	9	3,021	97,938	100,959	—
Real estate - commercial	5,159	1,931	25,408	32,498	448,657	481,155	140
Real estate - residential	1,956	207	1,553	3,716	154,156	157,872	16
Installment loans to individuals	756	36	538	1,330	81,330	82,660	16
Lease financing receivable	—	—	—	—	1,095	1,095	—
Other	89	5	—	94	673	767	—
	$12,870	$3,480	$58,933	$75,283	$1,208,799	$1,284,082	$ 268

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$1,362	$2,317	$25,696	$29,375	$424,653	$454,028	$ 59
Real estate - construction	1,047	—	12	1,059	73,893	74,952	—
Real estate - commercial	1,164	514	19,512	21,190	449,951	471,141	—
Real estate - residential	1,703	367	1,563	3,633	145,431	149,064	19
Installment loans to individuals	1,022	244	409	1,675	109,334	111,009	69
Lease financing receivable	—	—	—	—	1,968	1,968	—
Other	101	4	—	105	1,378	1,483	—
	$6,399	$3,446	$47,192	$57,037	$1,206,608	$1,263,645	$ 147

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

	December 31,	
	2016	2015
Commercial, financial and agricultural	$31,461	$27,705
Real estate - construction	9	37
Real estate - commercial	28,688	19,907
Real estate - residential	1,881	1,998
Installment loans to individuals	541	404
Lease financing receivable	—	—
Other	—	—
	$62,580	$50,051

The amount of interest that would have been recorded on nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately $3.4 million, $2.0 million, and $594,000 for the years ended December 31, 2016, 2015, and 2014. Interest actually received on nonaccrual loans at December 31, 2016, 2015, and 2014 was $168,000, $47,000, and $105,000, respectively.

Loans that are individually evaluated for impairment are as follows (in thousands):

	December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$15,101	$15,428	$ —	$ 18,815	$ 191
Real estate - construction	9	9	—	23	—
Real estate - commercial	12,710	12,710	—	9,297	64
Real estate - residential	903	903	—	1,134	—
Installment loans to individuals	73	87	—	54	1
Subtotal:	28,796	29,137	—	29,323	256
With an allowance recorded:					
Commercial, financial, and agricultural	16,372	16,470	4,369	10,781	42
Real estate - commercial	15,979	15,979	2,216	14,992	28
Real estate - residential	923	923	260	730	—
Installment loans to individuals	468	478	308	419	11
Subtotal:	33,742	33,850	7,153	26,922	81
Totals:					
Commercial	60,162	60,587	6,585	53,885	325
Construction	9	9	—	23	—
Residential	1,826	1,826	260	1,864	—
Consumer	541	565	308	473	12
Grand total:	$62,538	$62,987	$ 7,153	$ 56,245	$ 337

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$22,529	$22,793	$ —	$ 11,484	$ 745
Real estate - construction	37	37	—	45	—
Real estate - commercial	5,886	5,886	—	3,903	97
Real estate - residential	1,365	1,385	—	954	17
Installment loans to individuals	34	34	—	56	—
Subtotal:	29,851	30,135	—	16,442	859
With an allowance recorded:					
Commercial, financial, and agricultural	5,189	6,373	961	3,704	138
Real estate - commercial	14,004	14,004	1,585	9,236	161
Real estate - residential	538	538	160	533	7
Installment loans to individuals	370	384	221	334	8
Subtotal:	20,101	21,299	2,927	13,807	314
Totals:					
Commercial	47,608	49,056	2,546	28,327	1,141
Construction	37	37	—	45	—
Residential	1,903	1,923	160	1,487	24
Consumer	404	418	221	390	8
Grand total:	$49,952	$51,434	$ 2,927	$ 30,249	$ 1,173

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

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

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

Doubtful: Specific weaknesses characterized as Substandard exist that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment. Loans classified as Doubtful will usually be placed on non-accrual status. The probability of some loss is extremely high but because of certain important and reasonably specific factors, the amount of loss cannot be determined.

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

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

December 31, 2016

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, financial, and agricultural	Real estate - commercial	Total	Percentage of Total
Pass	$346,246	$ 420,970	$767,216	81.56 %
Special mention	22,611	23,085	45,696	4.86 %
Substandard	90,300	37,100	127,400	13.54 %
Doubtful	417	—	417	0.04 %
	$459,574	$ 481,155	$940,729	100.00 %

Construction Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Real estate - construction	Percentage of Total
Pass	$ 100,775	99.82 %
Special mention	—	— %
Substandard	184	0.18 %
	$ 100,959	100.00 %

Residential Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Real estate - Residential	Percentage of Total
Pass	$ 153,403	97.17 %
Special mention	1,181	0.75 %
Substandard	3,288	2.08 %
	$ 157,872	100.00 %

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

	Installment loans to individuals	Lease financing receivable	Other	Total	Percentage of Total
Performing	$ 82,103	$ 1,095	$767	$83,965	99.34 %
Nonperforming	557	—	—	557	0.66 %
	$ 82,660	$ 1,095	$767	$84,522	100.00 %

December 31, 2015

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, financial, and agricultural	Real estate - commercial	Total	Percentage of Total
Pass	$383,897	$ 412,141	$796,038	86.04 %
Special mention	32,506	28,217	60,723	6.55 %
Substandard	37,353	30,783	68,136	7.36 %
Doubtful	272	—	272	0.03 %
	$454,028	$ 471,141	$925,169	100.00 %

Construction Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Real estate - construction	Percentage of Total
Pass	$ 74,794	99.79 %
Special mention	34	0.04 %
Substandard	124	0.17 %
	$ 74,952	100.00 %

Residential Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Real estate - Residential	Percentage of Total
Pass	$ 144,704	97.08 %
Special mention	1,225	0.82 %
Substandard	3,135	2.10 %
	$ 149,064	100.00 %

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

	Installment loans to individuals	Lease financing receivable	Other	Total	Percentage of Total
Performing	$ 110,536	$ 1,968	$1,483	$113,987	99.59 %
Nonperforming	473	—	—	473	0.41 %
	$ 111,009	$ 1,968	$1,483	$114,460	100.00 %

Troubled Debt Restructurings

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

Information about the Company's TDRs is as follows (in thousands):

	December 31, 2016			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$12	$ —	$ 24,331	$24,343
Real estate - commercial	—	140	808	948
	$12	$ 140	$ 25,139	$25,291

	December 31, 2015			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$16	$ —	$ 20,865	$20,881
Real estate - commercial	—	148	—	148
	$16	$ 148	$ 20,865	$21,029

During the year ended December 31, 2016, there was one loan relationship with a pre-modification balance of $5.5 million identified as a TDR after conversion of the loans to interest only for a limited amount of time. This one TDR subsequently defaulted on the modified terms and totaled $5.5 million at December 31, 2016. During the year ended December 31, 2015, there was one loan relationship with a pre-modification balance of $21.4 million identified as a TDR after conversion of the loans to interest only for a limited amount of time. This one TDR subsequently defaulted on the modified terms and totaled $20.3 million at December 31, 2015. For purposes of the determination of an allowance for loan losses on these TDRs, as an identified TDR, the Company considers a loss probable on the loan and, as a result, the loan is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of December 31, 2016, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

In the opinion of management, all transactions entered into between the Company and such related parties have been and are made in the ordinary course of business, on substantially the same terms and conditions, including interest rates and collateral, as similar transactions with unaffiliated persons and do not involve more than the normal risk of collection.

An analysis of the 2016 activity with respect to these related party loans and commitments to extend credit is as follows (in thousands):

Balance, beginning of year	$1,840
New loans	671
Repayments and adjustments	(560)
Balance, end of year	$1,951

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

	December 31,	
	2016	2015
Land	$17,693	$16,253
Buildings and improvements	56,674	54,126
Furniture, fixtures, and equipment	29,042	28,165
Automobiles	1,854	1,787
Leasehold improvements	10,671	10,725
Construction-in-process	899	1,418
	116,833	112,474
Less accumulated depreciation and amortization	(47,879)	(43,369)
	$68,954	$69,105

Depreciation expense totaled approximately $5.9 million, $6.2 million, and $6.1 million for the years ended December 31, 2016, 2015, and 2014, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill for each of the years ended December 31, 2016 and 2015 was approximately $42.2 million. Goodwill is recorded on the acquisition date of each entity.

A summary of core deposit intangible assets as of December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Gross carrying amount	$11,674	$11,674
Less accumulated amortization	(7,053)	(5,946)
Net carrying amount	$4,621	$5,728

Amortization expense on the core deposit intangible assets totaled approximately $1.1 million in 2016, 2015 and 2014.

The estimated amortization expense on the core deposit intangible assets for the five succeeding years and thereafter is as follows (in thousands):

2017	$1,106
2018	1,106
2019	1,106
2020	726
2021	577
	$4,621

6. DEPOSITS

Deposits consisted of the following (in thousands):

	December 31,	
	2016	2015
Noninterest-bearing	$414,921	$374,261
Savings and money market	539,815	531,449
NOW accounts	472,484	475,346
Time deposits less than $250	120,399	132,349
Time deposits $250 or more	31,811	37,445
	$1,579,430	$1,550,850

Time deposits held consist primarily of certificates of deposits. The maturities for these deposits at December 31, 2016 are as follows (in thousands):

2017	$115,515
2018	16,311
2019	7,375
2020	6,983
2021	6,024
Thereafter	2
	$152,210

Deposits from related parties totaled approximately $17.6 million and $9.1 million at December 31, 2016 and 2015, respectively.

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled $94.5 million and $86.0 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, retail repurchase agreements, defined as securities sold under agreements to repurchase from our customers, totaled $82.0 million and $73.5 million, respectively. These retail repurchase agreements are secured overnight borrowings from customers, which may be drawn on demand. The agreements bear interest at a rate determined by us. The average rate of the outstanding agreements was 0.46% and 0.48% at December 31, 2016 and 2015, respectively. The Company had pledged securities with an approximate market value of $86.5 million and $75.1 million as collateral at December 31, 2016 and 2015, respectively.

Also included in securities sold under agreements to repurchase is a $12.5 million repurchase agreement the Company entered into with CitiGroup Global Markets, Inc. ("CGMI") effective August 9, 2007. Under the terms of the repurchase agreement, interest is payable quarterly based on a floating rate equal to the 3-month LIBOR for the first 12 months of the agreement and a fixed rate of 4.57% for the remainder of the term. The rate at December 31, 2016 and 2015 was 4.57%. The repurchase date is scheduled for August 9, 2017; however, the agreement may be called by CGMI quarterly. The Company had pledged securities with a market value of $13.9 million and $17.6 million as collateral at December 31, 2016 and 2015, respectively.

In 2016, 2015, and 2014, the Company did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or short-term FHLB advances that exceeded 30% of our stockholders' equity for such year.

8. SHORT-TERM FEDERAL HOME LOAN BANK ADVANCES

Short-term FHLB advances totaled $25.0 million at December 31, 2015. There were no short-term FHLB advances outstanding at December 31, 2016. The short-term FHLB advances at December 31, 2015 consisted of one FHLB advance with a maturity of 4 months at a fixed interest rate of 0.30%.

The short-term and long-term FHLB advances at December 31, 2016 and 2015 are collateralized by a blanket lien on first mortgages and other qualifying loans totaling $265.9 million and $268.6 million, respectively.

As of December 31, 2016 and 2015, the Company had $240.9 million and $218.5 million, respectively, of additional FHLB advances available.

9. LONG-TERM FEDERAL HOME LOAN BANK ADVANCES

Long-term FHLB advances totaled $25.4 million and $25.9 million at December 31, 2016 and 2015, respectively.

The scheduled maturities of long-term FHLB advances at December 31, 2016 are summarized as follows (in thousands):

	Amount	Weighted Average Rate
2017	$15,403	3.412 %
2019	10,021	1.985 %
Total FHLB advances	$25,424	

10. JUNIOR SUBORDINATED DEBENTURES

A description of the junior subordinated debentures outstanding is as follows (in thousands):

				December 31,	
Date Issued	Maturity Date	Interest Rate	Callable After	2016	2015
July 31, 2001	July 9, 2031	3 month LIBOR plus 3.30%	July 31, 2006	$5,671	$5,671
September 20, 2004	September 20, 2034	3 month LIBOR plus 2.50%	September 20, 2009	8,248	8,248
October 12, 2006	October 12, 2036	3 month LIBOR plus 1.85%	June 26, 2011	5,155	5,155
June 21, 2007	June 21, 2037	3 month LIBOR plus 1.70%	June 15, 2012	3,093	3,093
				$22,167	$22,167

The trusts are considered variable-interest entities (“VIE”). The Trusts are not consolidated with the Company since the Company is not the primary beneficiary of the VIE. Accordingly, the Company does not report the securities issued by the Trusts as liabilities, and instead reports as liabilities the junior subordinated debentures issued by the Company and held by the Trusts, as these are not eliminated in the consolidation. The Trust Preferred Securities are recorded as junior subordinated debentures on the balance sheets, but subject to certain limitations qualify for Tier 1 capital for regulatory capital purposes.

11. COMMITMENTS AND CONTINGENCIES

At December 31, 2016, future annual minimum rental payments due under non-cancellable operating leases are as follows (in thousands):

2017	$1,929
2018	1,837
2019	1,847
2020	1,850
2021	1,394
Thereafter	6,002
	$14,859

Rental expense under operating leases for 2016, 2015, and 2014 was approximately $2.2 million, $2.5 million, and $2.5 million, respectively.

The Company is party to various legal proceedings arising in the ordinary course of business. In management's opinion, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

At December 31, 2016, the Company had borrowing lines available through the Bank with the FHLB of Dallas and other correspondent banks. The Bank had approximately $240.9 million available, subject to available collateral, under a secured line of credit with the FHLB of Dallas. Federal funds lines of credit were available through correspondent banks with approximately $53.5 million available for overnight borrowing at December 31, 2016. Additionally, $180.5 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta.

12. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$9,177	$7,750
Unrealized losses on securities	890	—
Core deposit intangible	436	351
Deferred compensation	696	712
Other	241	55
Total deferred tax assets	11,440	8,868
Deferred tax liabilities:		
Premises and equipment	3,318	3,634
Goodwill	1,820	1,446
FHLB stock dividends	80	70
Unrealized gains on cash flow hedges	346	—
Unrealized gains on securities	—	274
Prepaid expenses	306	323
Purchase accounting adjustments on securities	753	854
Other	245	95
Total deferred tax liabilities	6,868	6,696
Net deferred tax asset	$4,572	$2,172

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes that it is more likely than not that it will realize the benefits of these deductible differences existing at December 31, 2016. Therefore, no valuation allowance is necessary at this time. The net deferred tax assets for 2016 and 2015 are included in other assets on the consolidated balance sheets.

Components of income tax expense are as follows (in thousands):

	2016	2015	2014
Current	$5,439	$6,368	$8,847
Deferred benefit	(1,582)	(1,785)	(1,489)
Total income tax expense	$3,857	$4,583	$7,358

The provision for federal income taxes differs from the amount computed by applying the U.S. Federal income tax statutory rate of 35% on pre-tax income as follows (in thousands):

	December 31,		
	2016	2015	2014
Taxes calculated at statutory rate	$4,654	$5,460	$9,264
Increase (decrease) resulting from:			
Tax-exempt interest, net	(615)	(766)	(923)
Executive officer life insurance proceeds	—	—	(1,050)
Other	(182)	(111)	67
	$3,857	$4,583	$7,358

The Company's federal income tax returns are open and subject to examination from the 2013 tax return year and forward. The various state income and franchise tax returns are generally open from the 2013 and later tax return years based on individual state statutes of limitation. We are not currently under examination by federal or state tax authorities for the 2013, 2014, or 2015 tax years.

13. EMPLOYEE BENEFITS

The Company sponsors a leveraged employee stock ownership plan ("ESOP") that covers all employees who meet minimum age and service requirements. The Company makes annual contributions to the ESOP in amounts as determined by the Board of Directors. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for this debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year. During 2014, the ESOP borrowed $283,000 payable to MidSouth Bank, N.A for the purpose of purchasing additional shares of MidSouth Bancorp, Inc.'s common stock. The note payable matures on June 25, 2018. The loan proceeds were used to purchase a total of 16,000 shares at an average price of $17.71 per share. During 2015, the ESOP borrowed an additional $997,000 payable to MidSouth Bank, N.A. The notes payable mature on February 20, 2019 and October 5, 2019. A total of 76,526 shares at an average price of $13.02 per share were purchased with the loan proceeds. During 2016, the ESOP borrowed an additional $499,000 payable to MidSouth Bank, N.A. The note payable matures on July 29, 2020. A total of 62,014 shares at an average price of $8.05 were purchased with the loan proceeds. The balances of the notes payable of the ESOP were $1.2 million and $1.1 million at December 31, 2016 and December 31, 2015, respectively.

Because the source of the loan payments are contributions received by the ESOP from the Company, the related notes receivable is shown as a reduction of stockholders' equity. In accordance with GAAP, compensation costs relating to shares purchased are based on the fair value of shares committed to be released. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to additional paid-in capital. The unreleased shares are not considered outstanding in the computation of earnings per common share. Dividends on unreleased shares are recorded as compensation expense; dividends on allocated ESOP shares are recorded as a reduction of stockholders' equity. Dividends received on ESOP shares are allocated based on shares held for the benefit of each participant and used to purchase additional shares of stock for each participant. ESOP compensation expense consisting of both cash contributions and shares committed to be released for 2016, 2015 and 2014 was approximately $603,000, $720,000 and $720,000, respectively. ESOP shares as of December 31, 2016 and 2015 were as follows:

	2016	2015
Allocated shares	604,385	570,905
Shares released for allocation	28,451	10,130
Unreleased shares	114,067	80,504
Total ESOP shares	746,903	661,539

Fair value of unreleased shares at December 31	$1,551,000	$731,000

The Company has deferred compensation arrangements with certain officers, which will provide them a fixed benefit after retirement. During 2016, distributions related to these agreements totaled $49,000. The Company recorded a liability of approximately $1.4 million at December 31, 2016 and 2015 in connection with these agreements. Deferred compensation expense recognized in 2016, 2015, and 2014 was approximately $60,000, $82,000, and $80,000, respectively.

The Company sponsors defined contribution post-retirement benefit agreements to provide death benefits for the designated beneficiaries of certain of the Company's executive officers. Under the agreements, split-dollar whole life insurance contracts were purchased on certain executive officers. The increase in the cash surrender value of the contracts, less the Bank's cost of funds, constitutes the Company's contribution to the agreements each year. In the event the insurance contracts fail to produce positive returns, the Company has no obligation to contribute to the agreements. During 2016, 2015, and 2014, the Company incurred expenses of $2,000, $14,000 and $7,000, respectively, related to the agreements.

The Company has a 401(k) retirement plan covering substantially all employees who have been employed for 90 days and meet certain other requirements. Under this plan, employees can contribute a portion of their salary within the limits provided by the Internal Revenue Code into the plan. The Company made contributions to the plan totaling $60,000 in 2016, 2015 and 2014, respectively.

14. EMPLOYEE STOCK PLANS

In May of 2007, our stockholders approved the 2007 Omnibus Incentive Compensation Plan to provide incentives and awards for directors, officers, and employees. "Awards" as defined in the Plan includes, with limitations, stock options (including restricted stock options), restricted stock awards, stock appreciation rights, performance shares, stock awards and cash awards, all on a stand-alone, combination, or tandem basis. The 2007 Omnibus Incentive Compensation Plan replaces the 1997 Stock Incentive Plan, which expired February of 2007. A total of 525,000 of our common shares authorized were reserved for issuance under the Plan, of which 136,093 were available to be granted as of December 31, 2016.

Stock Options – The 298,995 options outstanding at December 31, 2016 were all issued under the 2007 Omnibus Incentive Compensation Plan. All options outstanding at December 31, 2016 are incentive stock options with a term of ten years, 256,493 of which vest 20% each year on the anniversary date of the grant and 42,502 of which vest 16.67% each year. The following table summarizes activity relating to stock options:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	432,642	$ 14.13		
Granted	17,500	18.99		
Exercised	(49,560)	12.97		
Forfeited or expired	(42,509)	16.24		
Outstanding at December 31, 2014	358,073	$ 14.28		
Granted	5,000	13.17		
Exercised	(7,655)	12.97		
Forfeited or expired	(16,042)	17.73		
Outstanding at December 31, 2015	339,376	$ 14.13		
Granted	5,000	9.30		
Exercised	—	—		
Forfeited or expired	(45,381)	15.17		
Outstanding at December 31, 2016	298,995	$ 13.90	5.95	$ —
Exercisable at December 31, 2014	109,691	$ 13.98		
Exercisable at December 31, 2015	162,679	13.81		
Exercisable at December 31, 2016	203,578	13.74	5.76	$ —

A summary of changes in unvested options for the period ended December 31, 2016 is as follows:

	Number of Options	Weighted Average Grant Date Fair Value
Unvested options outstanding, beginning of year	176,697	$ 4.89
Granted	5,000	2.14
Vested	(60,085)	4.73
Forfeited	(26,195)	5.36
Unvested options outstanding, end of year	95,417	$ 4.72

As of December 31, 2016 there was a total of $291,000 in unrecognized compensation cost related to nonvested stock option grants that is expected to be recognized over a weighted-average period of 1.7 years. The total amount of options expensed during the years ended December 31, 2016, 2015 and 2014 was $162,000, $336,000 and $442,000, respectively.

The fair value of each option granted is estimated on the grant date using the Black-Scholes Option Pricing Model. This model requires management to make certain assumptions, including the expected life of the option, the risk free rate of interest, the expected volatility, and the expected dividend yield. The risk free rate of interest is based on the yield of a U.S. Treasury security with a similar term. The expected volatility is based on historic volatility over a term similar to the expected life of the options. The dividend yield is based on the current yield at the date of grant. The following assumptions were made in estimating the fair value of the options granted in 2016 and 2015:

	2016	2015
Risk free rate of interest	1.7 %	1.5 %
Expected volatility	37.4 %	37.4 %
Dividend yield	4.2 %	2.8 %
Average expected life (in years)	5	5
Weighted-average grant-date fair value	$2.14	$3.17

The total intrinsic value of the options exercised was $10,000, and $217,000 for the years ended December 31, 2015 and 2014, respectively. There were no options exercised during the year ended December 31, 2016.

Restricted Stock Awards – During 2016 and 2015, the Compensation Committee of the Board of Directors of the Company made restricted stock grants under the Company’s 2007 Omnibus Incentive Compensation Plan. The restricted shares of stock, which are subject to the terms of a Restricted Stock Grant Agreement between the Company and each recipient, will fully vest on the third anniversary of the grant date. Prior to vesting, the recipient will be entitled to vote the shares and receive dividends, if any, declared by the Company with respect to its common stock. Compensation expense for restricted stock is based on the fair value of the restricted stock awards at the time of the grant, which is equal to the market value of the Company’s common stock on the date of grant. The value of the restricted stock grants that are expected to vest is amortized monthly into compensation expense over the three year vesting period.

The weighted average grant date fair value of restricted stock awards was $10.97 and $13.92 for the years ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2016 and 2015, compensation expense of $48,000 and $19,000, respectively, was recognized related to non-vested restricted stock awards. There was no compensation expenses related to these awards in 2014. As of December 31, 2016, there was $125,000 of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan. The

unrecognized compensation cost related to restricted stock awards at December 31, 2016 is expected to be recognized over a weighted-average period of 2.1 years.

The following table summarizes activity relating to non-vested restricted stock awards:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2014	—	$ —
Granted	11,250	13.92
Forfeited	—	—
Vested	—	—
Non-vested at December 31, 2015	11,250	$ 13.92
Granted	4,439	10.97
Forfeited	(925)	13.92
Vested	—	—
Non-vested at December 31, 2016	14,764	$ 13.03

15. STOCKHOLDERS' EQUITY

The payment of dividends by the Bank to the Company is restricted by various regulatory and statutory limitations. At December 31, 2016, the Bank had approximately $8.8 million available to pay dividends to the parent company without regulatory approval.

In August 2011, the Company redeemed 20,000 outstanding shares of Series A Preferred Stock associated with its participation in the Treasury's Capital Purchase Plan ("CPP") under the Troubled Asset Relief Program at its stated value of $1,000 per share with funds from our issuance of 32,000 shares of Series B preferred stock in connection with the Company's participation under the U.S. Treasury's Small Business Lending Fund ("SBLF"). The additional $12.0 million of net proceeds from the issuance was provided to the Bank as additional capital. The dividend rate on the Series B preferred stock was set at 1.00% for the fourth quarter of 2013 due to attaining the target 10% growth rate in qualified small business loans during the second quarter of 2013. On February 25, 2016, the dividend rate increased to 9% per annum, consistent with the Securities Purchase Agreement which states that the rate would increase if the funding was not repaid within 4.5 years after issuance. The Series B preferred stock is nonvoting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B preferred stock.

On December 28, 2012, the Company issued 756,511 shares of common stock and 99,971 shares of Series C Preferred Stock in connection with the PSB acquisition. The Series C Preferred Stock is entitled to the payment of noncumulative dividends, if and when declared by the Company's Board of Directors, at the rate of 4.00% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on April 15, 2013. The Series C Preferred Stock ranks pari passu with the existing Senior Non-Cumulative Perpetual Preferred Stock, Series B, issued in connection with the Company's participation under the Treasury's SBLF and senior to the Company's common stock. The Company may redeem the Series C Preferred Stock, subject to regulatory approval, beginning on or after the fifth anniversary of the closing date of the Merger, at a redemption price equal to the liquidation value of the Series C Preferred Stock, plus declared but unpaid dividends, if any. The Company may also redeem the Series C Preferred Stock, subject to regulatory approval, at the same redemption price prior to the fifth anniversary of the closing date in the event the Series C Preferred Stock no longer qualifies for "Tier 1 Capital" treatment by the applicable federal banking regulators. Holders may convert the Series C Preferred Stock at any time into shares of the Company's common stock at a conversion price of $18.00 per share, subject to customary anti-dilution adjustments. In addition, on or after the fifth anniversary of the closing date, the Company will have the option to require conversion of the Series C Preferred Stock if the closing price of the Company's common stock for 20 trading days within any period of 30 consecutive trading days, exceeds 130% of the conversion price.

16. DERIVATIVES

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

No ineffectiveness related to the interest rate swaps designated as cash flow hedges was recognized in the consolidated statements of income for the year ended December 31, 2016. The accumulated net after-tax income related to the effective cash flow hedge included in accumulated other comprehensive income/loss is reflected in Note 17 - Other Comprehensive (Loss) Income.

The following table discloses the notional amounts and fair value of derivative instruments in the Company's balance sheet as of December 31, 2016 and 2015 (in thousands):

	Type of Hedge	Notional Amounts		Fair Value	
		December 31,		December 31,	
		2016	2015	2016	2015
Derivatives designated as hedging instruments:					
Interest rate swaps included in other assets	Cash Flow	$27,500	$ —	$ 989	$ —

17. OTHER COMPREHENSIVE (LOSS) INCOME

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

	December 31, 2016			2015			2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Other comprehensive (loss) income:									
Securities available-for-sale:									
Change in unrealized gain/loss during period	$(3,307)	$1,158	$(2,149)	$(2,369)	$829	$(1,540)	$4,687	$(1,641)	$3,046
Reclassification adjustment for net gains included in net income	(20)	7	(13)	(1,243)	435	(808)	(128)	45	(83)
Derivative instruments designated as cash flow hedges:									
Change in fair value of derivative instruments designated as cash flow hedges	989	(346)	643	—	—	—	—	—	—
	$(2,338)	$819	$(1,519)	$(3,612)	$1,264	$(2,348)	$4,559	$(1,596)	$2,963

Total other comprehensive
(loss) income

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

	December 31, 2016		2015		2014	
Details about Accumulated Other Comprehensive Income/Loss Components	Reclassifications Out of Accumulated Other Comprehensive Income/Loss	Statement of Earnings Line Item	Reclassifications Out of Accumulated Other Comprehensive Income/Loss	Statement of Earnings Line Item	Reclassifications Out of Accumulated Other Comprehensive Income/Loss	Statement of Earnings Line Item
Unrealized gains and losses on securities available-for-sale:						
	$(20)	Gain on securities, net	$(1,243)	Gain on securities, net	$(128)	Gain on securities, net
	7	Income tax expense	435	Income tax expense	45	Income tax expense
	$(13)	Net of tax	$(808)	Net of tax	$(83)	Net of tax

18. NET EARNINGS PER COMMON SHARE

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

	December 31,		
	2016	2015	2014
Net earnings available to common stockholders	$6,578	$10,330	$18,412
Dividends on Series C preferred stock	—	367	378
Adjusted net earnings available to common stockholders	$6,578	$10,697	$18,790
Weighted average number of common shares outstanding used in computation of basic earnings per common share	11,263	11,309	11,282
Effect of dilutive securities:			
Stock options	—	5	77
Preferred stock	—	507	542
Weighted average number of common shares outstanding plus effect of dilutive securities used in computation of diluted earnings per common share	11,263	11,821	11,901

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

	December 31,		
	2016	2015	2014
Stock options	299	221	25
Restricted stock	15	11	—
Shares subject to the outstanding warrant issued in connection with the CPP transaction	104	104	—
Convertible preferred stock	507	—	—

19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is party to various financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The contract or notional amounts of those instruments reflect the extent of the Bank’s involvement in particular classes of financial instruments.

The Bank’s exposure to loan loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees is represented by the contractual amount of those instruments. The Bank uses the same credit policies, including considerations of collateral requirements, in making these commitments and conditional obligations as it does for on-balance sheet instruments.

	Contract or Notional Amount	
	2016	2015
Financial instruments whose contract amounts represent credit risk:		
(in thousands)		
Commitments to extend credit	$322,788	$306,587
Letters of credit	13,043	10,084

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may

require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. Substantially all of these commitments are at variable rates.

Commercial letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. Approximately 77% and 91% of these letters of credit were secured by marketable securities, cash on deposit, or other assets at December 31, 2016 and 2015, respectively.

20. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of common equity Tier 1 capital, Tier 1 and total capital (as defined in the regulations) to risk-weighted assets (as defined) and to average assets (as defined).

As of December 31, 2016, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum common equity Tier I, total risk-based, Tier I risk-based, and Tier I leverage capital ratios as set forth in the table (in thousands). There are no conditions or events since those notifications that management believes has changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (in thousands):

	Actual		Required for Minimum Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Common equity Tier I capital to risk-weighted assets:						
Company	$131,091	8.81 %	$66,937	4.50%	N/A	N/A
Bank	$178,587	12.00%	$66,980	4.50%	$96,749	6.50 %
Total capital to risk-weighted assets:						
Company	$212,366	14.28%	$118,999	8.00%	N/A	N/A
Bank	$197,265	13.25%	$119,076	8.00%	$148,845	10.00%
Tier I capital to risk-weighted assets:						
Company	$193,700	13.02%	$89,249	6.00%	N/A	N/A
Bank	$178,587	12.00%	$89,307	6.00%	$119,076	8.00 %
Tier I capital to average assets:						
Company	$193,700	10.11%	$76,609	4.00%	N/A	N/A
Bank	$178,587	9.32 %	$76,623	4.00%	$95,779	5.00 %

	Actual		Required for Minimum Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Common equity Tier I capital to risk-weighted assets:						
Company	$128,470	8.91 %	$64,907	4.50%	N/A	N/A
Bank	$177,057	12.27%	$64,947	4.50%	$93,812	6.50 %
Total capital to risk-weighted assets:						
Company	$209,132	14.50%	$115,390	8.00%	N/A	N/A
Bank	$195,111	13.52%	$115,461	8.00%	$144,326	10.00%
Tier I capital to risk-weighted assets:						
Company	$191,089	13.25%	$86,543	6.00%	N/A	N/A
Bank	$177,057	12.27%	$86,595	6.00%	$115,461	8.00 %
Tier I capital to average assets:						
Company	$191,089	10.10%	$75,689	4.00%	N/A	N/A
Bank	$177,057	9.36 %	$75,683	4.00%	$94,603	5.00 %

In July 2013, the Federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The Basel III rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). The final rule applied to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule established a new common equity Tier 1 minimum capital requirement, increased the minimum capital ratios and assigned a higher risk weight to certain assets based on the risk associated with these assets. Certain provisions of the new rules will be phased in through January 1, 2019.

21. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate. These nonrecurring fair value adjustments typically involve the application of the lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

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 in Other 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.

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

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

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

For non-performing loans, collateral valuations currently in file are reviewed for acceptability in terms of timeliness and applicability. Although each determination is made based on the facts and circumstances of each credit, generally valuations are no longer considered acceptable when there has been physical deterioration of the property from when it was last appraised, or there has been a significant change in the underlying assumptions of the appraisal. If the valuation is deemed to be unacceptable, a new appraisal is ordered. New appraisals are typically received within 4-6 weeks. While awaiting new appraisals, the valuation in 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 6% for selling costs and an additional 4% for taxes, insurance and maintenance 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 cash surrender value is based on cash surrender values indicated by the insurance companies.

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

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 repurchase agreements due to their short-term nature.

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

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

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

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

Assets Recorded at Fair Value

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 December 31, 2016	Fair Value Measurements at December 31, 2016		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$ 29,141	$—	$29,141	$ —
GSE mortgage-backed securities	73,578	—	73,578	—
Collateralized mortgage obligations: residential	220,202	—	220,202	—
Collateralized mortgage obligations: commercial	3,082	—	3,082	—
Mutual funds	2,059	2,059	—	—
Corporate debt securities	13,811	—	13,811	—
Total available-for-sale securities	$ 341,873	$2,059	$339,814	$ —
Derivative instruments	$ 989	$—	$989	$ —

Description	Assets / Liabilities Measured at Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$ 31,493	$—	$31,493	$ —
GSE mortgage-backed securities	87,038	—	87,038	—
Collateralized mortgage obligations: residential	192,088	—	192,088	—
Collateralized mortgage obligations: commercial	5,448	—	5,448	—
Mutual funds	2,092	2,092	—	—
Total available-for-sale securities	$ 318,159	$2,092	$316,067	$ —

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the table above. 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.

Assets measured at fair value on a nonrecurring basis are as follows (in thousands):

Description	Assets / Liabilities Measured at Fair Value at December 31, 2016	Fair Value Measurements at December 31, 2016		
		Level 1	Level 2	Level 3
Impaired loans	$ 26,956	$—	$ 26,956	$ —
Other real estate	2,175	—	2,175	—

Description	Assets / Liabilities Measured at Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015		
		Level 1	Level 2	Level 3
Impaired loans	$ 17,487	$ —	$ 17,487	$ —
Other real estate	4,187	—	4,187	—

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.

The estimated fair values of our financial instruments are as follows at December 31, 2016 and 2015 (in thousands):

		Fair Value Measurements at December 31, 2016 Using:		
	Carrying Value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 82,228	$ 82,228	$ —	$ —
Securities available-for-sale	341,873	2,059	326,003	—
Securities held-to-maturity	98,211	—	98,261	—
Other investments	11,355	11,355	—	—
Loans, net	1,259,710	—	26,956	1,236,133
Cash surrender value of life insurance policies	14,335	—	14,335	—
Derivative asset	989	—	989	—
Financial liabilities:				
Non-interest-bearing deposits	414,921	—	414,921	—
Interest-bearing deposits	1,164,509	—	1,012,633	150,879
Securities sold under agreements to repurchase	94,461	94,461	—	—
Long-term Federal Home Loan Bank advances	25,424	—	25,808	—
Junior subordinated debentures	22,167	—	22,167	—

		Fair Value Measurements at December 31, 2015 Using:		
	Carrying Value	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 89,201	$ 89,201	$ —	$ —
Securities available-for-sale	318,159	2,092	316,067	—
Securities held-to-maturity	116,792	—	117,698	—
Other investments	11,188	11,188	—	—
Loans, net	1,244,634	—	17,487	1,232,497
Cash surrender value of life insurance policies	13,622	—	13,622	—
Financial liabilities:				
Non-interest-bearing deposits	374,261	—	374,261	—
Interest-bearing deposits	1,176,589	—	1,007,137	168,633
Securities sold under agreements to repurchase	85,957	85,957	—	—
Short-term Federal Home Loan Bank advances	25,000	—	25,000	—
Long-term Federal Home Loan Bank advances	25,851	—	—	26,508
Junior subordinated debentures	22,167	—	22,167	—

22. OTHER NON-INTEREST INCOME AND EXPENSE

For the years ended December 31, 2016, 2015, and 2014, none of the components of other noninterest income were greater than 1% of interest income and noninterest income.

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Components of other noninterest expense greater than 1% of interest income and noninterest income consisted of the following for the years ended December 31, 2016, 2015, and 2014 (in thousands):

	2016	2015	2014
Professional fees	$1,855	$1,560	$1,802
FDIC fees	1,601	1,513	1,050
Marketing expenses	1,523	1,564	1,658
Corporate development expense	1,572	1,531	1,420
Data processing	1,963	1,888	1,940
Printing and supplies	760	923	1,114
Amortization of intangibles	1,107	1,106	1,106

23. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events and transactions that occurred after December 31, 2016 up through the date of filing this Annual Report on Form 10-K. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

24. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Summarized financial information for MidSouth Bancorp, Inc. (parent company only) follows:
Balance Sheets
December 31, 2016 and 2015
(in thousands)

	2016	2015
Assets		
Cash and interest-bearing deposits in banks	$16,705	$14,795
Other assets	2,058	2,117
Investment in and advances to subsidiaries	220,906	220,753
Total assets	$239,669	$237,665
Liabilities and Stockholders' Equity		
Liabilities:		
Dividends payable	$1,835	$1,195
Junior subordinated debentures	22,167	22,167
ESOP obligation	1,233	1,093
Other	58	73
Total liabilities	25,293	24,528
Stockholders' equity	214,376	213,137
Total liabilities and stockholders' equity	$239,669	$237,665

Statements of Earnings
For the Years Ended December 31, 2016, 2015, and 2014
(in thousands)

	2016	2015	2014
Revenue:			
Dividends from Bank and nonbank subsidiaries	$9,000	$9,000	$15,500
Gain on sale of securities	—	1,125	—
Rental and other income	57	57	87
	9,057	10,182	15,587
Expenses:			
Interest on short- and long-term debt	704	613	1,087
Professional fees	236	253	217
Other expenses	785	733	844
	1,725	1,599	2,148
Income before equity in undistributed earnings of subsidiaries and income taxes	7,332	8,583	13,439
Equity in undistributed earnings of subsidiaries	1,529	2,317	4,955
Income tax benefit	578	117	716
Net earnings	$9,439	$11,017	$19,110

Statements of Cash Flows
For the Years Ended December 31, 2016, 2015, and 2014
(in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net earnings	$9,439	$11,017	$19,110
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Undistributed earnings of subsidiaries	(1,529)	(2,317)	(4,955)
Gain on sale of securities available-for-sale	—	(1,125)	—
Other, net	73	528	(872)
Net cash provided by operating activities	7,983	8,103	13,283
Cash flows from investing activities:			
Proceeds from prepayments of securities available-for-sale	—	—	198
Proceeds from sale of securities available-for-sale	—	1,392	—
Other, net	—	(83)	217
Net cash provided by investing activities	—	1,309	415
Cash flows from financing activities:			
Proceeds from exercise of stock options	—	99	643
Payment of preferred dividends	(2,221)	(689)	(704)
Payment of common dividends	(4,095)	(4,086)	(3,838)
Purchase of treasury stock	—	—	(9)
Repayment of long-term debt	—	—	(8,217)
Other, net	243	607	—
Net cash used in financing activities	(6,073)	(4,069)	(12,125)
Net change in cash and cash equivalents	1,910	5,343	1,573
Cash and cash equivalents at beginning of year	14,795	9,452	7,879
Cash and cash equivalents at end of year	$16,705	$14,795	$9,452

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
MidSouth Bancorp, Inc. and Subsidiaries
Lafayette, Louisiana

We have audited the accompanying consolidated balance sheets of MidSouth Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Atlanta, Georgia
March 16, 2017

Selected Quarterly Financial Data (unaudited)
(Dollars in thousands, except per share data)

	2016			
	IV	III	II	I
Interest income	$19,983	$ 19,953	$ 19,388	$ 19,804
Interest expense	1,459	1,414	1,397	1,420
Net interest income	18,524	18,539	17,991	18,384
Provision for loan losses	2,600	2,900	2,300	2,800
Net interest income after provision for loan losses	15,924	15,639	15,691	15,584
Gain on sale of investments, net	—	—	20	—
Other noninterest income	4,782	4,866	4,853	4,487
Noninterest expense	17,636	17,114	17,041	16,759
Earnings before income taxes	3,070	3,391	3,523	3,312
Income tax expense	871	993	1,030	963
Net earnings	2,199	2,398	2,493	2,349
Dividends on preferred stock	812	811	811	427
Net earnings available to common stockholders	$1,387	$ 1,587	$ 1,682	$ 1,922
Earnings per common share - basic	$0.12	$ 0.14	$ 0.15	$ 0.17
Earnings per common share - diluted	$0.12	$ 0.14	$ 0.15	$ 0.17
Market price of common stock				
High	$14.50	$ 11.08	$ 11.13	$ 9.45
Low	$9.95	$ 9.46	$ 7.37	$ 6.51
Close	$13.60	$ 10.40	$ 10.04	$ 7.63
Average shares outstanding - basic	11,271,948	11,262,282	11,255,042	11,261,644
Average shares outstanding - diluted	11,273,302	11,262,710	11,255,178	11,261,644

	2015			
	IV	III	II	I
Interest income	$19,886	$ 20,532	$ 20,798	$ 20,681
Interest expense	1,349	1,391	1,417	1,424
Net interest income	18,537	19,141	19,381	19,257
Provision for loan losses	3,000	3,800	1,100	6,000
Net interest income after provision for loan losses	15,537	15,341	18,281	13,257
Gain on sale of investments, net	—	—	1,128	115
Other noninterest income	4,575	4,768	5,009	4,726
Noninterest expense	17,508	16,492	16,976	16,161
Earnings before income taxes	2,604	3,617	7,442	1,937
Income tax expense	766	1,028	2,343	446
Net earnings	1,838	2,589	5,099	1,491
Dividends on preferred stock	170	172	172	173
Net earnings available to common stockholders	$1,668	$ 2,417	$ 4,927	$ 1,318
Earnings per common share - basic	$0.15	$ 0.21	$ 0.43	$ 0.12
Earnings per common share - diluted	$0.15	$ 0.21	$ 0.42	$ 0.12
Market price of common stock				
High	$12.03	$ 15.49	$ 15.78	$ 17.36
Low	$8.66	$ 11.45	$ 12.94	$ 13.67
Close	$9.08	$ 11.70	$ 15.26	$ 14.75
Average shares outstanding - basic	11,281,286	11,311,841	11,323,506	11,317,667
Average shares outstanding - diluted	11,281,286	11,830,540	11,849,683	11,351,239

Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A – Controls and Procedures

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

During the fourth quarter of 2016, there were no significant changes in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting
The management of MidSouth Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with the accounting principles generally accepted in the United States of America. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended.

The Company's internal control systems are designed to ensure that transactions are properly authorized and recorded in the financial records and to safeguard assets from material loss or misuse. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 based on the criteria for effective internal control established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2016.

Our independent registered public accountants have issued an audit report on the Company's internal control over financial reporting. Their report is included on pages 91-92 in this Annual Report on Form 10-K.

Item 9B – Other Information

Not applicable.

PART III

Item 10 - Directors, Executive Officers, and Corporate Governance

The information set forth under the heading “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K, is incorporated herein by reference.

The information set forth under the headings “Item 1. Election of Directors,” “Corporate Governance – Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance – Code of Ethics,” and “Corporate Governance – Standing Board Committees” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics (which is entitled “Code of Ethics”) and the Company’s corporate governance principles are posted on the Investor Relations page of Company’s website at http://www.midsouthbank.com. The Company intends to satisfy disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the Audit Committee, Compensation Committee, Executive Committee and the Corporate Governance and Nominating Committee of the Company’s Board of Directors are available on the Company’s website as well. This information is also available in print free of charge to any person who requests it.

Item 11 - Executive Compensation

The information set forth under the headings “Compensation Discussion and Analysis,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Options Exercised and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination or Change of Control,” “Outside Director Compensation,” “Corporate Governance – Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information set forth under the headings “Securities Authorized for Issuance under Equity Compensation Plans” in this Annual Report on Form 10-K, is incorporated by reference to the sections entitled “Security Ownership of Management and Certain Beneficial Owners – Security Ownership of Management” and “Security Ownership of Management and Certain Beneficial Owners – Security Ownership of Certain Beneficial Owners” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2016, the Company had outstanding stock options and restricted stock granted under our incentive compensation plans, which were approved by the Company’s stockholders. Provided below is information regarding the Company’s equity compensation plans under which the Company’s equity securities are authorized for issuance as of December 31, 2016, subject to the Company’s available authorized shares.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	313,759	$ 13.90	136,093
Equity compensation plans not approved by security holders	—	—	—
Total	313,759	$ 13.90	136,093

Item 13 - Certain Relationships and Related Transactions and Director Independence

The information set forth under the headings “Certain Relationships and Related Transactions” and “Corporate Governance – Board Independence” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14 – Principal Accounting Fees and Services

The information set forth under the heading “Relationship with Independent Registered Public Accountants” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated herein by reference.

Item 15 - Exhibits and Financial Statement Schedules

The following documents are filed as a part of this report:

(a)(1) The following consolidated financial statements and supplementary data of the Company are included in Part II of this Form 10-K:
Consolidated Balance Sheets – December 31, 2016 and 2015
Consolidated Statements of Earnings – Years ended December 31, 2016, 2015, and 2014
Consolidated Statements of Changes in Stockholders’ Equity – Years ended December 31, 2016, 2015, and 2014
Consolidated Statements of Cash Flows – Years ended December 31, 2016, 2015, and 2014
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm
Selected Quarterly Financial Data

(a)(2) All schedules have been outlined because the information required is included in the financial statements or notes or have been omitted because they are not applicable or not required.

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of MidSouth Bancorp, Inc. (restated solely for purposes of Item 601(b)(3) of Regulation S-K) (filed as Exhibit 3.1 to the Company's annual report on Form 10-K for the Year Ended December 31, 2012, and incorporated herein by reference)

3.2	Amended and Restated By-laws of MidSouth Bancorp, Inc. effective as of September 26, 2012 (restated solely for purposes of Item 601(b)(3) of Regulation S-K) (filed as Exhibit 3.3 to MidSouth's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference).
4.1	Specimen Common Stock Certificate. (filed as Exhibit 4.1 to MidSouth's Registration Statement (No. 333-163361) on Form S-1 filed November 25, 2009 and incorporated herein by reference).
4.2	Warrant to Purchase Shares of Common Stock of MidSouth Bancorp, Inc. (filed as Exhibit 3.2 to Form 8-K filed January 14, 2009 and incorporated herein by reference).
10.1	MidSouth National Bank Lease Agreement with Southwest Bank Building Limited Partnership (filed as Exhibit 10.7 to the Company's annual report on Form 10-K for the Year Ended December 31, 1992, and incorporated herein by reference).
10.2	First Amendment to Lease between MBL Life Assurance Corporation, successor in interest to Southwest Bank Building Limited Partnership in Commendam, and MidSouth National Bank (filed as Exhibit 10.1 to the Company's annual report on Form 10-KSB for the year ended December 31, 1994, and incorporated herein by reference).
10.3+	Amended and Restated Deferred Compensation Plan and Trust effective dated December 17, 2008 (filed as Exhibit 10.3 to MidSouth's Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
10.4+	MidSouth Bancorp, Inc. 2007 Omnibus Incentive Compensation Plan, as amended and restated effective May 23, 2012 (filed as Exhibit 10.1 to Form 8-K filed May 25, 2012 and incorporated herein by reference).
10.5+	Form of Incentive Stock Option Agreement under the 2007 Omnibus Incentive Compensation Plan (filed as Exhibit 10.2 to Form 8-K filed May 25, 2012 and incorporated herein by reference).
10.6+	Form of Restricted Stock Award Agreement (filed as Exhibit 10.1 to the Form 10-Q filed November 6, 2015 and incorporated herein by reference).
10.7	Small Business Lending Fund Securities Purchase Agreement, dated August 25, 2011, between MidSouth Bancorp, Inc. and the Secretary of the Treasury (filed as Exhibit 10.1 to the Form 8-K filed on August 29, 2011 and incorporated herein by reference).
10.8+	MidSouth Bancorp, Inc. 2016 Annual Incentive Compensation Plan*
10.9+	Executive Indexed Salary Continuation Agreement between MidSouth Bancorp, Inc. and C.R. Cloutier (filed as Exhibit 10.9 to the Form 10-K filed March 13, 2015 and incorporated herein by reference).
21	Subsidiaries of the Registrant*
23.1	Consent of Porter Keadle Moore, LLC*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended *
31.2	

Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended *

32.1	Certification by the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification by the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following financial information from the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

+ Management contract or compensatory plan or arrangement

* Included herewith

Agreements with respect to certain of the Company's long-term debt are not filed as Exhibits hereto inasmuch as the debt authorized under any such agreement does not exceed 10% of the Company's total assets. The Company agrees to furnish a copy of each such agreement to the Securities & Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDSOUTH BANCORP, INC.
Registrant

By: /s/ C. R. Cloutier
C. R. Cloutier
President and Chief Executive Officer

Date: March 16, 2017

Signatures	Title	Date
/s/ C.R. Cloutier C.R. Cloutier	Principal Executive Officer, President, and Director	March 16, 2017
/s/ James R. McLemore James R. McLemore	Principal Financial Officer and Senior Executive Vice President	March 16, 2017
/s/ Teri S. Stelly Teri S. Stelly	Principal Accounting Officer and Controller	March 16, 2017
/s/ Troy M. Cloutier Troy M. Cloutier	Director	March 16, 2017
/s/ William M. Simmons William M. Simmons	Director	March 16, 2017
/s/ James R. Davis, Jr. James R. Davis, Jr.	Director	March 16, 2017
/s/ Timothy J. Lemoine Timothy J. Lemoine	Director	March 16, 2017
/s/ Joseph V. Tortorice, Jr. Joseph V. Tortorice, Jr.	Director	March 16, 2017
/s/ Milton B. Kidd, III Milton B. Kidd, III	Director	March 16, 2017
/s/ R. Glenn Pumpelly R. Glenn Pumpelly	Director	March 16, 2017
/s/ Leonard Q. Abington Leonard Q. Abington	Director	March 16, 2017
/s/ Jake Delhomme Jake Delhomme	Director	March 16, 2017