
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Washington, D.C. 20551

FORM 10-K

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

For the fiscal year ended: December 31, 2010

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

For the transition period from _____ to _____

FDIC Certificate Number: 57659

MIDSOUTH BANK

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of
incorporation or organization)

75-3143086
(I.R.S. Employer
Identification No.)

One East College Street
Murfreesboro, Tennessee
(Address of principal executive offices)

37130
(Zip Code)

Registrant's telephone number, including area code: (615) 278-7100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

None

None

Securities registered pursuant to Section 12(g) of the Act:

\$1.00 par value common stock
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a larger accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such company equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$19,249,360 as of June 30, 2010.

Note. - The calculation above assumes that all shares beneficially owned by members of the Board of Directors and executive officers of the registrant, whether common or preferred (on a fully-converted basis), are owned by "affiliates," a status that each such Director and executive officer individually reserves the right to disclaim. Please refer to the section entitled "Calculation of Public Float" appearing in Item 5 of this Form 10-K.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 3,843,535 (pre-conversion of the Bank's preferred stock) shares of \$1.00 par value common stock as of March 25, 2011. This is the registrant's only outstanding class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

Specified portions of the registrant's definitive Proxy Statement for the 2011 Annual Meeting of Shareholders filed (or to be filed) with the Board of Governors of the Federal Reserve System under Regulation 14A, as set forth in Part II and Part III of this Form 10-K.

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MIDSOUTH BANK

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PART I

Cautionary Note Regarding Forward-Looking Statements

Some of the statements contained in this report, including the sections “Risk Factors,” “Business - Factors That May Affect Future Results of Operations,” contained in Item 1 and Item 1A, and the financial and accounting information contained in Items 7 through 9B, and elsewhere in this document constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following:

- failure to maintain adequate levels of capital and liquidity to support our operations;
- a significant number of our customers failing to perform under their loans and other terms of credit agreements;
- the effect of regulatory agreements we have entered into and potential future supervisory action against the Bank;
- fluctuations in interest rates and a decline in the level of our interest rate spread;
- failure to attract or retain stable deposits at reasonable cost;
- sources of liquidity available to us and to the Bank becoming limited or our potential inability to achieve access to sufficient sources of liquidity when needed or the requirement that we obtain government waivers to do so;
- adverse changes in national, regional and local financial markets, economic conditions or business conditions or the effects of pandemic flu or other pandemic illness;
- significant reliance on loans secured by real estate and the associated vulnerability to downturns in the local real estate market, natural disasters and other variables impacting the value of real estate;
- failure to retain our key employees;
- adequacy of our allowance for loan losses;
- credit quality and the effect of credit quality on our ongoing provision and existing allowance for loan losses;
- failure to properly manage our future growth;
- volatility and disruption in financial, credit and securities markets, and the price of our common stock;
- volatility and disruption in financial, credit and securities markets, and the price of our Preferred Shares;
- deterioration in the financial markets that may result in other-than-temporary impairment charges relating to securities owned by the Bank;
- competition in our primary market areas, particularly from those financial institutions that have greater access to capital markets and/or that have obtained funding from the United States Treasury and competition for capital;
- competition for capital for those seeking to repay the U.S. Treasury with regard to the funds they received from programs such as the Troubled Asset Relief Program (“TARP”);and
- significant government regulations, legislation and potential changes thereto, including the impact of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, and regulations issued as a result of or in connection with that law.

Because these factors are unpredictable and beyond the Bank's control, earnings may fluctuate from period-to-period. The purpose of this type of information, such as that provided in Item 7, as well as other portions of this Annual Report on Form 10-K, is to provide readers of this Annual Report with information relevant to understanding and assessing the financial condition and results of operations of the Bank and not to predict the future or to guarantee results. The Bank undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of changes or of unanticipated events, circumstances, or results. Please refer also to the sections of this Item 1 and 1A captioned "Factors That May Affect Future Results of Operations" and "Certain Risk Factors Related to MidSouth Bank."

ITEM 1. BUSINESS

Description of MidSouth Bank's Business

Business Development in the Last Three Years.

MidSouth Bank ("Bank" or "our Bank") is a commercial bank with deposits insured through the Federal Deposit Insurance Corporation ("FDIC"). Our Bank is chartered under the Tennessee Banking Act and, as a member of the Federal Reserve System, it is subject to examination, supervision and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve Board") and by the Tennessee Department of Financial Institutions. The Bank initially opened as a full-service commercial bank in January of 2004.

Since it opened for business, our Bank has focused on developing its financial services business in Rutherford County in Tennessee and in other areas (generally, in contiguous counties). The Bank provides a wide range of commercial banking services to small- and medium-sized businesses, including those engaged in the real estate development business, business executives, professionals and other individuals. The Bank operates throughout Rutherford County in Tennessee, with five offices located in that county.

Our Bank focuses its business in Rutherford County and surrounding areas in the Nashville-Davidson-Murfreesboro-Franklin, Tennessee Metropolitan Statistical Area ("Nashville MSA"). The Bank's primary source of income in 2010 was its earnings principally derived from interest income from loans and returns from its investment portfolio. The Bank derived approximately 83.2% of its gross revenues from interest income and approximately 16.80% from fees and other non-interest sources.

At December 31, 2010, the Bank had total assets of approximately \$233,905,000, and total stockholders' equity of \$23,403,000. At December 31, 2010, the Bank's total loans (net of allowance for loan losses of \$4,447,000) were \$152,337,000 and its total deposits were \$204,890,000. The Bank reported net earnings of \$711,000 for fiscal 2010. As of year-end 2010, \$7,295,000 in Bank-owned investment securities were pledged to secure deposits from governmental units or agencies that require security for their deposits, or for other lawful purposes. Additional information concerning the general development of the Bank's business since the beginning of the Bank's last fiscal year is set forth as part of Item 7, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in the financial statements made part of Item 8 (the Bank's "Consolidated Financial Statements"), in this Annual Report on Form 10-K.

The principal executive offices of the Bank are located at One East College Street, Murfreesboro, Tennessee 37130, telephone (615) 278-7100.

The Bank's Business in General

As a commercial bank, MidSouth Bank accepts deposits and uses those funds, together with its capital and earnings, to make loans and investments and to support its operations. The availability of funds to the Bank is primarily dependent upon the economic policies of the government, the economy in general and the general credit market for deposits. Our Bank may in the future engage in various business activities permitted to commercial banks and their subsidiaries, either directly, through one or more subsidiaries, or through acquisitions. The Bank intends to provide banking and financial services in Rutherford County and surrounding areas of Middle Tennessee, primarily in the Nashville MSA trade area, but it may elect to branch into other counties and to expand its marketplace.

The Bank engages in a full service commercial and consumer banking business, including the following services:

- Accepting time and demand deposits;
- Providing personal and business checking accounts at competitive rates;
- Making secured and unsecured commercial and consumer loans; and
- Corporate treasury services.

The Bank is a locally managed community bank that seeks to provide personal attention and professional assistance to its customer base which consists principally of individuals and small- and medium-sized businesses. The Bank's philosophy includes offering direct access to its officers and personnel, providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures, and consistently-applied credit policies.

Our Bank's acceptance of time, demand, and savings deposits includes NOW accounts, money market accounts, regular savings accounts, and certificates of deposit. The Bank makes secured and unsecured commercial, consumer, installment and construction loans. Residential mortgages and small business loans are our core products. Consumer loans include revolving credit lines and installment loans.

Our Bank offers the following support services to make financial management more efficient and convenient for its customers:

· personalized service	· automatic bill payment service
· telephone banking	· safe deposit boxes
· night deposit services	· drive-up banking
· on-line banking	· U.S. Savings Bonds
· direct deposit	· non-deposit investment services
· trust services	· treasury management services

For retail customers, our Bank offers a full range of depository products, including regular and money market checking accounts; regular, special, and money market savings accounts; various types of certificates of deposit and Individual Retirement Accounts, as well as safe deposit facilities. The Bank participates in the Certificate of Deposit Account Registry Service (CDARS) program to enhance the deposit insurance available where requested by the customers. The Bank also offers its retail customers consumer and other installment loans and credit services. Our Bank makes available to local businesses and institutions traditional lending services, such as lines of credit, real estate loans and real estate

construction loans, as well as standard depository services and certain other special services. Its principal source of income is from interest earned on personal, commercial, and real estate loans of various types. Our Bank has a number of correspondent bank relationships, through which the Bank is effectively able to offer customers services (especially loans) generally available only from larger financial institutions. The Bank has trust powers and operates a trust department.

The Bank is subject to extensive supervision and regulation by federal and state banking agencies. Its operations are subject to a wide array of federal and state laws applicable to financial services, to banks, to consumer rights, to privacy, and to lending. Certain of the laws and regulations that affect these operations are outlined briefly below in this Item and in other portions of this Annual Report on Form 10-K. Recent accounting developments that affect the Bank are summarized in Note 1(s) of the Bank's Consolidated Financial Statements.

There have been many legislative and regulatory proposals designed to overhaul or otherwise improve the federal deposit insurance system and to improve the overall financial stability of the banking system in the United States. Some of these proposals provide for changes in the bank regulatory structure, including proposals to reduce regulatory burdens on banking organizations and to expand (or to limit) the nature of products and services banks and bank holding companies may offer. For example, several recently-adopted pieces of legislation are summarized below. It is not possible to predict whether or in what form any proposals may be adopted in the future, and, if adopted, their impact upon either the Bank or the financial services industries in which the Bank competes; however, the enactment of the "Dodd-Frank Wall Street Reform and Consumer Protection Act," "Sarbanes-Oxley Act of 2002," the "USA PATRIOT Act," the "Gramm-Leach-Bliley Act of 1999," the "Emergency Economic Stabilization Act of 2008," and "The American Recovery and Reinvestment Act of 2009," as well as various initiatives by the U.S. Treasury, the FDIC, and the Federal Reserve have been important developments.

Please refer also to the Consolidated Financial Statements (Item 8) for additional, important information concerning the Bank.

Financial Summary of the Bank

A financial summary of the Bank for 2010 and 2009 is set forth below (amounts are rounded):

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Dollars in Thousands Except Per Share Data)

	2010	2009
Total Assets	\$233,905	\$248,877
Total Earning Assets	219,107	232,811
Deposits	204,890	224,236
Stockholders' Equity	23,403	19,851
Gross Revenues	13,739	15,865
Interest Income	11,433	13,137
Non-Interest Income	2,306	2,728
Earnings (Loss) Before Income Taxes	711	(10,227)
Earnings (Loss)	711	(10,227)

Per Share Data		
Basic Earnings (Loss) Per Share	\$0.19	\$(2.66)
Diluted Earnings (Loss) Per Share	0.13	(2.66)

The 2010 column reflects the sale of 1,380 new shares of common stock during 2010 for gross proceeds of \$4,106 to the Bank and the sale of 609,538 preferred shares during 2010 for gross proceeds of \$3,047,690 to the Bank. The 2009 column reflects the sale of 79,774 new shares of common stock during 2009 for gross proceeds of \$797,740 to the Bank and the sale of 415,190 preferred shares during 2009 for gross proceeds of \$2,075,950 to the Bank. The Bank issued preferred stock for the first time starting at the end of December of 2009.

Please refer also to the Bank's Consolidated Financial Statements (Item 8) for additional, important information concerning our Bank.

Capital Requirements

The Bank is required to maintain certain capital ratios. These include Tier 1, Total Capital and Leverage Ratios. As is reflected below, the Bank's growth and results from operations have resulted in smaller capital-to-assets ratios.

	Capital Level Meeting Regulatory Definition of "Well-Capitalized"	MidSouth Bank	
		2010 (%)	2009 (%)
	(%)		
Tier 1 Ratio	6.0	13.4	9.1
Total Risk-Based Ratio	10.0	14.6	10.4
Leverage Ratio	5.0	9.8	7.9

Based solely on its analysis of federal banking regulatory categories, the Bank falls within the "well-capitalized" categories, including the regulatory framework for prompt corrective action. During 2010, the Bank issued 1,380 shares of common stock as a result of the exercise of stock warrants at prices in the range of \$2.97 to \$2.99 per share. Also in 2010, the Bank issued 609,538 shares of preferred stock at \$5.00 per share. During 2009, the Bank issued 200 shares of common stock as a result of the exercise of stock options at \$10.00 per share and 79,574 from the exercise of warrants, also at \$10.00 per share. Also in 2009, the Bank issued 415,190 shares of preferred stock at \$5.00 per share. See Note 15 to the Bank's Consolidated Financial Statements (Item 8) for additional information concerning the Bank's capital. All outstanding but unexercised stock purchase warrants issued before the commencement of the Bank's preferred stock offering expired in January of 2009. The Bank issued stock purchase warrants in connection with its preferred stock offering from late-2009 into 2010. See Item 1, "Business of the Bank - The Preferred Shares Offering" and "Supervision and Regulation - Capital Adequacy" and "- The Importance of Raising Additional Capital" and Item 5 "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Preferred Stock, Warrants, and Warrant Shares."

The Bank's Strategic Goals

The current economic recession has had a significant negative impact on many financial institutions, including the Bank. During 2009, the Bank charged off \$9,635,000 in loans and added \$11,920,000 to its allowance for loan losses. The Bank continued to experience charge-off activity in 2010, recording charge-offs of \$5,028,000, while adding \$1,130,000 to the allowance for loan losses. Because banks calculate the risk in their loan portfolios on an on-going basis, and make additions to their loan loss reserves accordingly, additional provisions to the Bank's allowance for loan losses will continue to be made in 2011 and thereafter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7 of this Annual Report on Form 10-K). The Bank reported earnings of \$711,000. The Bank's turnaround from the significant loss in 2009 is attributed to the reduction of the provision for loan losses required in 2010 based on management's assessment of the Bank's loan portfolio.

It is the view of the Bank's management and board of directors that many of the Bank's competitors are more recently experiencing the greater extent of credit issues with which the Bank has been dealing for the past two years, or more, and, as a result, many of those institutions have been cutting back on lending activities, and in some cases, on personnel related to lending. This has had, and can be expected to have, a negative impact on bank customers in Rutherford County, where the Bank focuses its banking business. As a result, the Bank believes that opportunities for growth in assets, business, and quality personnel will arise in Rutherford County and in contiguous areas in the Nashville MSA. The Bank would prefer to be in a better position to take advantage of perceived business diversification and expansion opportunities rather than not to be able to aggressively pursue such opportunities if, as and when they arise. The Bank intends to employ its capital, including the funds received from the preferred shares offering, to fund the Bank's operations, including capital expenditures, loans, and other expenses incidental to its operations. In addition, the Bank has prepared a secondary preferred stock offering that is expected to begin in the first quarter of 2011. The greater the amount of capital raised by the Bank in the preferred shares offering, the greater the opportunity for the Bank to pursue a growth strategy. The board of directors believes that the new capital to be raised from the preferred shares will be in the best interests of the Bank and its shareholders in helping the Bank to achieve its goals of being very well capitalized, better able to absorb any future losses and, if capital approximating the Maximum Shares Offering is raised, better able to aggressively pursue a growth strategy in its market areas. See Item 1 "Business of the Bank" and "Supervision and Regulation - Capital Adequacy," and "- The Importance of Raising Additional Capital."

The Preferred Shares Offering

The Bank is offering up to 550,000 shares ("preferred shares") of its convertible voting non-cumulative preferred stock, \$1.00 stated value ("preferred stock"). Each preferred share can be converted by the registered holder thereof into two shares of the Bank's common stock. All unconverted preferred shares will convert automatically into two shares of common stock effective May 31, 2016. See "Market for Registrant's Common Equity, Related Stockholder matters, and Issuer Purchases of Equity Securities" (Item 5 of this Annual Report on Form 10-K). The price will be \$5.50 per share. Of these preferred shares, the Bank has pre-sold 182,000 to an unaffiliated investor and expects to provide priority to orders from existing holders of the Bank's 2009A Preferred Stock and its common stock, in that order, for the remaining preferred shares. For each five preferred shares that an investor purchases in the preferred shares offering, the investor also receives one stock purchase warrant to purchase one additional share of the Bank's common stock at a price equal to 85% of trailing quarter-end book value, but not less than \$2.75, nor more than \$11.00 per share.

The Bank intends to raise this capital in order to strengthen its capital position and, if sufficient capital is raised, also to enhance its ability to implement its growth strategy. See Item 1 of this Annual Report on Form 10-K, "Business of the Bank - The Bank's Strategic Goals" and "- Supervision and Regulation - Capital Adequacy" and "- The Importance of Raising Additional Capital."

Neither the common stock nor the preferred shares are savings or other deposit accounts insured by the FDIC or by any other governmental agency, person, or entity. An investment in the Bank's preferred or common stock, or in any other securities issued by the Bank, is not guaranteed in any manner.

In today's banking environment, banking regulators are emphasizing the need for all banks to be better capitalized than required in recent history. The Bank's board of directors believes that it is prudent for the Bank to raise additional capital for at least three reasons. First, the Bank wants to ensure that it is deemed "well-capitalized" by banking regulators. To fail to do so could result in various restrictions on the Bank's ongoing business, including restrictions on its growth and restrictions or prohibitions against its ability to use alternative funding sources, such as brokered deposits. Second, the board believes that it is prudent for the Bank to maintain high capital levels in order to absorb any additional losses that it might experience. Third, management and the board believe that significant growth opportunities may arise in Rutherford County and surrounding areas of Tennessee. If the Bank is able to raise new capital approximating the maximum amounts in the preferred shares offering, the Bank will be better positioned to seek to take advantage of those opportunities. See "The Bank's Strategic Goals" in the immediately preceding section. Please refer also to "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7), "Quantitative and Qualitative Disclosures About Market Risk" (Item 7A), and the Bank's Consolidated Financial Statements (Item 8) for additional information about the Bank's capital levels and operational results.

Sources and Availability of Funds

Please refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as Item 7 of this report.

Subsidiary

The Bank has one, wholly-owned, subsidiary known as MSB Services, Inc., which provides credit life insurance services for the Bank and for loan customers.

Public Company Reporting

In accordance with the Exchange Act and other related laws, MidSouth Bank files reports with the Board of Governors of the Federal Reserve System ("Federal Reserve Board") as a "smaller reporting company." These include annual and quarterly reports (Forms 10-K and 10-Q) as well as current reports on Form 8-K and amendments to those reports, if any. The Bank is also subject to the proxy and other rules and regulations under the Exchange Act.

Services to and Transactions with Affiliates

Transactions between the Bank and its present or future affiliates (including its existing and any future subsidiaries) are subject to restrictions of existing banking laws (such as Sections 23A and 23B of the Federal Reserve Act) and accepted principles of fair dealing. The Bank can provide its affiliates and any future subsidiaries with advice and specialized services in the areas of accounting and taxation, budgeting and strategic planning, employee benefits and human resources, auditing, trust, and banking and corporate law. The Bank may elect to charge a fee for these services from time to time. The responsibility for the management of any such future subsidiaries, however, will remain with each such entity's board of directors (or other governing body) and with the officers elected by each entity's board.

Expansion Strategy

The Bank operates five full-service banking offices (including the main office). Renovations of the main office are expected in the future; however, the exact timing and costs of such have not yet been determined. New offices will be considered from time-to-time, subject to regulatory approval, at the discretion of the board of directors.

Accounting Policies and Developments

Please refer to the Consolidated Financial Statements for important information concerning the Bank, including applicable accounting principles and policies, as well as the impact of new accounting standards.

Supervision and Regulation

The Bank is subject to extensive supervision and regulation by federal and state banking agencies. Its operations are subject to a wide array of federal and state laws applicable to financial services, to banks, and to lending. The following discussion contains a summary of the material aspects of the regulatory framework applicable to banking in general and provides certain specific information about the Bank. The bank regulatory framework is intended primarily for the protection of depositors, the deposit insurance system, and the banking system, and not for the protection of shareholders or any other group. In addition, certain present or potential activities of MidSouth Bank are subject to various federal and state securities laws and state insurance laws. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. Future changes in applicable statutes, regulations and/or regulatory policy may have a material effect on the business of the Bank.

General

In the following sections, we will briefly review matters related to MidSouth Bank, to federal and state regulation of the Bank, whether previously-existing or recently-enacted, to payments of dividends, to capital and prompt corrective actions, and to a few other matters related to the Bank's operations. This list is far from definitive and has been discussed by the Bank at greater length in its Registration Statement on Form 10-SB filed in 2005. All of these discussions are meant to be informative but not to be exhaustive or comprehensive, or to constitute legal advice about any aspect of the Bank's business.

MidSouth Bank is subject to supervision and examination by applicable federal and state banking agencies. The Bank is chartered under the laws of the State of Tennessee and it is a member of the Federal Reserve System. The Bank's deposits are insured, as provided by law, by the FDIC. The Bank is subject to supervision, regulation, and examination by the Federal Reserve Board and also by the Tennessee Department of Financial Institutions. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon and limitations on the types of investments that may be made, activities that may be engaged in, and types of services that may be offered. The operations of the Bank are also affected by various consumer laws and regulations, including those relating to equal credit opportunity, truth in savings disclosures, debt collection laws, privacy regulations, and regulation of consumer lending practices. In addition to the impact of direct regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

Strict compliance at all times with state and federal banking laws, as well as other laws, is and will continue to be required. The Bank believes that the experience of its executive management will assist it in its continuing efforts to achieve the requisite level of compliance. Certain provisions of Tennessee law may be preempted by existing and future federal laws, rules and regulations and no prediction can be made as to the impact of preemption on Tennessee law or the regulation of the Bank thereunder.

Among other things, federal and state laws regulate the Bank's corporate governance, its lending authority, its investment authority, the interest rates and fees it may charge, its manner of doing business, its employment practices, its community reinvestment obligations, its consumer privacy policies and procedures, its credit-reporting activities, its relationship with other affiliates, its ability to merge with, acquire, or be acquired by other entities, its requisite minimum capital and the forms of capital, its ability to branch, its payment of dividends or other distributions, the types of businesses in which it can engage, and many other aspects of its business.

Payment of Dividends

The Bank's earnings are the principal source of cash flow to pay dividends on its stock. There are statutory, regulatory and prudential limitations on the payment of dividends by the Bank. Tennessee law restricts the amount of dividends that may be paid by the Bank. In no event is a Tennessee-chartered bank permitted to pay dividends in any calendar year that exceed the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the Commissioner of the Tennessee Department of Financial Institutions. Prior regulatory approval must be obtained before declaring any dividends if the amount of the Bank's capital and surplus is below certain statutory limits.

If, in the opinion of the applicable federal bank regulatory authority, a depository institution or a holding company is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution or holding company, could include the payment of dividends), such authority may require that such institution or holding company cease and desist from such practice. The federal bank regulatory agencies have indicated that paying dividends that deplete a depository institution's or holding company's capital base to an inadequate level would be such an unsafe and unsound banking practice. Moreover, the Federal Reserve Board, the Comptroller of the Currency and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

In addition, under the Federal Deposit Insurance Act, an FDIC-insured depository institution may not make any capital distributions (including the payment of dividends) or pay any management fees to its holding company or pay any dividend if it is undercapitalized or if such payment would cause it to become undercapitalized.

Moreover, under Tennessee law, the Bank is not permitted to pay dividends if, after giving effect to such payment, it would not be able to pay its debts as they become due in the usual course of business or if the Bank's total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if the Bank were dissolving. The Bank expects that it is likely that it will continue primarily to reinvest its earnings to support its growth and to finance its operations rather than to pay dividends, for the foreseeable future; however, the Bank could in the future elect to pay stock and/or cash dividends if so determined by its board of directors based on factors such as regulatory and working capital needs, asset growth, and results of operations. Currently, however, the funds available for dividends are expected to be retained by the Bank to support the Bank's planned growth in deposits and loans. The payment of dividends by the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines and debt covenants. See "Capital Adequacy" and "Prompt Corrective Action" in this Item 1 and the discussion of "Dividends" in Item 5.

Depositor Preference

The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the "liquidation or other resolution" of such an institution by any receiver.

Tennessee Banking Regulation

The Bank is incorporated under the banking laws of the State of Tennessee. As such, the Bank is subject to a myriad of state banking and corporate laws, and to supervision, regulation and examination by the Tennessee Department of Financial Institutions, although such regulation and examination is for the protection of the banking system and not for the protection of shareholders or any other investors. The Bank files periodic reports with the Department concerning, among other things, its activities and financial condition.

Tennessee statutes regulate a variety of the banking activities of the Bank including required reserves, investments, loans, mergers and share exchanges, issuance of securities, payment of dividends, and establishment of branches. Under Tennessee law, a state bank is prohibited from lending to any one person, firm or corporation amounts more than 15% of its unimpaired capital, except (i) in the case of certain loans secured by negotiable title documents covering readily marketable nonperishable staples or (ii) with the prior approval of the Bank's board of directors or finance committee (however titled), the Bank may make a loan to one person, firm or corporation of up to 25% of its unimpaired capital. The Bank must obtain the prior approval of the Commissioner of the Tennessee Department of Financial Institutions (the "Commissioner") for a variety of matters. These include branching, mergers, acquisitions, issuances of preferred stock, charter amendments, and other matters. State and federal statutes and regulations also relate to many aspects of the Banks' operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements. Further, the Bank is required to maintain certain levels of capital. See "Capital Adequacy."

Under the Tennessee Banking Act, each Bank director must, during each director's whole term of service, be a citizen of the United States. A majority of the directors must reside in a state in which the Bank has a branch location or within one hundred (100) miles of the location of any branch, both for at least one (1) year immediately preceding their election and during their term of service as a director.

As noted above, Tennessee law restricts the amount of dividends that may be paid by the Bank. In no event is a Tennessee-chartered bank permitted to pay dividends in any calendar year that exceed the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the Commissioner. Prior regulatory approval must be obtained before declaring any dividends if the amount of the Bank's capital, and surplus is below certain statutory limits. Please refer to the discussion of "Dividends" in Item 5.

Subject to certain exceptions and the ultimate impact of the federal Interstate Banking Act, both a bank holding company and an out-of-state bank are prohibited under Tennessee law from acquiring control of, merging, or consolidating with a Tennessee bank, unless the Tennessee bank has been in operation for at least three years. Notwithstanding the above-described prohibition(s), per the recent Dodd-Frank Act, national banks and state banks are permitted to undertake *de novo* interstate banking to the extent local banks may branch. A bank or bank holding company is prohibited from acquiring any bank in Tennessee if the bank or bank holding company (including all insured depository institutions which are affiliates of the bank or bank holding company), upon consummation of the acquisition, would control thirty percent (30%) or more of the total amount of the deposits of the insured depository institutions in Tennessee. Under Tennessee law, any Tennessee bank that has been in operation for at least three years may be

acquired, under certain circumstances, by banks and bank holding companies from inside or outside Tennessee. Acquisitions are subject to the approval of the Commissioner and the Federal Reserve Board based upon a variety of statutory and regulatory criteria. Branching is regulated generally by the Tennessee Department of Financial Institutions and the Federal Reserve Board pursuant to certain state and federal law requirements.

Regulation by Federal Agencies

The Federal Reserve Board is the Bank's primary federal regulator. The Bank is subject to supervision, examination and regulation by the Federal Reserve Board; however, such supervision, examination and regulation is intended to protect the banking system in general and the deposit insurance fund managed by the FDIC in particular. It is not designed to protect shareholders or other stakeholders of the Bank. It is intended that the Bank's deposit accounts will always be insured up to applicable limits by the FDIC. The Bank files and will continue to be required to file reports with the Federal Reserve Board concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to consummating certain transactions, including branching, mergers or acquisitions. The Federal Deposit Insurance Act serves to limit the amount of dividends payable by the Bank. See "Payment of Dividends."

The deposits of the Bank are insured to a maximum of \$250,000 per depositor, subject to certain aggregation rules that can have the effect of limiting the amount of deposit insurance coverage. The FDIC establishes rates for the payment of premiums by federally-insured banks and thrifts for deposit insurance. Separate insurance funds (the Bank Insurance Fund, and the Savings Association Insurance Fund) have been maintained for commercial banks and thrifts, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. These funds were merged pursuant to the Federal Deposit Insurance Reform Act. The FDIC has adopted a risk-based deposit insurance premium system for all insured depository institutions, including the Bank, which requires that a depository institution pay a premium for deposit insurance on insured deposits depending on its capital levels and risk profile, as determined by its primary federal regulator on a semi-annual basis. Effective April 1, 2011, the assessment base will be calculated using average total assets adjusted for the Bank's tangible equity. This change was established by the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). This change was designed to allocate more of the FDIC's assessments to the larger financial institutions, which generally carry more risk than smaller community banks.

The federal banking regulators have adopted regulations under the Federal Deposit Insurance Act governing the receipt of brokered deposits. Under the regulations, an FDIC-insured depository institution cannot accept, roll over or renew brokered deposits unless (a) it is well-capitalized or (b) it is adequately-capitalized and receives a waiver from the FDIC. A depository institution that cannot receive brokered deposits also cannot offer "pass-through" insurance on certain employee benefit accounts. Whether or not it has obtained such a waiver, an adequately-capitalized depository institution may not pay an interest rate on any deposits in excess of 75 basis points over certain prevailing market rates specified by regulation. There are no such restrictions on a depository institution that is well-capitalized. Because the Bank was well-capitalized as of December 31, 2010, the Bank believes the brokered deposits regulation will have no material effect on the funding or liquidity of MidSouth Bank. At December 31, 2010, the Bank was not dependent on brokered certificates of deposit for a material portion of its funding. See Note 6 to the Consolidated Financial Statements (Item 8).

Capital Adequacy

The FDIC has adopted risk-based capital guidelines for banks. These regulations expressly apply to the Bank. The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%, and the minimum ratio of Tier 1 Capital (defined below) to risk-weighted assets is 4%. At least half of the Total Capital must be composed of common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (Tier 1 Capital). The remainder may consist of qualifying subordinated debt, certain types of mandatory convertible securities and perpetual debt, other preferred stock, and a limited amount of loan loss reserves. (The Bank's capital ratios are presented in tabular format in this Item 1 under "Capital Requirements.")

In addition, the FDIC has established minimum leverage ratio guidelines for banks, which also apply to the Bank. These guidelines provide for a minimum ratio of Tier 1 Capital to quarterly average assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 4% for banks that meet certain specific criteria, including having the highest regulatory rating. All other banks generally are required to maintain a Leverage Ratio of at least 4%, plus an additional cushion of 100 to 200 basis points. The guidelines also provide that banks experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the FDIC has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

The FDIC, the Federal Reserve Board, and the federal Office of the Comptroller of the Currency have adopted rules to incorporate market and interest-rate risk components into their risk-based capital standards and that explicitly identify concentration of credit risk and certain risks arising from non-traditional activities, and the management of such risks, as important factors to consider in assessing an institution's overall capital adequacy. Under the market risk requirements, capital is allocated to support the amount of market risk related to a financial institution's ongoing trading activities for banks with relatively large trading activities. Institutions will be able to satisfy this additional requirement, in part, by issuing short-term subordinated debt that qualifies as Tier 3 capital. The Bank is not required to make any allocation of capital under these rules.

Management believes that the Bank was in compliance with applicable minimum capital requirements as of December 31, 2010. Failure to meet capital guidelines could subject the Bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business and in certain circumstances to the appointment of a conservator or receiver. See "Prompt Corrective Action."

The federal regulators continue to study and to propose changes to the capital requirements applicable to the Bank. There is ongoing study, discussion and regulatory debate about international capital standards known as the Basel Accords. The supervisory review aspect of the Basel framework would seek to ensure that a bank's capital position is consistent with its overall risk profile and strategy. The supervisory review process would also encourage early supervisory intervention when a bank's capital position deteriorates. The third aspect of the new framework, market discipline, would call for detailed disclosure of a bank's capital adequacy in order to encourage high disclosure standards and to enhance the role of market participants in encouraging banks to hold adequate capital. Banks must also disclose how they evaluate their own capital adequacy. The Bank does not anticipate that these changes will adversely affect it. The Bank believes that its capital position is adequate and that it meets all applicable federal capital standards. Although the Bank does not expect the on-going development of the "Basel III" framework to have any immediate impact on MidSouth Bank, any developments related to capital adequacy could eventually have an impact on it.

Please refer to Items 7 and 8 of this Annual Report on Form 10-K for additional information about the Bank's capital position, needs, and uses.

The Importance of Raising Additional Capital

In general, over the last several years financial institutions worldwide have suffered large losses. Those with sufficient capital, or with access to the capital markets, have been able to withstand those losses. Many of those that did not have sufficient capital have been closed by regulators. Those that have not been closed but which have suffered losses that have reduced their regulatory capital levels to levels below "well-capitalized" have had their growth and use of alternate funding sources curtailed by regulations, regulatory agreements or regulatory orders and some have apparently had to sell to other organizations at prices believed to be generally unfavorable to their shareholders.

The Bank believes that it is financially prudent to raise additional capital in order to avoid unnecessary future regulatory restrictions on its financing activities and its ability to grow as market opportunities appear. Thus, the Bank sold the preferred shares to raise additional capital in 2010, and with local investor interest, is initiating a capital offering in 2011. Although the Bank currently falls into the regulatory category of "well-capitalized" (the highest regulatory capital level), the Bank's board of directors believe that it is prudent for the Bank to raise additional capital for at least three reasons. First, the Bank wants to assure that it continues to be considered "well-capitalized" by banking regulators' guidelines. To fail to do so could result in various restrictions on the Bank's activities, including its ability to use alternative funding, such as brokered deposits, for funding and liquidity purposes and to resume a growth strategy as opportunities arise. Second, the board believes that it is prudent for the Bank to maintain high capital levels as a cushion intended to absorb any additional losses that it might experience and as a funding source for future growth. Third, the board and management believe that there will develop significant growth opportunities in Rutherford County and surrounding areas of Tennessee at some time in the next 12 to 18 months.

Although the Bank is "well-capitalized" at December 31, 2010, there can be no assurance that the Bank will be able to achieve the goals of remaining "well-capitalized" and obtaining significant growth in its chosen markets. See Item 1A, "Risk Factors" and Item 1, "Supervision and Regulation - Capital Adequacy" and "- Prompt Corrective Action."

Prompt Corrective Action

The Federal Deposit Insurance Act requires, among other things, that the federal banking regulators take prompt corrective action with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. Under the Federal Deposit Insurance Act, insured depository institutions are divided into five capital tiers: well-capitalized, adequately-capitalized, undercapitalized, significantly-undercapitalized, and critically-undercapitalized. Under applicable regulations, an institution is defined to be well-capitalized if it maintains a Leverage Ratio of at least 5%, a Tier 1 Capital ratio of at least 6% and a Total Risk-Based Capital ratio of at least 10% and is not subject to a directive, order or written agreement to meet and maintain specific capital levels. An institution is defined to be adequately capitalized if it meets all of its minimum capital requirements as described above. An institution will be considered undercapitalized if it fails to meet any minimum required measure, significantly-undercapitalized if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3% or a Leverage Ratio of less than 3% and critically-undercapitalized if it fails to maintain a level of tangible equity equal to at least 2% of total assets. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

The Federal Deposit Insurance Act generally prohibits an FDIC-insured depository institution from making any capital distribution (including payment of dividends) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. An insured depository institution's holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan, for the plan to be accepted by the applicable federal regulatory authority. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly-undercapitalized.

Significantly-undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately-capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically-undercapitalized depository institutions are subject to appointment of a receiver or conservator, generally within 90 days of the date on which they become critically-undercapitalized.

As set forth above under "Capital Requirements" in this Item 1, the Bank believes that, as of December 31, 2010, had sufficient capital to qualify as "well-capitalized" under applicable regulations.

General Regulatory Considerations

Under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), all insured institutions must undergo regular on-site examination by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC and the appropriate agency (and state supervisor when applicable). FDICIA also directs the FDIC to develop with other appropriate agencies a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. FDICIA also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to: (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset quality.

In response to perceived needs in financial institution regulation, Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act of 1989. That statute, called FIRREA, provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC after August 9, 1989 in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. FIRREA provides that certain types of persons affiliated with financial institutions can be fined by the federal regulatory agency having jurisdiction over a depository institution with federal deposit insurance (such as the Bank) could be fined up to \$1 million per day for each violation of certain regulations related (primarily) to lending to and transactions with executive officers, directors, and principal shareholders, including the interests of these individuals. Other violations may result in civil money penalties of \$5,000 to \$25,000 per day or in criminal fines and penalties. In addition, the FDIC has been granted enhanced authority to withdraw or to suspend deposit insurance in certain cases. The banking regulators have not been reluctant to use the new enforcement authorities provided under FIRREA. Further, regulators have broad power to issue cease and

desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts or take other actions as determined by the ordering agency to be appropriate.

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

The Bank is currently subject to a formal supervisory agreement (a Written Agreement) with the Federal Reserve Bank of Atlanta to address certain issues identified in the Bank's regulatory examination from the fourth quarter of 2009. In general, the terms of the Written Agreement involve the Bank developing plans for capital, improving specific classified assets, reducing non-performing assets, enhancing loan policies and procedures, improving asset quality, enhanced Board reporting, budgeting, maintaining and monitoring liquidity, and achieving profitability. Administrative actions generally require certain corrective steps, impose specific reporting guidelines, impose limits on activities, prescribe lending parameters, and in some cases, require additional capital to be raised. In many cases, policies must be revised by the institution and submitted to the regulatory authority for approval within time frames prescribed by the regulatory authorities. The failure or inability to comply with the administrative action could subject the Bank and its directors to additional regulatory actions and could have a material adverse effect on our financial condition, results of operations and prospects, could impact the Bank's ability to continue with our current business plan or could result in a disposition of the Bank. Generally, these enforcement actions will be lifted only after subsequent examinations substantiate correction of the underlying regulatory concerns.

The Community Reinvestment Act

The federal law known as the Community Reinvestment Act requires that each insured depository institution shall be evaluated by its primary federal regulator with respect to its record in meeting the credit needs of its local community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

A bank's compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution's lending service and investment performance. When a bank holding company applies for approval to acquire a bank or other bank holding company, the Federal Reserve Board will review the assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application. In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." As of its most recent CRA examination, the Bank was rated at least "satisfactory."

Safety and Soundness Standards

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and

prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Financial Services Modernization Act

The Gramm-Leach-Bliley Act of 1999 (the “Financial Services Modernization Act”) became law on November 12, 1999. The Financial Services Modernization Act repeals the two affiliation provisions of the Glass-Steagall Act: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms “engaged principally” in specified securities activities; and Section 32, which restricts officer, director, or employee interlocks between a member bank and any company or person “primarily engaged” in specified securities activities. In addition, the Financial Services Modernization Act also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general intent of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the Bank Holding Company Act framework to permit a holding company system to engage in a full range of financial activities through a new entity known as a Financial Holding Company. The term “financial activities” is broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Financial Services Modernization Act is also known as the “Gramm-Leach-Bliley Act of 1999.”

The Bank does not believe that the Financial Services Modernization Act has had or will have a material adverse effect on its operations in the near-term; however, to the extent that it permits banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. As a result, the Bank may find that it is compelled to compete with even larger and more diversified financial institutions than is currently the case. The Financial Services Modernization Act is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, this law may have the result of increasing the amount of competition that the Bank may face from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Bank. MidSouth Bank cannot predict the potential effect that the Act will have on its business and operations, although the Bank expects that the general effect of the Act will be to increase competition, and possibly to encourage further consolidation, in the financial services industry generally.

USA PATRIOT Act

After the terrorist attacks of September 11, 2001, Congress enacted broad anti-terrorism legislation called the “United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001,” which is generally known as the “USA PATRIOT Act.” Title III of the Act requires financial institutions, including MidSouth Bank, to help prevent, detect and prosecute international money laundering and the financing of terrorism. The Department of the Treasury has adopted additional requirements to further implement Title III.

The law is intended to enhance the powers of the federal government and law enforcement organizations to combat terrorism, organized crime and money laundering. The USA PATRIOT Act materially

amended and expanded the application of the existing Bank Secrecy Act. It provided enhanced measures regarding customer identity, new suspicious activity reporting rules and enhanced anti-money laundering programs. Under the Act, each financial institution is required to establish and maintain anti-money laundering compliance and due diligence programs, which include, at a minimum, the development of internal policies, procedures, and controls; the designation of a compliance officer; an ongoing employee training program; and an independent audit function to test programs. In addition, the Act requires the bank regulatory agencies to consider the record of a bank or bank holding company in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions.

The federal Treasury Department has issued regulations under the USA PATRIOT Act. The regulations state that a depository institution will be deemed in compliance with the Act provided it continues to comply with the current Bank Secrecy Act regulations. Under these regulations, a mechanism has been established for law enforcement to communicate names of suspected terrorists and money launderers to financial institutions, in return for securing the ability to promptly locate accounts and transactions involving those suspects. Financial institutions receiving names of suspects must search their account and transaction records for potential matches and report positive results to the Treasury's Financial Crimes Enforcement Network ("FinCEN"). Each financial institution must designate a point of contact to receive information requests. These regulations outline how financial institutions can share information concerning suspected terrorist and money laundering activity with other financial institutions under the protection from the statutory safe harbor from liability, provided each financial institution notifies FinCEN of its intent to share information.

The Department of the Treasury has also adopted regulations intended to prevent money laundering and terrorist financing through correspondent accounts maintained by United States financial institutions on behalf of foreign banks. Financial institutions are required to take reasonable steps to ensure that they are not providing banking services directly or indirectly to foreign shell banks.

The Bank believes that its systems and procedures accomplish compliance with these requirements. This law and the related regulations impose some continuing costs on the Bank. In 2010, the direct and indirect costs of compliance with the Act were not, and during 2011 are not expected to be, material.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), a sweeping financial reform bill, was signed into law and will result in a number of new regulations that could significantly impact regulatory compliance costs and the operations of community banks. The Dodd-Frank Act includes, among other things, provisions establishing a Bureau of Consumer Financial Protection, which will have broad authority to develop and implement rules regarding most consumer financial products; provisions affecting corporate governance and executive compensation at all publicly-traded companies; provisions that broaden the base for FDIC insurance assessments and permanently increase FDIC deposit insurance coverage to \$250,000; and new restrictions on how mortgage brokers and loan originators may be compensated.

This law and the related regulations will impose some additional and continuing costs on the Bank, especially in relation to new consumer compliance regulations that are expected to be developed over the course of the next couple of years. In 2010, the direct and indirect costs of compliance with the Act were not, and during 2011 are not expected to be, material.

Competition

MidSouth Bank operates in a highly competitive environment. The Bank is a relatively small commercial bank that competes for business with many far-larger organizations. The Bank must compete with bank holding companies, commercial banks, savings and loan associations and other thrift institutions, credit unions, brokerage and investment banking firms, money market and other mutual funds for deposits, and other sources of funds. In addition, they compete with a variety of other financial services firms, such as finance companies, mortgage loan companies, leasing companies, merchant banks, insurance agencies and insurance companies. Many of these competitors are not subject to the same regulatory restrictions as are bank holding companies and banks. Thus MidSouth Bank competes with businesses that do not have either the direct or indirect costs imposed by federal and state regulation, and thus which may have a competitive advantage over it. The deregulation of depository institutions, as well as the increased ability of nonbanking financial institutions to provide services previously reserved for commercial banks, has intensified competition. Because nonbanking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, in many instances they may operate with greater flexibility because they may not be subject to the same types of regulatory applications, processes and costs as is the Bank.

The principal geographic area of the Bank's operations encompasses Rutherford County, Tennessee, and other areas of Tennessee contiguous to Rutherford County. These areas are located in the Nashville-Davidson-Murfreesboro-Franklin Metropolitan Statistical Area (the "MSA"). In the MSA, there were 60 commercial financial institutions operating 564 offices as of June 30, 2010 (based on data published by the FDIC). Aggregate deposits in the market at that date were over \$37.1 billion (again, based on data published by the FDIC). Within the defined service area of the Bank's main office, the banking business is highly competitive. In Rutherford County there are an estimated 18 financial institutions operating 78 offices exclusive of free-standing ATM's) and holding deposits of over \$2.9 billion (Source: FDIC as of June 30, 2010). The Bank's competitors include some of the largest bank holding companies in Tennessee, which have or control businesses, banks or branches in the area, including financial institutions with national and regional scope, as well as with a variety of other local banks, financial institutions, and financial services companies.

To compete with major financial institutions in its service area, the Bank relies, in part, on specialized services, on a high level of personalized service and intensive customer-oriented services, local promotional activity, and personal contacts with customers by its officers, directors, and employees. For customers whose loan demands exceed the Bank's lending limit, the Bank seeks to arrange for loans on a participation basis with correspondent banks. The Bank also assists customers requiring services not offered by the Bank in obtaining those services from its correspondent banks or other sources. Due to the intense competition in the financial industry, the Bank can make no representation that its competitive position has remained constant, nor can it predict whether its position will change in the future.

Personnel

At year-end 2010, the Bank employed 71 full-time equivalent personnel, including officers but not including contract labor for certain services. None of these employees is covered by a collective-bargaining agreement. Group life, health, dental, and disability insurance are maintained for or made available to employees by the Bank, as is a 401(k) profit-sharing plan adopted by the Bank as are certain benefit plans (described elsewhere herein) adopted by the Bank. The Bank considers employee relations to be satisfactory.

Economic Conditions and Governmental Policy; Laws and Regulations

The Bank's profitability, like most financial institutions, is primarily dependent on interest rate differentials and non-interest income. In general, the difference between the interest rates paid by the

Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on its interest-earning assets, such as loans extended to its borrowers, together with securities held in its investment portfolio, comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank, such as inflation, recession and unemployment, and the impact which future changes in domestic and even in foreign economic conditions might have on the Bank cannot be predicted by MidSouth Bank.

The Bank's earnings are affected not only by the extensive regulation described above, but also by general economic conditions. These economic conditions influence, and are themselves influenced by, the monetary and fiscal policies of the United States government and its various agencies, particularly the Federal Reserve Board. An important function of the Federal Reserve System is to regulate the national money supply. The Federal Reserve Board implements national monetary policies (with objectives such as addressing inflationary and recessionary pressures) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. As described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," changes in interest rates effected by the Federal Reserve Board can have a material impact on the Bank. For example, the impact can be to narrow the Bank's net interest margin (the difference between what the Bank pays for deposits and what the Bank charges for loans), thus adversely affecting earnings. The nature and impact on the Bank of any future changes in monetary and fiscal policies cannot be predicted.

The Bank is also affected by the supervisory activities and regulatory policies of various bank regulatory authorities, including the Tennessee Department of Financial Institutions, the FDIC, the Federal Reserve Board, and the federal Office of the Comptroller of the Currency. Regulatory policies, examinations and initiatives impose costs on the Bank and influence its internal governance and operations. Certain of those developments include changes in interest rates established by the Federal Reserve Board. Fluctuations in interest rates can have a detrimental impact on the Bank's earnings and its ability to manage assets and liabilities in the desired orderly manner. Please refer also to the Bank's Consolidated Financial Statements (Item 8) and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7) for additional information.

From time-to-time, legislative acts, as well as regulations, are enacted which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently made in the federal Congress, in the state legislatures, and before various regulatory agencies. Please refer to "Item 1. Business - Supervision and Regulation."

Also, as a result of the Federal Reserve's recent monetary policy, prime lending rates have continued to remain low with no expectation of changing in the near future. As a result, the Bank's net interest margins have improved since the Bank has been able to reduce rates on short-term interest-bearing liabilities and increase rates on loans as they mature and are renewed. Until the Federal Reserve Board increases its prime rate, the Bank's margins will probably remain at or close to their current levels; however, the nature and impact on the Bank of any future changes in monetary and fiscal policies cannot be predicted.

Transactions with the Bank's Accountants

As a matter of policy, the Bank avoids being involved in transactions with its firm of independent certified public accountants that would, in the Bank's view, jeopardize that firm's independence. The Bank values the work and the independent perspective offered by that firm but engages in no material consulting service agreements with that firm. For example, in 2010, the fees for audit and audit-related services for the Bank were \$77,367 and \$8,990, respectively. Audit fees represent fees for professional services provided in connection with the audit of our consolidated financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings. Audit-related fees consisted primarily of accounting consultations, services related to assistance with regulatory capital planning, services related to the recent offering circular, and services related to the Bank's investment division. Additional information concerning the Bank's principal accountants is set forth in Item 14 of this report under the caption "Principal Accountant Fees and Services."

Environmental Matters

The Bank is subject to various federal, state and local statutes and ordinances regulating the discharge of materials into the environment. The Bank does not believe that it will be required to expend any material amounts in order to comply with these laws and regulations by virtue of the Bank's activities; however, such laws may from time-to-time affect the Bank in the context of lending activities to borrowers who may themselves engage in activities or encounter circumstances in which the environmental laws, rules, and regulations are implicated.

Research

The Bank makes no material expenditures for research and development.

Off-Balance Sheet Financing

The Bank's off-balance sheet financing (such as unfunded lines of credit and outstanding standby letters of credit) is undertaken in the normal course of its banking business and is discussed in Note 12 of the Consolidated Financial Statements (Item 8).

Dependence upon a Single Customer

The Bank's principal customers are generally located in the Middle Tennessee area with a concentration in Rutherford County in Tennessee. The Bank is not dependent upon a single customer or a very few customers; however, a substantial percentage of the Bank's total loans is secured by commercial real estate, most of which property is located in Rutherford County, Tennessee. Accordingly, the Bank has a significant concentration of credit that is dependent, under certain circumstances, on the strength of the local real estate market. The Bank's loan portfolio has been negatively affected by declines in the Rutherford County and Middle Tennessee real estate markets. Please refer to "Factors That May Affect Future Results of Operations" and "Certain Risk Factors Related to MidSouth Bank," appearing in this Item 1 and Item 1A, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 7, and the Bank's Consolidated Financial Statements in Item 8 of this Report.

Please refer to the section of this report below entitled "Recent Developments and Future Legislation" for information concerning recent developments that could have an impact on the Bank's ability to expand its loans that are secured by commercial real estate or that are secured by non-traditional mortgage instruments.

Line of Business

The Bank's principal business is the operation of a commercial banking business in a community bank framework with offices serving rural, micropolitan, suburban and urban markets. The Bank operates under the Tennessee Banking Act, the Federal Reserve Act, and the Federal Deposit Insurance Act in the area of finance. The Bank derived virtually all of its total operating income from the commercial banking business in 2010. Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7) and to the Notes to the Consolidated Financial Statements (Item 8) for additional information about the Bank's business activities.

Factors That May Affect Future Results of Operations

In addition to the other information contained in this document, the following risks may affect MidSouth Bank. If any of these risks occurs, the Bank's business, financial condition or operating results could be adversely affected.

The Bank's financial performance and profitability will depend on its ability to execute its corporate growth strategy and to manage recent and anticipated future growth. The Bank's success and profitability depend on its ability to maintain profitable operations through continued implementation of its community banking philosophy which emphasizes local focus, local knowledge and insight, accessibility and continuity of management, personal service and customer attention.

Changes in market interest rates may adversely affect the Bank's earnings. Interest rates affect the demand for new loans, the credit profile of existing loans, the rates received on loans and securities and rates paid on deposits and borrowings, and thus directly impact bank earnings. The relationship between the rates received on loans and securities and the rates paid on deposits and borrowings is known as interest rate spread. The Bank will typically have to structure its interest rate strategy in such a way that movements in rates up or down could have either a positive or negative impact on its earnings. Although management believes that it can successfully manage interest rate risk, and interest rate sensitivity, investors must realize that significant fluctuations and/or changes in interest rates may have an adverse effect on the Bank's business, financial condition and results of operations from time-to-time. Even a technically "correct" interest rate sensitivity strategy is not a guarantee of success, because, for example, interest rate increases that may benefit the Bank's short-term earnings may have a long-term negative effect on the Bank's customers and, thus, on the Bank's long-term profitability.

The Bank's focus is on Middle Tennessee and, thus, economic conditions in this part of Tennessee could adversely affect its operations. This is true because the Bank's operations are, and can be expected to continue to be, centralized and focused on this relatively narrowly defined geographic area. As a result of this geographic concentration, the Bank's operating results depend largely upon economic conditions in this area. The deterioration in economic conditions in this market area, particularly in the real estate, construction, light industrial, or automotive sectors in which this area is heavily invested, have had a material adverse impact on the quality of the Bank's loan portfolio and on the demand for the Bank's products and services, which in turn has had a material adverse effect on results of operations of the Bank. Continued economic decline in Middle Tennessee, especially in Rutherford County, would be expected to make it more difficult for the Bank to maintain profitability in 2011; however, the Bank's management and Board of Directors have responded to problems confronting the Bank in a manner calculated to identify problems, manage net interest margin carefully, streamline costs, and revise underwriting standards in light of difficulties in the local real estate market. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7).

In addition to the slowing national, regional and local economies, the "subprime" issue has greatly affected real estate lending in many locations, although not so extensively in our market areas as in other areas of the United States. Our Bank does not originate, make or service subprime loans. We do not invest in securities that are backed by subprime loans; however, we believe that the media's constant reporting on the problems stemming from or related to such mortgages has created the impression that all financial

institutions are threatened by the subprime loan issues. Although our Bank and many other banks, especially community banks like MidSouth Bank, have not engaged in this type of lending, our Bank and our markets are affected by consumer concerns over these issues and, combined with the impact of an economic recession, including a slow down related to real estate development in our markets, we may continue to experience serious challenges in real estate lending as 2011 develops. Subprime concerns, the likelihood of increased regulatory burdens as Congress, state legislators, and regulators attempt to ameliorate current conditions and to avoid comparable future problems, can also be expected to make 2011, and possibly 2012, challenging years from the standpoint of growth and earnings. MidSouth Bank remains well-capitalized and has no subprime loans in its portfolio.

As discussed above, the Bank is subject to government regulation that could limit or restrict its activities, including the restrictions or limitations that may result from the recent “guidances” related to commercial real estate lending and the use of non-traditional mortgage products. In turn, this could adversely impact operations. The financial services industry is regulated extensively. These regulations can sometimes impose significant limitations on Bank operations. In addition, these regulations are constantly evolving and may change significantly over time. Significant new laws or changes in existing laws or repeal of existing laws may cause the Bank’s results to differ materially from those anticipated by the directors. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions for the Bank. The ultimate impact of financial institution affiliations under recent federal legislation, like the Dodd-Frank Act, and other future aspects of that law, cannot yet be predicted but could adversely affect the Bank. The impact of recent statutes and regulatory legislation described below (and perhaps yet to be enacted) cannot be predicted at this time.

Competition may negatively affect the Bank’s performance. The financial services business in the Bank’s market areas is highly competitive. It is becoming increasingly competitive due to changes in regulation, technological advances, and the accelerating pace of consolidation among financial services providers. The Bank will face extensive competition both in attracting deposits and in making loans. The Bank will compete for loans principally through the interest rates and loan fees charged and the efficiency and quality of services provided. Increasing levels of competition in the banking and financial services businesses may reduce the Bank’s projected growth and its market share or cause the prices (or margins) charged or chargeable by the Bank for products and services to fall. Thus, results may differ from those projected by the directors depending upon the nature or level of competition, and they can be expected to vary from time-to-time.

If a significant number of the Bank’s borrowers, guarantors and related parties fail to perform as required by the terms of their loans, the Bank will almost certainly sustain losses. The Bank has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believes are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying the Bank’s credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect consolidated results of operations. In the banking business, loan losses are a cost of doing business that negatively affect earnings. The economic slow down and rapid decline in local real estate values have resulted in losses and substantial additions to the Bank’s loan loss reserve.

Please refer to “Cautionary Note Regarding Forward-Looking Statements” in Part I and “Certain Risk Factors Related to MidSouth Bank” in this Item 1.

Recent Developments and Future Legislation

FDIC Deposit Insurance Premiums

The Bank provides insurance coverage on deposits through the FDIC to the maximum extent permitted by law. The Bank pays premiums to the FDIC for this coverage. The FDIC has expended large sums in

liquidating banks during the past two to three years, and these payments can be expected to continue for some time. In order to replenish the Bank Insurance Fund that it administers, the FDIC required financial institutions, including MidSouth Bank, to prepay their estimated deposit insurance premiums in 2009 for the next three calendar years. The impact of this prepayment on the Bank's future earnings and capital can be expected to be negative.

The provisions of the Dodd-Frank Act are expected to decrease the Bank's FDIC insurance expenses somewhat. Beginning with the assessment for the second quarter of 2011, the FDIC will be changing the deposit insurance assessment base as required by Dodd-Frank; makes changes to assessment rates; implements the Dodd-Frank Act's Deposit Insurance Fund (DIF) dividend provisions; and revises the risk-based assessment system for all large insured depository institutions (IDIs), generally, those institutions with at least \$10 billion in total assets. According to FDIC estimates, nearly all of the 7,600-plus insured financial institutions with assets less than \$10 billion will pay smaller assessments as a result of this final rule. The final assessment rule redefines the deposit insurance assessment base as average consolidated total assets minus average tangible equity, makes generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates, creates a depository institution debt adjustment, and eliminates the secured liability adjustment from the calculation.

Additional information concerning deposit insurance premiums can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" which is included as Item 7 in this Annual Report on Form 10-K.

Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act ("EESA") became law on October 3, 2008. The EESA provides authority to the U.S. Treasury to restore liquidity and stability to the U.S. financial system and to ensure the economic well-being of American citizens. The Troubled Asset Relief Program ("TARP") is included within the EESA. Within TARP is the Capital Purchase Program, and this program allows the U.S. Treasury to provide qualifying financial institutions (U.S. controlled banks, savings associations and certain bank and savings and loan holding companies) capital by purchasing shares of their senior preferred stock. Under the terms of the Capital Purchase Program participating financial institution must pay dividends (cumulative or non-cumulative) on the Preferred Shares sold to the U.S. Treasury. Other terms of the Capital Purchase Program include, but are not limited to, the issuance of common stock warrants, certain redemption restrictions, certain dividend restrictions, and certain executive compensation restrictions for as long as the U.S. Treasury owns any debt or equity securities of the participating financial institution. Also, part of EESA temporarily increased the amount of federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The provision of EESA related to this temporary increase in coverage was superseded by the provisions of the Dodd-Frank Act, which permanently increased FDIC insurance coverage to \$250,000 beginning in 2011. The Bank withdrew its application for TARP funds and does not participate in the TARP program.

FDIC - Temporary Liquidity Guarantee Program

On October 14, 2008, the Federal Deposit Insurance Corporation ("FDIC") announced the Temporary Liquidity Guarantee Program ("TLGP"). The main goals of the TLGP program were to (i) strengthen confidence, and (ii) encourage liquidity, in the banking system. The TLGP's Debt Guarantee Program guarantees certain issuances of senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts, as well as certain holding companies, and the TLGP's Transaction Account Guarantee Program provided full deposit insurance coverage for noninterest-bearing deposit transaction accounts in FDIC-insured institutions, regardless of the dollar amount. The Debt Guarantee Program is set to expire December 31, 2012, whereas the Transaction Account Guarantee Program expiration date has been extended by the provisions of the Dodd-Frank Act to December 31, 2012. In addition, the eligibility for the unlimited insurance coverage for noninterest-bearing deposits has been expanded to include Interest on Lawyer Trust Accounts ("IOLTAs").

Restrictions on Deposit Interest Rates Payable by Banks That Are Less Than "Well-Capitalized"

On May 29, 2009, the FDIC issued a final rule changing the way that it administers statutory restrictions on deposit interest rates that can be paid by banks that are "less than well-capitalized." The FDIC's existing regulation tied permissible interest rates paid by these banks on some deposits solicited nationally to the comparable maturity Treasury yield, and tied permissible interest rates on deposits solicited locally to undefined "prevailing local interest rates." Deeming this structure to be too subjective, thus allowing some weak institutions to drive up deposit costs for the rest of the industry, the FDIC opted for what it described as a simpler and more objective tool for achieving the statutory goal. The new rule defines nationally prevailing deposit rates as a direct calculation of those national averages, as computed and published by the FDIC based on data available to it. Reliance on the Treasury yields in the regulation will be discontinued. In recognition of the blurring of local deposit market boundaries brought about by the Internet and other innovations, the final rule also establishes a presumption that locally prevailing deposit rates equal the national rates published by the FDIC. This presumption could be overturned by evidence presented by banks to the FDIC. The rule became effective January 1, 2010.

Enhanced Supervisory Procedures for Newly-Insured FDIC-Supervised Institutions

On August 28, 2009, the FDIC announced new regulatory treatment for depository institutions insured less than seven years. These institutions are so-called "de novo" institutions. Previously, de novo status expired after three years from the date the institution opened for business. Under current policy, newly insured FDIC-supervised institutions are subject to higher capital requirements and more frequent examination activities during the first three years of operation. The FDIC is extending its procedures for these institutions from three to seven years. This change is consistent with the deposit insurance assessment rules, which require newly insured banks generally to pay higher assessments for a period longer than three years of operation (for assessment purposes, the period is five years). The FDIC also is revising the visitation and examination schedules for risk management and compliance examinations and the Community Reinvestment Act (CRA) evaluations for newly insured FDIC-supervised institutions. Specifically, for risk management, newly insured state nonmember institutions will undergo a limited-scope examination within the first six months of operation and a full-scope examination within the first 12 months of operation. Subsequent to the first examination and through the seventh year of operation, the institution will remain on a 12-month examination cycle. Extended examination intervals (i.e., 18-month intervals) will not be applied during the first seven years of operation. The FDIC also intends to limit changes that newly insured financial institutions may apply to make to their business plans. This goal is intended to avoid perceived problems experienced by de novo institutions caused by, among other things, rapid growth, over-reliance on volatile funding, including brokered deposits, concentrations without compensatory management controls, significant deviations from approved business plans, weak risk management practices, unseasoned loan portfolios, which masked potential deterioration during an economic downturn, and weak compliance management systems leading to significant consumer

protection problems. In those instances when an institution has implemented a material change in its business plan without obtaining the FDIC's prior non-objection during the de novo period, the FDIC can consider assessing civil money penalties or other enforcement action.

Newly-insured state nonmember institutions that have not yet reached the end of the third year of operation at the time of the issuance of this rule will be required to submit financial projections and updated business plans for years four through seven. All institutions operating within the seven-year de novo period will be subject to the 12-month examination cycle through the end of the seventh year of operation. It appears, therefore, that if this approach is adopted by the Federal Reserve Board, the Bank will be subject to the 12-month examination cycle but not the other requirements of the rule. The rule could, however, be expanded by the FDIC and/or the Federal Reserve Board.

Other Legislation

The foregoing list is not intended to be exclusive or exhaustive. Other legislative and regulatory proposals, even within the foregoing regulations, that affect commercial banks and their competitors, and regarding changes in banking and the regulation of banks, thrifts and other financial institutions and bank and bank holding company powers, are being considered by the executive branch of the Federal government, Congress and various state governments, including Tennessee. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry. Presently, the United States Congress is considering a wide range of change to the structure of bank regulation and consumer protection. It cannot be reliably predicted whether any of these proposals will be adopted, and, if adopted, how they will affect the Bank.

Recent Accounting Developments

The impact of new accounting pronouncements are addressed in Note 1(s) to the Bank's Consolidated Financial Statements (Item 8).

Selected Financial Data and Statistical Information

Please refer to Item 6, "Selected Financial Data" and to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Executive Officers of MidSouth Bank

The following information relates to the Bank's executive officer team and provides name, age, and experience over the past five years for each such person. During 2003, with the exception of Mr. Busbey, all of these individuals were involved in forming MidSouth Bank as a Tennessee-chartered commercial bank. The Bank initially opened for business in January of 2004. Prior to joining MidSouth Bank during its organizational phase, each of these individuals was an officer of another bank in the Rutherford County market, except that Mr. Busbey served as Controller for a bank located in Davidson County.

Name	Age	Office and Business Experience
Lee M. Moss	59	Chairman and Chief Executive Officer, MidSouth Bank, 2003 – present.
Dallas G. Caudle, Jr.	63	President and Chief Operating Officer, MidSouth Bank, 2009 – present; Executive Vice President, Chief Operating Officer, and Corporate Secretary of MidSouth Bank, 2003 – 2009.
Elisabeth A. Taylor	52	Senior Vice President, MidSouth Bank, 2003 – present.
Kevin D. Busbey	47	Senior Vice President and Chief Financial Officer, MidSouth Bank, October 2007 – present; Controller, competitor bank, October 2001 – September 2007.
D. Edwin Jernigan, Jr.	43	Senior Vice President, MidSouth Bank, 2003 – present; Corporate Secretary, MidSouth Bank, 2009 – present.

The executive officers are appointed by, and serve at the discretion of, the Bank’s board of directors. Officers are elected annually by the Bank’s board of directors. It is anticipated that the named officers will be elected to the positions set forth for them in the proxy statement. No executive officer has an employment contract with the Bank, although the board has determined to explore such agreements in order to help assure continuity and stability of management. There is no family relationship between any of the above-named officers.

Where to Find Additional Information

Shareholders may obtain copies of the Bank’s prior annual reports on Form 10-K and 10-KSB, quarterly reports on Forms 10-Q and 10-QSB, current reports on Form 8-K, and any amendments to these reports, by sending a written request addressed to Investor Services, MidSouth Bank, One East College Street, Post Office Box 7100, Murfreesboro, Tennessee 37133-7100. We also post certain reports on our website at www.midsouthbanking.com; however, even though we make reference to our website address in this Annual Report on Form 10-K, it is intended as a textual reference only and the information in or referenced by the website is not incorporated by reference herein or in any other filing made by the Bank under the Securities Exchange Act.

ITEM 1A. RISK FACTORS

Certain Risk Factors Related to MidSouth Bank

The following are certain risks that management believes are specific to the business of MidSouth Bank; however, this discussion should not be viewed as an all inclusive list or to be prioritized in an order most relevant to all investors. The discussion is intended to focus on risks that Bank management believes relate to our banking business in the Nashville-Davidson-Murfreesboro MSA. Also, we have not tried to list every possible risk that can affect an investment but only those risks that we believe are specifically related to our Bank at this time. Each risk factor stands on its own, and we have not tried to rank or prioritize the risks in any way. Moreover, we have not tried to list every risk that attends an investment or every possible risk that could be applicable to a financial services or commercial banking business like that conducted by the Bank.

Current capital restraints may limit our ability to fund operations. The Bank's capital level is currently above the regulatory threshold for the "well-capitalized" category, which is the highest regulatory category for capital. The Bank is offering up to 550,000 Preferred Shares in the Offering for the purpose of raising additional capital to assure, to the extent practicable, that the Bank's capital level can be maintained at or above the "well capitalized" level. Failure to maintain that capital level could be expected to impose significant limitations on the Bank's ability to obtain certain types of deposits and, as a result, would almost certainly have the effect of limiting the Bank's operations. This would, also, almost certainly slow or restrict the Bank's growth and profitability. There can be no assurance that the Bank will be able to achieve the goals of remaining "well-capitalized" and continuing its profitability in 2011 or later years. See Item 1 "Supervision and Regulation-Capital Adequacy" and "-Prompt Corrective Action."

The Bank is subject to a formal regulatory agreement. The Bank is currently subject to a supervisory agreement (a formal agreement) with the Federal Reserve Bank of Atlanta under which the Bank is required to address certain issues raised in the Bank's regulatory examinations. In general, the terms of these regulatory agreements involve capital, asset quality, enhanced reporting, budgeting, liquidity, overhead expenses, and the need for the Bank to develop and achieve a profit plan. The Bank became subject to this regulatory intervention primarily due to the high level of non-performing assets, loan losses, and lack of consistent profitability, and the resulting impact on its financial condition. These regulatory agreements were designed to remedy the deficiencies noted in regulatory reports of examination. The agreement requires the Bank to take certain corrective steps, impose limits on activities, prescribe lending parameters and require capital plans to be instituted. This administrative action places special emphasis on capital, internal controls, allocations to the Bank's loan loss reserve, asset quality, commercial real estate concentration, profitability, regulatory capital levels, and core funding. Our failure or inability to comply with our regulatory agreement could subject the Bank and its directors to additional regulatory actions and could have a material adverse effect on our financial condition, results of operations and prospects, could impact the Bank's ability to continue with our current business plan or could result in a disposition of the Bank. Generally, these enforcement actions will be lifted only after subsequent examinations substantiate correction of the underlying regulatory concerns. See Item 1, "Supervision and Regulation - General Regulatory Considerations."

Future loan losses may exceed our allowance for loan losses. We are subject to credit risk, which is the risk of losing principal or interest due to borrowers' failure to repay loans in accordance with their terms. In 2008 and for most of 2009, the Bank made substantial provisions to its loan loss reserve in light of deteriorating economic and real estate conditions, and subsequently realized significant loan losses in 2009. The Bank reported a profit for 2010 (unaudited). Continued stagnation or declines in the local real estate market, unforeseen changes or fluctuations in interest rates, and a variety of other economic factors (such as increased unemployment levels), have and can be expected to have a negative effect on collateral values and borrowers' ability to repay. Any continuing and significant deterioration in local, regional, national or international economic conditions, and continued slow, flat or negative job growth, could

result in additional losses to our Bank in excess of our allowance for loan losses. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual, thereby reducing interest income. To the extent loan charge-offs exceed our financial models, increased amounts charged to the provision for loan losses would reduce income. Please refer to Item 7 (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) and Item 8 (“Consolidated Financial Statements”) for more information about the Bank’s capital, loans, allowance for loan losses, deposits, and other financial information.

The level of existing and new capital that we raise may be inadequate for our needs. As noted above, the Bank’s capital level currently falls within the regulatory capital level called “well capitalized.” This is the highest regulatory category for bank capital. The Bank wants to raise additional capital for three primary, interrelated purposes. As losses have mounted, there has been downward pressure on the Bank’s capital. The lower the Bank’s capital as a percentage of its assets, the less growth that it can achieve and the more difficult it will become for the Bank to grow or operate profitably. If the Bank’s capital falls below the “well capitalized” level, there will be significant regulatory restraints on its funding sources (such as a prohibition or limitation on the Bank’s ability to use brokered deposits) and its growth. The Bank constrained its growth during 2010 largely as a result of market and capital considerations. The Bank believes that continued growth is in its best interests in today’s market as new opportunities for market penetration develop; however, without additional capital, it cannot expect to take full or even significant advantage of those opportunities. There can be no assurance that the Bank will be able to achieve the goals of remaining “well capitalized” and obtaining significant growth in its chosen markets. See Item 1, “The Bank’s Strategic Goals” and “Supervision and Regulation - Capital Adequacy,” “- The Importance of Raising Additional Capital,” and “- Prompt Corrective Action.”

Further growth and other factors can require us to raise additional capital. Our management desires to pursue perceived opportunities in the Bank’s market area. During our history, the Bank has grown, invested in six full-service banking offices (one of which it closed pending expiration of the lease on the facility), and made loans that have frequently been secured by real estate. Recent declines in real estate values, including the values of the Bank’s collateral, have put pressure on the Bank’s earnings and on its capital levels; however, the Bank desires to continue to expand its base of quality loans. Further growth could require the Bank to raise additional capital and may expose the Bank to additional losses. No assurance can be given that the Bank could, in the future, raise all needed additional capital (or raise it at non-punitive costs). There can be no assurance that the Bank will be able to achieve its goals in this regard.

We have a concentration of our assets in real estate in the Nashville-Murfreesboro MSA. Continued softness in the Nashville-Murfreesboro MSA real estate market could adversely affect our earnings by increasing our need to fund our allowance for loan losses. We primarily focus on customers located in the Nashville-Murfreesboro MSA, particularly those in Rutherford County, Tennessee. Accordingly, much of the real estate collateral securing our loans is located in the Nashville-Murfreesboro MSA, the value of which is significantly dependent upon the growth in population, rates of employment and unemployment, income levels, deposits and housing starts in the Nashville-Murfreesboro MSA, along with the continued expansion of existing and new business in the area. The value of this collateral helps us determine if there will be any shortfall should our customer go into default. Any potential shortfall helps us determine if there will be a potential charge off against our allocated loan loss provisions. This, in turn, directly affects the amount of loan loss provisions we deem sufficient to cover any potential losses in our loan portfolio. Making provisions to our allowance for loan losses directly and adversely affects the profitability of the Bank. The economic downturn and the decline in real estate values have caused the Bank to take charge offs in its loan portfolio, to add to its loan loss reserve, and to restrict loan growth as a result of tightened underwriting standards and general economic weakness in the marketplace. The continuation or worsening of the current downturn in the market for commercial real estate could significantly and negatively affect the quality of our assets and reduce our anticipated earnings. We

cannot be sure that further declines in collateral value and loan losses will not be incurred as a result of continued softness in the Nashville-Murfreesboro MSA real estate market.

Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income. Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are key components of our net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. In general, we plan and budget to anticipate a certain range of interest rate fluctuations; however, rapid changes or volatility in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in financial instrument maturities. Further, substantially higher interest rates generally reduce loan demand and could be expected to lead to slower loan growth and increases in troubled loans. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income.

The safety and soundness of other financial institutions could adversely affect us. There are certain reputational risks for us that are dependent on the actions or inactions of other financial institutions. For example, defaults, or even rumors or questions about potential defaults, by one or more financial institutions, or the financial services industry as a whole, have led to market-wide liquidity problems and can often lead to losses in the financial services industry. As a result, together with the constant media attention focusing on the recent events in the financial services sector, all banks are often improperly grouped together as being susceptible to these same risks. These problems of public perception can serve to hamper the Bank's ability to efficiently attract deposits and to make loans. We cannot guarantee that further losses in the financial services industry as a whole, as well as negative media coverage, will not affect the Bank's operations and profitability.

An inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income. We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income.

We are subject to extensive regulatory requirements and restrictions. The Bank is subject to regulatory capital requirements administered by the Federal Reserve Board and the Tennessee Department of Financial Institutions. Compliance with state and federal banking laws has had and will continue to have a material impact on the business and operations of the Bank. The Bank's future operation will at all times be subject to state and federal banking laws, rules, regulations and procedures. Consistent with the public policy inherent in those laws to protect the financial stability of the banking system, and consumer and commercial confidence in that system, as well as the FDIC's deposit insurance fund, the Bank will be required to adhere strictly to all such laws, rules, regulations, and procedures. Depository financial institutions in general, and commercial banks in particular (including the Bank), continue to be heavily regulated as to both the types and quality of the businesses in which they may engage. Although these regulations impose costs upon these institutions, including the Bank, they should not be assumed to be a protection for any particular shareholder or for shareholders as a group. These regulations may change rapidly and unpredictably. See Item 1, "Supervision and Regulation."

The Bank's securities are not listed or traded on any recognized or established securities market, and no such market is expected to develop, thus potentially reducing the marketability of the stock. The shares of the Bank's common stock are not publicly traded, nor do we expect that a recognized or established public trading market will develop for the Preferred Shares or for the Warrant Shares, or for the shares of common stock into which the Preferred Shares will be converted. Most transactions in our common stock are privately negotiated trades, and the Bank's common stock is very thinly traded when it

trades at all. These factors can reduce the marketability of both our common shares and our Preferred Shares and this lack of obvious liquidity can produce downward pressure on the price for which these securities can be sold. Even under circumstances where the Bank would not be prohibited from purchasing its own stock from its shareholders, the Bank has no present intention of repurchasing its own securities, whether common stock or preferred stock (including the Preferred Shares), thereby further restricting marketability. In any event, any such repurchase would be subject to prior regulatory approval which might or might not be obtainable. See Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

The financial services industry is extremely competitive in the Nashville-Murfreesboro MSA. In general, we need to attract stable deposits at the lowest possible average cost. We must then lend or invest those deposits at a profit. We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. In the Nashville-Murfreesboro MSA, our competitors include other community banks, larger banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. Many of these competitors have substantially greater resources than we have and some may operate with significantly less regulatory expense or restriction.

We expect increased competition from the U.S. Treasury’s Capital Purchase Program recipients that are financial institutions. A number of our larger competitors have received additional capital from the U.S. Treasury’s Capital Purchase Program to help them sustain their regulatory capital requirements during the economic recession. In some respects, this may place these competitors at a competitive advantage in that this ostensibly “low cost” capital provides them with additional capital to support loan growth, funding for expenses, which can include loan loss provisions, and potential acquisition capital. As a result, they may be able to offer more competitive rates of interest, both for their loans and their deposits. This increased competition may limit or reduce our profitability, reduce our ability to achieve our growth targets, and adversely affect our results of operations and financial condition.

The expense related to FDIC Insurance has increased significantly and increases are likely to continue. The Bank provides insurance coverage on deposits through the FDIC to the maximum extent permitted by law. The Bank pays premiums to the FDIC for this coverage. The premiums paid by the Bank for FDIC insurance have increased significantly since 2009 and could continue to increase until such time as the FDIC has replenished the deposit insurance fund that it manages. Presently, the exact amount of any future increase is not known. Such increases in FDIC insurance premiums can be expected to apply to all banks. They can be expected to increase the operating costs of the Bank that may amount to several hundred thousand dollars a year for the foreseeable future. In addition, as a result of its recent loan loss experience the Bank is currently paying higher deposit insurance premiums than some other insured financial institutions. Please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We have not paid cash dividends and we expect to retain most or all of our earnings to support continued operations and anticipated future growth. We have not paid a cash dividend since we began full-service banking operations. The payment of dividends is subject to legal, regulatory, financial, and prudential limitations and they are never assured. Because of the rapid growth of our Bank, and management’s plan to increase the Bank’s growth, it is likely that cash will be retained for operations rather than being paid out in cash dividends for the foreseeable future. There are legal restrictions on the Bank’s ability to pay dividends and, if the Bank fails to become and remain profitable, dividends will not be permitted to be declared or paid.

The holders of common stock are entitled to receive, *pro rata*, such dividends and other distributions as and when declared by the Bank’s board of directors out of the assets and funds legally available therefor. Dividends may be paid on the common stock, however, only if also paid on the Bank’s preferred stock. The Bank may legally declare dividends only from its undivided profits account so long as its reserve

against deposits is not or will not be impaired beyond certain prescribed limits. Even assuming the availability of net or accumulated earnings (if any), and any assumed capacity to maintain capital at levels required by governmental regulations, the Bank may choose to retain all earnings for the continued operation of the Bank. Making or retaining an investment in Bank common stock may be inappropriate for any investor who relies on or needs dividend income. There are certain limitations under federal and Tennessee law on the payment of dividends by banks and bank holding companies. These regulations have the effect of limiting the amount of dividends payable by the Bank. See Item 5, “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” and Item 1, “Supervision and Regulation - Payment of Dividends.”

We are not required to pay cash dividends on the preferred shares. We are not required to pay cash or other dividends on the preferred shares (whether Series 2009A or Series 2011-A) and we do not currently anticipate paying any such dividends. To the extent permitted by applicable regulatory agencies and state law, the preferred shares would allow the Bank-at its sole option-to pay a cash dividend when, and if, it elected to do so. The cash dividend would not be guaranteed and would not be cumulative. It would not affect the conversion rate. The rate of dividend will not be fixed but will not be less than the amount of dividend to be paid per share on the common stock if the Bank declared a dividend on the common stock. No cash dividend could be paid on the ordinary common stock for any specified period unless the dividend on the Series 2009A and the Series 2011-A preferred stock had been paid or declared and reserved for prompt payment; however, if no dividends were paid on the preferred shares for any specified period, the Bank would have the right to pay dividends on the common stock in the future so long as a dividend were paid on the preferred shares for the same period or periods. There are legal restrictions on the Bank’s ability to pay dividends. See Item 1 “Supervision and Regulation-Payment of Dividends.”

Our securities are subject to further dilution. Our charter does not provide for preemptive rights for shareholders to purchase shares in any offering of our securities, whether of common stock, preferred stock, or any other type of security. There can be expected to be dilution of voting power and ownership percentage, and possibly of economic value, by virtue of the shares offering as a result of the Bank’s issuance of warrant shares pursuant to the warrants that will be issued with purchases of preferred shares and from the conversion of preferred shares into common shares. At December 31, 2010, the Bank has 1,024,728 shares of preferred stock outstanding, each of which is convertible into two shares of common stock at any time at shareholder discretion. In relation to the preferred stock, the Bank has 203,559 warrants outstanding, each of which is exercisable into one share of common stock at shareholder discretion at a conversion price of 75% of fully converted the Bank’s trailing quarter-end book value. The Bank also began its secondary offering of preferred stock on or about March 22, 2011. See Item 1 “-The Preferred Shares Offering.”

In addition, the Bank has outstanding options to purchase an additional 384,800 shares of its common stock, of which options to purchase 347,231 shares remain exercisable. Under the Bank’s shareholder-approved equity incentive plan, the board of directors can grant options to purchase an additional 96,580 common shares, and can authorize additional options in the future if the board of directors determines to do so. The exercise of such options could further dilute either or both of a shareholder’s voting and economic rights; however, at the present time, the strike price for all options range from \$5.00 to \$12.80 per share and thus the options are not, in the opinion of management, “in the money.” The Bank may consider repricing some or all of the Bank’s outstanding options at some time in the future.

The Bank’s charter and bylaws contain some “antitakeover” provisions. The charter and the bylaws of the Bank contain certain provisions that may deter an attempt to change or gain control of the Bank. As a result, the shareholders of the Bank may be deprived of opportunities to sell some or all of their shares at prices that represent a premium over market prices. See Item 5 - “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities,” Item 1 - “Supervision and Regulation,” *Exhibit 3(i)* (Charter of MidSouth Bank), and *Exhibit 3(ii)* (Bylaws of MidSouth Bank).

Our securities are not insured by the FDIC. None of the Bank’s common shares, preferred shares, warrants, or warrant shares are or will be deemed to be deposits and they are not and will not be insured by the FDIC or by any other agency, person, or entity.

Other Risk Factors. Other risks may exist or develop, and the above matters are not intended to be a comprehensive or exclusive list.

ITEM 2. PROPERTIES

The Bank currently operates the offices described below, one of which is its main banking office. All are located in Rutherford County in Tennessee. The following table shows the location of the offices:

Use of Property	Type of Interest	Property Location
Main Office	Owned	One East College Street Murfreesboro, Tennessee
Memorial Boulevard Office	Land Leased; Building Owned	2415 Memorial Boulevard Murfreesboro, Tennessee
Old Fort Parkway Office	Owned	2610 Old Fort Parkway Murfreesboro, Tennessee
South Church Street Office	Owned	2782 South Church Street Murfreesboro, Tennessee
Sam Ridley Parkway Office	Owned	724 President Place Smyrna, Tennessee

In the judgment of the Bank’s management, the facilities and proposed facilities of the Bank are generally suitable and adequate for their current and reasonably foreseeable needs. There are no material encumbrances on any of the properties owned by the Bank other than the leases applicable to the offices of the Bank as specified above.

The Bank has five ATM’s. In addition, the Bank may acquire and own properties from time-to-time for future expansion.

Additional information relating to properties is set forth in Note 5 of the Notes to the Consolidated Financial Statements, which are incorporated herein by reference pursuant to Item 8 of this Annual Report on Form 10-K.

Real Estate Investment Restrictions

As a commercial bank, there are limitations on the types of real estate investments MidSouth Bank can make. Generally, the Bank is expected to invest in real estate to secure locations for bank offices or facilities and not for other types of commercial or residential development.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, the Bank and its subsidiaries may be named from time to time as defendants in, or parties to, pending and threatened legal actions and proceedings. There were no material legal proceedings pending at December 31, 2010, against the Bank other than routine litigation incidental to its business, to which the Bank is a party or of which any of its property is the subject. It is to be expected that various actions and proceedings may be anticipated to be pending or threatened against, or to involve, the Bank from time to time in the ordinary course of business. Some of these may from time to time involve large demands for compensatory and/or punitive damages.

At the present time, management knows of no pending or threatened litigation the ultimate resolution of which would have a material adverse effect on the Bank's financial position or results of operations.

Additionally, the Bank, which is regulated by federal and state regulatory authorities, is the subject of regularly conducted and special examinations, reviews and investigations performed by such regulatory authorities and by law enforcement agencies. The Bank may occasionally have disagreements with regulatory authorities and law enforcement agencies resulting from these investigations, examinations and reviews.

ITEM 4. (Removed or Reserved)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

There is no established public trading market for the Bank's common or preferred stock. No trades in the preferred stock have been reported to the Bank through March 18, 2011. The Bank has no "trading symbol" and it is not listed on any exchange. Management believes that Middle Tennessee, especially Rutherford County, is the principal market area for the Bank's securities. The following table sets forth the *estimated* high and low sales prices per share of the common stock for each quarter of fiscal 2010 and 2009. Such information may not include all transactions in the Bank's common stock for the respective periods shown, and it is possible that transactions occurred during the periods reflected or discussed at prices higher or lower than the prices set forth in the table. Certain of the transactions involved, or may have involved, persons affiliated with the Bank.

The Bank's common stock is thinly traded in privately negotiated transactions. There are no "market makers" for the Bank's common stock. "Bid and asked" price information for the Bank's common stock is not available. Although trades in the Bank's common stock at higher prices were reported to the Bank to have occurred in 2009, the Bank believes that the market value of its common stock is currently approximately \$2.50 per share in light of the Bank's convertible preferred stock offering at \$5.00 per preferred share, each of which preferred share is convertible into two shares of common stock. See "- Preferred Stock, Warrants, and Warrant Shares," below.

The following table shows quarterly high and low trade prices for the Bank's common stock as reported to the Bank. As of January of 2007, the three-year warrants expired, and as of January 2009, the five-year warrants also expired; therefore, for this reason, along with extremely low trade volumes among others, including the Bank's ongoing convertible preferred stock offering, the prices indicated in the following

table may not be useful in determining the current price that can be obtained for shares of the Bank's common stock.

Because there is no established public trading market for our Bank's common stock, because it is very thinly traded, and because the Bank and those closely affiliated with the Bank may be involved in particular transactions, the prices shown below may not necessarily be indicative of the fair market value of the common. There can be no assurance that the common stock will subsequently be purchased or sold at prices comparable to the prices set forth below.

Reported Trades in the Bank's Common Stock

Calendar Period	High (\$)	Low (\$)
2010		
Fourth Quarter	2.50	2.50
Third Quarter	2.99	3.00
Second Quarter	None	None
First Quarter	None	None

2009		
Fourth Quarter	None	None
Third Quarter	10.00	10.00
Second Quarter	10.00	10.00
First Quarter	11.50	9.50

During 2010, the Bank did not repurchase any of its shares. Under Tennessee law, a bank may generally repurchase its own shares after receipt of regulatory approval for a specific redemption or for the redemption of a specified number (or dollar volume) of shares. The Bank has not sought any such approval at this time and has no plan to seek any such approval.

The following is a brief outline of the Bank's authorized securities. A more complete discussion of the Bank's securities is contained in the Registration Statement filed by the Bank on Form 10-SB in April of 2005. All such discussions are qualified in their entirety by reference to the Bank's charter, as amended, and bylaws, as well as by reference to the corporate and banking laws governing the Bank.

The Bank's Common Stock

The Bank's outstanding securities consist of its common voting stock, \$1.00 par value, of which 20 million shares are authorized. As of March 18, 2011, the Bank had 3,843,615 shares of its common stock outstanding. No shares are reserved for issuance except up to 384,800 shares reserved in connection with the Bank's equity incentive plan and 2,253,015 shares reserved to meet the conversion of the Bank's 1,024,728 convertible preferred stock and the exercise of 203,559 warrants to purchase shares of the Bank's common stock issued in connection with that preferred stock offering. As of December 31, 2010,

options for 384,800 shares were outstanding. Of those which are outstanding, 347,231 options were exercisable at that date. Additional options may be granted in the future.

The Bank's common stock is registered under Section 12 of the Securities Exchange Act pursuant to 17 C.F.R. 240.12g-3(a). The Bank files periodic and other reports, and its proxy materials, with the Federal Reserve Board. The Bank is subject to all of the requirements of the Securities Exchange Act applicable to "smaller reporting companies." If the Bank were to sell preferred stock to 500 or more holders, it would be required to register the preferred stock under the Securities Exchange Act.

Preferred Stock, Warrants, and Warrant Shares

The Bank's charter authorizes the issuance of up to 20 million shares of preferred stock. The preferred stock may be issued in one or more classes and series, with such designations, full or limited voting rights (or without voting rights), redemption, conversion or sinking fund provisions, dividend rates or provisions, liquidation rights, and other preferences and limitations as the board of directors may determine in the exercise of its business judgment. The preferred stock may be issued by the board of directors for a variety of reasons.

Series 2009A Preferred Stock

By charter amendment filed with the Tennessee Secretary of State on December 30, 2009, the Bank authorized the issuance of up to 3,000,000 shares of its convertible voting non-cumulative preferred stock, \$1.00 stated value. Each preferred share can be converted by the registered holder thereof into two shares of the Bank's common stock. All unconverted preferred shares will convert automatically into two shares of common stock effective March 31, 2015. Any fractions resulting from an optional or automatic conversion will be rounded up to the nearest whole share. The offering price was set at \$5.00 per share. For each five preferred shares that an investor purchased in the preferred shares offering, the investor also received a "detachable" stock purchase warrant to purchase one additional share of the Bank's common stock at a price equal to 75% of trailing quarter-end book value, but not less than \$2.50, nor more than \$10.00, per share.

The shares that were offered in the preferred shares offering were shares of the Bank's \$1.00 stated value convertible voting preferred stock. The offering price for the preferred shares was approximately 96% of the estimated book value of each of the Bank's common shares at September 30, 2009, but at the one-for-two conversion ratio, the effective offering price was \$2.50, which was approximately 48% of the book value of a common share as of that date. Only whole shares were sold. The offering price for the preferred shares was set arbitrarily by the Bank's board of directors and was not based on any established public trading market or on bid or asked prices. The offering price per preferred share was intended to be a discount on the book value of the Bank's common shares (calculated by the Bank as \$5.28 per common share (unaudited) at September 30, 2009). The discount was granted in order to make the preferred shares offering attractive to investors. The offering price was also believed to favor eligible shareholders who had priority rights to acquire preferred shares in the offering (generally, persons who were shareholders of the Bank at the close of the Bank's business on November 30, 2009). The preferred shares have conversion and voting rights and a liquidation preference over shares of the Bank's currently outstanding common stock. The preferred shares offering began on December 30, 2009, and it ended on June 4, 2010. As of December 31, 2010, the Bank had sold 1,024,728 preferred shares and was committed to issue warrants for the purchase of 203,559 warrant shares. The issuance of warrant shares resulting from warrant exercises can result in dilution to holders of common shares and to holders of preferred shares who do not exercise their warrants.

Series 2011-A Preferred Stock

By charter amendment filed with the Tennessee Secretary of State on March 22, 2011, the Bank (i) canceled all unsold shares of the Bank's Series 2009A preferred stock (however, such cancelled shares to be deemed to be authorized but unissued); and (ii) authorized the issuance of up to 550,000 shares of its convertible voting non-cumulative preferred stock, \$1.00 stated value. Each preferred share can be converted by the registered holder thereof into two shares of the Bank's common stock. All unconverted preferred shares will convert automatically into two shares of common stock effective May 31, 2016. Any fractions resulting from an optional or automatic conversion will be rounded up to the nearest whole share. The offering price was set at \$5.50 per share. For each five preferred shares that an investor purchased in the preferred shares offering, the investor also received a "detachable" stock purchase warrant to purchase one additional share of the Bank's common stock at a price equal to 85% of trailing quarter-end book value, but not less than \$2.75, nor more than \$11.00, per share.

The shares that were offered in the preferred shares offering were shares of the Bank's \$1.00 stated value convertible voting preferred stock. The offering price for the preferred shares was approximately 139% of the estimated book value of each of the Bank's common shares at December 31, 2010, but at the one-for-two conversion ratio, the effective offering price was \$2.75, which was approximately 69% of the book value of a common share as of that date. Only whole shares were sold. The offering price for the preferred shares was set arbitrarily by the Bank's board of directors and was not based on any established public trading market or on bid or asked prices. The offering price per preferred share was intended to be a discount on the book value of the Bank's common shares (calculated by the Bank as \$3.97 per common share (unaudited) at December 31, 2010). The discount was granted in order to make the preferred shares offering attractive to investors. The offering price was also believed to favor eligible shareholders who had priority rights to acquire preferred shares in the offering (generally, persons who were shareholders of the Bank at the close of the Bank's business on January 31, 2011). The preferred shares have conversion and voting rights and a liquidation preference over shares of the Bank's currently outstanding common stock. The preferred shares offering began on or about March 22, 2011. As of March 25, 2011, the Bank had sold 182,000 preferred shares and was committed to issue warrants for the purchase of 36,400 warrant shares. The issuance of warrant shares resulting from warrant exercises can result in dilution to holders of common shares and to holders of preferred shares who do not exercise their warrants.

Rights of Both Series 2009A and Series 2011-A

Each holder of the preferred shares will have the option to convert such person's preferred shares held of record, at the Shares Conversion Ratio (one-for-two) at any time after the preferred shares are issued, although the Bank may not accept more than one voluntary conversion in any 12-month period. On the Shares Conversion Date (Series 2009A - March 31, 2015; Series 2011-A - May 31, 2016) all unconverted preferred shares will automatically convert to Bank common stock at the Shares Conversion Ratio. Any fractions resulting from an optional or automatic conversion will be rounded up to the nearest whole share. The preferred shares will also convert automatically at the Shares Conversion Ratio at the effective time of any acquisition of the Bank by any unaffiliated bank or bank holding company; however, conversion would not be triggered if the Bank elected to form a one-bank holding company for itself.

Each preferred share generally carries one vote per share in all matters on which holders of common stock are entitled to vote, including the election of directors. In such matters, holders of preferred shares will vote with the holders of the common stock; however, holders of preferred shares will not vote on matters affecting the rights principally attributable to the common stock nor will holders of common shares vote on matters principally related to the preferred shares. The right of any shareholder to vote his, her or its shares of common or preferred stock may be limited by the Tennessee Control Share Act.

To the extent permitted by applicable regulatory agencies and state law, the Bank may pay cash dividends on the preferred shares, in its sole option, when, and if, it elects to do so. No cash dividend is guaranteed

and dividends on preferred shares will not be cumulative. The payment of cash dividends will not diminish the Shares Conversion Ratio. The rate of dividend per share of the preferred shares will not be fixed but will not be less than the amount of dividend to be paid per common share, if any. No cash dividend could be paid on the ordinary common stock for any specified period unless the dividend on the preferred shares for that same period had been paid or declared and reserved for prompt payment; however, no dividend is expected to be paid on the Bank's common or any series preferred stock (including the preferred shares) for the foreseeable future. See Item 1, "Supervision and Regulation – Payment of Dividends."

In the event that a purchase of preferred shares results in a number that is not evenly divisible by five, then the remainder fraction created will be disregarded and the warrant will cover the number of whole shares resulting from division by five only. No compensation will be paid for any disregarded fraction. The common shares obtained by exercise of the warrants may be referred to as the "Warrant Shares." When issued by the Bank, the warrants will govern the terms of purchases and issuance of Warrant Shares purchasable under the warrants. The transfer of the warrant and the issuance and transfer of any one or more of the Warrant Shares are subject to the limitations specified in the warrants.

The Bank currently electronically records the preferred shares, warrants and warrant shares as "book entry" securities.

The warrants were deemed issued promptly upon the issuance of the related preferred shares and will be exercisable at any time in minimum increments of 1,000 shares (or, if less, the total number of common shares into which such warrants are exercisable). The warrants will expire on March 31, 2016 (Series 2009A) and May 31, 2017 (Series 2011-A), except for the right of the Bank's board of directors to require its prompt exercise under extraordinary circumstances, such as a pending merger. The Bank will have the right to cause the warrants to be exchanged for holding company warrants for an equivalent number of ordinary common shares of the holding company's common stock if the Bank forms a one-bank holding company for itself (or to cause the warrants to be cancelled if the bank holding company, as part of its formation, offers bank holding company warrants to replace them on substantially the same terms and conditions, and for the same strike price and number of shares,) as govern the Bank's warrants.

Holders of the preferred shares will be superior in liquidation rights to holders of ordinary common stock. The liquidation preference is \$5.00 per share. Both the preferred shares and the shares of common stock, including those obtained by exercising the warrants issued pursuant to the preferred shares offering, will be inferior in liquidation rights to debt owed by the Bank, including any future debentures. The Bank has agreed not to issue preferred or common stock with liquidation rights superior to those of the preferred shares.

Tennessee Control Share Act

Any shareholder who ultimately purchases or controls beneficially ten percent (10%) or more of the Bank's common stock or Preferred Stock may have to address a limitation of his, her or its voting rights pursuant to the charter and the Tennessee Control Share Acquisition Act, T.C.A. §§48-103-301, et seq., to the extent that it applies to the Bank.

Calculation of Public Float

MidSouth Bank has calculated the public float disclosed on the Cover Page of this report (a) by excluding all issued and outstanding shares of the Bank's common stock (post-conversion of the Bank's preferred stock), both directly and indirectly, attributable to directors and executive officers of the Bank and (b) using the price of \$3.99 per share, the "book value" at June 30, 2010 (post-conversion of the Bank's preferred stock). Book value was used because the SEC's Division of Corporation Finance has stated, in interpreting the former Regulation S-B, that for "purposes of determining an issuer's public float, book

value may substitute for market value where there is no market for a company's securities." See Manual of Publicly Available Telephone Interpretations, "K. Regulation S-B, No. 3" (Downloaded: March 28, 2007). The Bank has no non-voting common equity outstanding. The public float as so determined was \$19,249,360 based on the \$3.99 per share price with a calculation of 4,824,401 common stock shares (post-conversion of the Bank's preferred stock) held at that date by non-affiliates; however, the Bank does not have any established public trading market for its securities. Accordingly, the Bank falls into the category of "smaller reporting company," as the term is defined in the SEC's Rule 12b-2. See SEC Release No. 33-8644 / 34-52989 ("The determination of public float is premised on the existence of a public trading market for the company's equity securities."), on page 32, and related footnote 95. The calculation of public float assumes that all outstanding shares beneficially owned by members of the board of directors and executive officers of the Bank, whether common or preferred (on a fully-converted basis) are owned by "affiliates," a status that each such director and executive officer individually reserves the right to disclaim. Such determination of affiliate status is not necessarily a conclusive determination for other purposes.

The Bank has treated as common equity held by affiliates (its directors and executive officers) only voting stock owned by or attributable to them on June 30, 2010 (post-conversion of the Bank's preferred stock); it did not treat, for purposes of responding to the information required by the Cover Page, stock held by any of our subsidiaries as pledgee or in a fiduciary capacity as stock held by our affiliates. The Bank's response to the public float information request is not intended to be an admission that any person is an affiliate of the Bank, for any purpose other than this calculation. Moreover, there is such a limited market for the Bank's shares, and the stock is so thinly traded, that reliance on reported transaction prices is problematic, and either book value or reported transaction prices may not necessarily be a true indication of value. Please refer to Item 5 of this report for additional information.

Holders

The number of record holders, including those shares held in "nominee" or "street name," of the Bank's common stock at March 18, 2011 was approximately 1,781.

At year end 2010, Registrar and Transfer Company, a registered transfer agent headquartered in Cranford, New Jersey, serves as the Bank's transfer agent.

Dividends

The Bank did not declare cash or stock dividends in 2010. Future dividends may be paid as determined by the Bank's board of directors from time-to-time in accordance with federal and state law. To the extent practicable, but in all events subject to a wide variety of considerations and to the discretion of the board of directors, the Bank may pay dividends from time-to-time in accordance with Tennessee law based on its assessment, among other things, of working and regulatory capital needs and the need to retain earnings to fund growth.

Tennessee law further restricts the timing and amount of dividends that may be paid by a Tennessee banking corporation such as the Bank. In no event is a Tennessee chartered bank permitted to pay dividends in any calendar year that exceed the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the Commissioner of the Tennessee Department of Financial Institutions. Prior regulatory approval must be obtained before declaring any dividends if the amount of the Bank's capital, and surplus is below certain statutory limits.

No dividend or other distribution can be made if the Bank is insolvent or would be rendered insolvent by such action. Under the Tennessee Business Corporation Act, the Bank may not pay a dividend if afterwards:

- The Bank would be unable to pay its debts as they become due; or
- The Bank's total assets would be less than its total liabilities plus an amount needed to satisfy any preferential rights of shareholders.

Any dividends that may be declared and paid by the Bank will depend upon its earnings, financial condition, regulatory and prudential considerations, and or other factors affecting the Bank that cannot be reliably predicted.

The Bank may not pay dividends on its common stock unless it also pays not less than the same dividend per share with respect to the preferred shares, although it could pay dividends on the preferred shares without paying a dividend on its common stock. See “-Preferred Stock, Warrants, and Warrant Shares.”

The payment of dividends by the Bank, as with any federally regulated commercial bank, is, of course, dependent upon its earnings and financial condition and, in addition to the limitations discussed above, is subject to the statutory power of certain federal regulatory agencies to act to prevent unsafe or unsound banking practices. Please refer also to the discussion of "Supervision and Regulation - Payment of Dividends" and “- Capital Adequacy” set forth in Item 1 of this Annual Report on Form 10-K, to Item 7 of this Annual Report on Form 10-K (“Management's Discussion and Analysis of Financial Condition and Results of Operations”), and to Item 8 (“Consolidated Financial Statements”).

Taxation

Under current Tennessee tax law, cash dividends paid by Tennessee banks to Tennessee residents are exempt from state income tax. Under Federal income tax law, dividends paid by the Bank would be taxable as ordinary income currently subject to special rates applicable to domestic dividends. Shareholders and prospective investors are urged to consult their own tax and accounting professionals for advice. Nothing in this Report can be considered or treated as or deemed to be tax, accounting, legal, financial, or investment advice.

Recent Sales of Unregistered Securities

(1) Sales of Bank Common Stock. For the year 2010, the Bank sold 1,380 shares of its common stock at an average price of \$2.98 per share for which the Bank received gross proceeds \$4,106 (before payment of expenses). These sales were made pursuant to exercises of common stock purchase warrants. None of these shares were registered under the Securities Act of 1933, as amended (“Securities Act”). This discussion includes sales of reacquired securities (if any), as well as new issues, securities issued in exchange for property, services, or other securities, and new securities resulting from the modification of outstanding securities. There were no sales of the Bank's common stock in the fourth quarter of 2009.

All of the proceeds received from the sales of these shares were paid directly to the Bank and were used by the Bank for general working capital purposes. None of the sales were underwritten, and there were no payments to underwriters or other persons, nor were there any deductions or discounts from the purchase price received by the Bank. All of the shares were sold in private transactions. The securities sold by the Bank are not convertible or exchangeable into equity securities, and they were not warrants or options representing equity securities. The common stock of commercial banks like MidSouth Bank is exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended.

(2) Sales of Bank Preferred Stock. During 2010, the Bank sold 609,538 shares of its preferred stock at \$5.00 per share for which the Bank received gross proceeds \$3,047,690 (before payment of offering expenses). The offering of these shares began on December 30, 2009. These shares are convertible into two shares of the Bank's common stock. No shares were converted during 2010 or had been converted as of March 18, 2011. None of these shares were registered under the Securities Act.

Through March 18, 2011, the Bank had sold 1,024,782 shares of its Preferred Stock in the aggregate (including 2009 and 2010 sales) for an aggregate purchase price of \$5,123,640. All of the proceeds received from the sales of these shares were paid directly to the Bank and were used by the Bank for general working capital purposes. None of the sales were underwritten, and there were no payments to underwriters or other persons, nor were there any deductions or discounts from the purchase price received by the Bank. All of the shares were sold in private transactions. The shares of the Preferred Stock sold by the Bank are convertible into common stock of the Bank. The preferred stock of commercial banks like MidSouth Bank is exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended. See Note 16 to the Bank's Consolidated Financial Statements (Item 8). See also "- Preferred Stock, Warrants, and Warrant Shares." The Preferred Shares will qualify as Tier 1 capital.

(3) Issuance of Stock Purchase Warrants. Warrants were issued in connection with the offering of preferred shares. As of December 31, 2010, the Bank had issued warrants exercisable for 204,939 shares of the Bank's common stock, and 1,380 of the warrants were exercised during 2010. As of March 18, 2011, 203,559 warrants exercisable for shares of Bank common stock were outstanding in connection with the offering of preferred shares (inclusive of warrants issued or issuable in 2009 and 2010). Warrants exercisable for common stock of commercial banks like MidSouth Bank are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended. See Note 18 to the Bank's Consolidated Financial Statements (Item 8). See also "- Preferred Stock, Warrants, and Warrant Shares."

(c) Disclosure of Bank Repurchases Pursuant to Item 703 of Regulation S-K

The Bank did not repurchase any of its shares in 2010. In the future, the Bank may, subject to regulatory approval, repurchase shares of its stock from time-to-time in order to provide some liquidity in the stock. The Bank does not expect to engage in or to solicit such purchases. There is no preset number of shares that the Bank will purchase and no "plan" or "program" of repurchases. Because there is no established public trading market, the Bank may at some time in the future elect to act as the purchaser of last resort to provide some liquidity in the shares, paying no more than "book value," as calculated by it, for shares based on the "book value" as of the immediately preceding month or quarter end (unaudited). The Bank does not encourage such sales to it and does not pay compensation to any person or entity in any manner to encourage or to effect such purchases.

ITEM 6. SELECTED FINANCIAL DATA

Pursuant to Item 301(c) of Regulation S-K, the Bank, as a "smaller reporting company," is not required to provide the information required by this Item 6.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" called for by this part is set forth as part of Appendix F, labeled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The purpose of this discussion is to provide insight into the financial condition and results of operations of the Bank. This discussion should be read in conjunction with the Bank's Consolidated Financial Statements (Item 8).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Item 305(e) of Regulation S-K, the Bank, as a “smaller reporting company,” is not required to provide the information required by this Item 7A.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Bank are included in this Annual Report on Form 10-K as part of Appendix F:

- Independent Auditor’s Report;
- Consolidated Balance Sheets - December 31, 2010 and 2009;
- Consolidated Statements of Operations - Three years ended December 31, 2010;
- Consolidated Statements of Comprehensive Earnings (Losses) - Three years ended December 31, 2010;
- Consolidated Statements of Changes in Stockholders’ Equity - Three years ended December 31, 2010;
- Consolidated Statements of Cash Flows - Three years ended December 31, 2010; and
- Notes to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Bank has not had any disagreements with its accountants.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of the Effectiveness of Disclosure Controls and Procedures.

MidSouth Bank maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (“Exchange Act”)) designed to ensure that information required to be disclosed in the reports that the Bank files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer of the Bank concluded that MidSouth Bank’s disclosure controls and procedures were adequate as of the end of the period covered by this report.

(b) Management’s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) as promulgated under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance to MidSouth Bank’s management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with accounting principles generally accepted in the United States.

All internal control systems, no matter how well-designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting reliability and financial statement preparation and presentation.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of MidSouth Bank's internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control--Integrated Framework. Based on our assessment, while using the COSO criteria, our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, concluded that, as of December 31, 2010, our internal control over financial reporting was effective.

This annual report is the fourth report of MidSouth Bank in which management is required to provide its assessment of the effectiveness of the Bank's internal controls. Pursuant to Item 308(b) of Regulation S-K, this annual report does not include an attestation report from MidSouth Bank's independent registered public accounting firm regarding internal controls over financial reporting, because the Bank is listed as a "smaller reporting company."

(c) *Changes in Internal Controls.*

MidSouth Bank made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive Officer and the Chief Financial Officer.

ITEM 9B. OTHER INFORMATION

MidSouth Bank experienced no events during the fourth quarter of 2010 that were required to be reported on Form 8-K that were not so reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The types of biographical and other information required by Item 10 of the Annual Report on Form 10-K are incorporated by reference to the Bank's 2011 Proxy Statement, under the captions of "Proposal No. 1 - Election of Directors," "The Committees of the Board of Directors," and "Executive Officers."

Information regarding late filings under Section 16(a) of the Securities Exchange Act of 1934 is included in the 2011 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is hereby incorporated herein by reference.

Further information about the MidSouth Bank Audit Committee, as well as information concerning the Bank's Code of Ethics, is included below.

Information about the Audit Committee

The Bank has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Bank's Audit Committee is presently comprised of Directors Percy E. Dempsey, III, Chair, Roseann H. Barton, D. Gerald Coggin, Sr., Donald R. Gintzig (currently on leave of absence due to military service), Dr. Paula B. Thomas and Gregory E. Waldron (serving as an alternate), none of whom is an officer or

employee of MidSouth Bank. The Board of Directors has determined that all of the members of the Audit Committee are independent in accordance with the requirements of NASDAQ OMX Listing Rules 5605(a)(2) and 5605(c)(2), as well as Section 10A of the Exchange Act. (Although the Bank's shares are not listed on the NASDAQ, in accordance with SEC regulations, the Bank has selected and used its independence criteria in making this judgment.) The Board of Directors has designated Directors Percy E. Dempsey, III, Chair of the Audit Committee, and Dr. Paula B. Thomas as the Audit Committee Financial Experts as that term is understood in Rule 407 of Regulation S-K.

The Audit Committee's work is intended to provide reasonable assurance that the Bank's financial statements are presented in accordance with generally accepted accounting principles and that the Bank's auditors are "independent," as that term is used under the Securities Exchange Act with respect to the Bank's independent registered public accounting firm; however, members of the Audit Committee rely, without independent verification, on the information provided to them, and on the representations made to them, by management and by the independent auditors. Accordingly, the Audit Committee's review of the Bank's financial statements is substantially dependent on the information provided, as well as the representations made, to it, although committee members ask questions of management and the independent auditors designed to inform themselves of any needed or appropriate changes to accounting, internal controls and procedures, or financial reporting principles used by the Bank and as to any issues that may relate to the independence of the Bank's independent registered public accounting firm.

The Report of the Audit Committee describes matters related to the Audit Committee and its functions. The Board of Directors has adopted a formal, written Audit Committee Charter, a copy of which is available for inspection at the Bank's Main Office during regular business hours for the Bank at One East College Street, Murfreesboro, Tennessee 37130, by appointment with the Bank's Chief Financial Officer, Mr. Kevin D. Busbey. See "Shareholder Questions and Availability of Bank Information" in the Bank's 2011 Proxy Statement.

It is important to note that, as permitted by the rules and regulations of the Federal Reserve Board and the SEC, notwithstanding anything to the contrary set forth in any of the Bank's previous filings under the Securities Exchange Act of 1934, as amended, that might incorporate future filings by reference in whole or in part, including this Annual Report or the Bank's 2011 Proxy Materials, the Audit Committee Report and the statements regarding the independence of the respective members of the Audit Committee shall not be incorporated by reference into this or any other such filings.

Information about the Bank's Code of Ethics

The Bank has adopted a Code of Ethics that applies to the Bank's officers and employees, including its principal executive officer and senior officers, including the principal financial officer, the principal accounting officer and others performing similar functions. The Bank has posted its Code of Ethics on its website at www.midsouthbanking.com. The Bank undertakes to provide to any person without charge, upon request, a copy of its Code of Ethics. Requests should be submitted in writing to the attention of Investor Services, One East College Street, Murfreesboro, Tennessee 37130. The Bank intends to give notices of amendments to, or waivers from, its *Code of Ethics* (to the extent applicable to its directors, principal executive officer, principal financial officer or principal accounting officer) by appropriate filings with the Federal Reserve Board using a Current Report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information concerning compensation of directors and executive officers required by Item 11 of this Annual Report on Form 10-K is incorporated by reference to the Bank's 2011 Proxy Statement, under the captions of "Executive and Director Compensation," "Committees of the Board of Directors," and "Benefits."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information concerning certain ownership of the Bank's securities required by this Item 12 of the Annual Report on Form 10-K is incorporated by reference to the Bank's 2010 Proxy Statement, under the caption of "Stock Ownership of Management and Certain Beneficial Owners."

The following table provides information required to be disclosed by the securities laws with respect to (1) compensation plans; and (2) individual compensation arrangements (of which the Bank has none) under which equity securities of the Bank are authorized for issuance. The compensation plans consist of the Bank's equity incentive plans discussed or referenced elsewhere in this document. The MidSouth Bank 2003 Stock Option Plan (the "2003 Plan"), was approved by the Bank's shareholders in January of 2004. Additional information concerning the 2003 Plan is set forth in Note 17 to the Bank's Consolidated Financial Statements (Item 8).

	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights*	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights*	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plan Approved by Security Holders	384,800	\$9.71	96,580
Equity Compensation Plans Not Approved by Security Holders	-0-	N/A	-0-
Total	384,800	\$9.71	96,580

*As of December 31, 2010, the Bank had warrants outstanding to purchase 203,559 shares of common stock and stock options outstanding to purchase 384,800 shares of common stock. Of the outstanding options, 347,231 were exercisable at year-end 2010. The outstanding warrants issued in connection with the preferred stock offering expire unless exercised on March 31, 2016. Please refer to Notes 17 ("Stock Option Arrangement"), 18 ("Stock Warrants"), and 21 ("Earnings Per Common Share") to the Consolidated Financial Statements included in this Annual Report on Form 10-K in Item 8.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND
DIRECTOR INDEPENDENCE**

The information concerning certain business relationships and related transactions required by this Item 13 of the Annual Report on Form 10-K is incorporated by reference to the Bank's 2010 Proxy Statement, under the caption of "Certain Transactions."

Please refer to Item 8 of this Annual Report on Form 10-K, and to Note 19 to the Consolidated Financial Statements for additional information on certain related party transactions (that is, transactions involving the Bank's directors and officers, and their related interests, on the one hand and the Bank on the other).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee has appointed Maggart & Associates, P.C., as the Bank's independent auditors for the fiscal year ending December 31, 2010. The remaining information required by this Item 14 of the Annual Report on Form 10-K is incorporated by reference to the Bank's 2010 Proxy Statement, under the caption of "Principal Auditor Fees and Services."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

Exhibits and Exhibit Index - The following documents are filed as part of this Annual Report on Form 10-K. The table constitutes the required Exhibit Index for this filing.

Exhibit Number	Description of Exhibit	Location
3(i)	Charter of MidSouth Bank	(1)
3(i)(a)	Articles of Amendment to the Charter – Designating Series 2009A Preferred Stock	(2)
3(i)(b)	Articles of Amendment to the Charter – Designating Series 2011-A Preferred Stock	(3)
3(ii)	By-laws of MidSouth Bank	(4)
4.1	Charter of MidSouth Bank, as amended	(5)
4.2	By-laws of MidSouth Bank	(6)
4.3(A)	Form of Common Stock Certificate	(7A)
4.3(B)	Form of Preferred Stock Certificate – Series 2009A	(7B)
4.3(C)	Form of Preferred Stock Certificate – Series 2011-A	(7C)
4.4(A)	Form of Stock Purchase Warrant	(8A)
4.4(B)	Form of Stock Purchase Warrant	(8B)
4.4(C)	Form of Stock Purchase Warrant	(8C)
4.5(A)	Articles of Amendment to the Charter - Designating Series 2009A Preferred Stock	(9A)
4.5(B)	Articles of Amendment to the Charter - Designating Series 2011-A Preferred Stock	(9B)
10.1	MidSouth Bank 2003 Stock Option Plan	(10)
11	Statement re Computation of Per Share Earnings	(11)
13	Annual Report to Security Holders	(12)
14	Code of Ethics	(13)
21	Subsidiaries of the Registrant	(14)
31(i)	Rule 13a-14(a) Certification by Chief Executive Officer	(15)
31(ii)	Rule 13a-14(a) Certification by Chief Financial Officer	(15)

Exhibit Number	Description of Exhibit	Location
32(a)	Section 1350 Certification by Chief Executive Officer	(15)
32(b)	Section 1350 Certification by Chief Financial Officer	(15)
99	Proxy Statement for the 2011 Annual Meeting of Shareholders that is currently scheduled to be held on or about May 26, 2011.	(16)

- (1) Incorporated by reference to Exhibit 2.1, as filed in the Bank's Registration Statement on Form 10-SB, which Registration Statement was submitted to the Federal Reserve Board in April of 2005.
- (2) Incorporated by reference to Exhibit 3(i)(a), as filed in the Bank's Form 10-K, which Form 10-K was submitted to the Federal Reserve Board in April of 2010.
- (3) The Bank's recent charter amendment is physically included in this Annual Report immediately following the signature page(s) under the caption Exhibit 3(i)(b).
- (4) Incorporated by reference to Exhibit 2.2, as filed in the Bank's Registration Statement on Form 10-SB, which Registration Statement was submitted to the Federal Reserve Board in April of 2005.
- (5) Incorporated by reference to Exhibit 3(i), Exhibit 3(i)(a) and Exhibit 3(i)(b).
- (6) Incorporated by reference to Exhibit 3(ii).
- (7A) Incorporated by reference to Exhibit 3.3, as filed in the Bank's Registration Statement on Form 10-SB, which Registration Statement was submitted to the Federal Reserve Board in April of 2005.
- (7B) Incorporated by reference to Exhibit 4.3(B), as filed in the Bank's Form 10-K, which Form 10-K was submitted to the Federal Reserve Board in April of 2010.
- (7C) Form of preferred stock certificate physically included herein under the caption Exhibit 4.3(C).
- (8A) Incorporated by reference to Exhibit 3.4, as filed in the Bank's Registration Statement on Form 10-SB, which Registration Statement was submitted to the Federal Reserve Board in April of 2005.
- (8B) Incorporated by reference to Exhibit 4.4(B), as filed in the Bank's Form 10-K, which Form 10-K was submitted to the Federal Reserve Board in April of 2010.
- (8C) Form of stock purchase warrant is physically included herein under the caption Exhibit 4.4(C).
- (9A) Incorporated by reference to Exhibit 3(i)(a).
- (9B) Incorporated by reference to Exhibit 3(i)(b).

- (10) Incorporated by reference to Exhibit 12.1, as filed in the Bank's Registration Statement on Form 10-SB, which Registration Statement was submitted to the Federal Reserve Board in April of 2005.
- (11) Incorporated into this Report by reference to Note 21 to the Consolidated Financial Statements included in this Annual Report as part of Item 8.
- (12) No portion of the 2010 Annual Report to Security Holders is incorporated by reference into this Annual Report on Form 10-K. Certain copies of the Annual Report to Security Holders have been supplied to the Federal Reserve Board for its information, as required by law, but shall not be deemed to be "filed" for any purpose.
- (13) Incorporated by reference to Exhibit 14, as filed in the Bank's Form 10-K, which Form 10-K was submitted to the Federal Reserve Board in April of 2009.
- (14) The information required by this Exhibit is incorporated by reference to the discussion of "Subsidiaries" appearing in Item 1 of this Annual Report.
- (15) This document is physically included in this Annual Report after the signature page(s).
- (16) Filed (or to be filed) with the Federal Reserve Board in accordance with Regulation 14A.

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 BANK (Registrant)

By: /s/ Lee M. Moss
Lee M. Moss, Chairman
and Chief Executive Officer

Date: March 25, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
By: <u> /s/ Donald W. Alexander </u> Donald W. Alexander	Director	March 25, 2011
By: _____ Jimmy E. Allen	Director	March __, 2011
By: _____ Roseann H. Barton	Director	March __, 2011
By: <u> /s/ Dallas G. Caudle, Jr. </u> Dallas G. Caudle, Jr.	President, Chief Operating Officer and Director	March 28, 2011
By: <u> /s/ D. Gerald Coggin, Sr. </u> D. Gerald Coggin, Sr.	Director	March 25, 2011
By: <u> /s/ Daniel B. Decker </u> Daniel B. Decker	Director	March 29, 2011
By: <u> /s/ Percy E. Dempsey, III </u> Percy E. Dempsey, III	Director	March 25, 2011

Name	Title	Date
By: _____ John D. Floyd	Director	March __, 2011
By: _____ Donald R. Gintzig	Director	March __, 2011
By: <u>/s/ A. Frank Johns, Jr.</u> A. Frank Johns, Jr.	Director	March 25, 2011
By: <u>/s/ Lee M. Moss</u> Lee M. Moss	Chairman and Chief Executive Officer	March 25, 2011
By: <u>/s/ Matthias B. Murfree, III</u> Matthias B. Murfree, III	Director	March 25, 2011
By: <u>/s/ Beth S. O'Brien</u> Beth S. O'Brien	Director	March 28, 2011
By: _____ George W. Smith, M.D.	Director	March __, 2011
By: _____ Gregory E. Waldron	Director	March __, 2011
By: <u>/s/ Paula B. Thomas</u> Paula B. Thomas	Director	March 28, 2011
By: <u>/s/ Kevin D. Busbey</u> Kevin D. Busbey	Senior Vice President and Chief Financial Officer	March 25, 2011

EXHIBIT 3(i)(b)

ARTICLES OF AMENDMENT TO THE CHARTER
DESIGNATING SERIES 2011-A PREFERRED STOCK
OF MIDSOUTH BANK



STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
William R. Snodgrass Tower
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

MIDSOUTH BANK
ONE EAST COLLEGE
ST
MURFREESBORO, TN 37130

March 22, 2011

Filing Acknowledgment

Please review the filing information below and notify our office immediately of any discrepancies.

Control # : 457137 Status: Active
Filing Type: Corporation For-Profit - Domestic

Document Receipt

Receipt # : 394876	Filing Fee:	\$20.00
Payment-Check/MO - STITES & HARBISON, PLLC, Nashville, TN		\$20.00

Amendment Type: Articles of Amendment Image # : 6853-2660
Filed Date: 03/22/2011 12:54 PM

This will acknowledge the filing of the attached articles of amendment with an effective date as indicated above. When corresponding with this office or submitting documents for filing, please refer to the control number given above.

You must also file this document in the office of the Register of Deeds in the county where the entity has its principal office if such principal office is in Tennessee.


Tre Hargett
Secretary of State

Processed By: Cynthia Dunn

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BILL HASLAM
GOVERNOR

STATE OF TENNESSEE
DEPARTMENT OF FINANCIAL INSTITUTIONS
414 UNION STREET, SUITE 1000
NASHVILLE, TENNESSEE 37219
(615) 741-2236 FAX (615) 741-2883

TRE HARGETT
SECRETARY OF STATE

GREG GONZALES
COMMISSIONER

6353-2660

March 18, 2011

The Honorable Tre Hargett
Secretary of State
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, TN 37243

Record Book
1053 Ps 1341

RE: MidSouth Bank

Dear Secretary Hargett:

I approve and enclose to you for filing the Amendment to the Charter of MidSouth Bank, located in Murfreesboro, Tennessee. I have also enclosed a check in the amount of \$20.00 to cover the filing fee for the amendment. The effective date of the amendment is the date filed with your office.

Thank you for your assistance in this matter and please contact Debra Grissom, Program Administrator for Applications, at 741-5018 if you have questions concerning this document.

Sincerely,

Greg Gonzales
Commissioner

GG:DCG:dgc

Enclosure

BANK DIVISION
BANKS, SAVINGS BANKS, TRUST COMPANIES
(615) 741-6013

CREDIT UNION DIVISION
(615) 741-5608

LEGAL DIVISION
(615) 741-0346

COMPLIANCE DIVISION
NON-DEPOSITORY LENDERS
(615) 741-3186

CONSUMER RESOURCES DIVISION
1-800-778-4215

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STATE OF TENNESSEE
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KE GARNETT
SECRETARY OF STATE

0000.0000

(b) Automatic Conversion Date. The term "Automatic Conversion Date" means the first to occur of May 31, 2016 or the effective time of any acquisition of the Bank by any unaffiliated bank or bank holding company. However, conversion would not be triggered if the Bank elected to form a one-bank holding company for itself unless the Bank's board of directors otherwise provides.

(c) Conversion Ratio. The term "Conversion Ratio" is two shares of the Bank's common stock for each share of the Series 2011-A Preferred Stock.

(d) Fractional Shares. Any fractions resulting from Voluntary Conversion or Automatic Conversion will be rounded up to the nearest whole share.

(e) Senior Security. The term "Senior Security" means any equity security issued by the Bank that has, or can have, a liquidation preference greater than the Liquidation Preference of the shares of the Series 2011-A Preferred Stock.

(f) Voluntary Conversion. The term "Voluntary Conversion" means any conversion of shares of the Series 2011-A Preferred Stock by the registered holder thereof in accordance with Section 6.8.5(a).

6.8.3 Dividend Rights. Each share of the Series 2011-A Preferred Stock shall be entitled to receive a dividend equal to the same dollar amount paid per share on the Bank's common stock as and when, and if, a dividend is paid on the Bank's common stock. The Bank's board of directors may, but shall not be required to, pay a dividend solely on the shares of the Series 2011-A Preferred Stock and any other co-equal series of class of the Bank's securities, including its Series 2009 A Preferred Stock, without paying a dividend on the common stock or any other class or series of equity securities of the Bank, but not *vice versa*. No Senior Security shall be issued as long as any share of the Bank's Series 2011-A Preferred Stock is outstanding; provided, that debt securities shall not be subject to this limitation. No dividend shall be paid on the Series 2011-A Preferred Stock so long as the Bank is in arrears on any of its existing or future debt securities. Dividends shall not be mandatory or cumulative on shares of the Series 2011-A Preferred Stock.

6.8.4 Voting Rights. Each share of the Series 2011-A Preferred Stock shall have one vote on all matters submitted to the holders of the Bank's common stock, and shall vote with the holders of the common stock, except as set forth in this section. On issues solely or principally pertaining to the rights and preferences of the Series 2011-A Preferred Stock, the holders of the shares of the Series 2011-A Preferred Stock shall vote as a class with each share carrying one vote. On issues solely or principally pertaining to the rights and preferences of the common stock, or any other class or series of the Bank's securities, the holders of shares of the Series 2011-A Preferred Stock shall have no vote. The right to vote any one or more shares of the Series 2011-A Preferred Stock shall cease in the event of a Mandatory Conversion, a Voluntary Conversion, or an Automatic Conversion.

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TRE HARGETT
SECRETARY OF STATE

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6.8.5 Conversion of the Series 2011-A Preferred Stock. The shares of the Series 2011-A Preferred Stock can be converted into shares of the Bank's common stock at any time by the holder thereof at the Conversion Ratio until the Automatic Conversion Date.

(a) The holder can convert shares of the Series 2011-A Preferred Stock into shares of the Bank's common stock at the Conversion Ratio at any time after purchase by sending an appropriate notice to the Bank, as specified by the Bank from time to time. The Bank shall not be required to accept a Voluntary Conversion more than once in any twelve-month period.

(b) All previously unconverted shares of the Series 2011-A Preferred Stock shall convert into shares of the Bank's common stock at the Conversion Ratio as of the Bank's close of business on the Automatic Conversion Date.

6.8.6 Liquidation Preference. The liquidation preference ("Liquidation Preference") of the Series 2011-A Preferred Stock shall be Five Dollars (\$5.00) per share.

6.8.7 Book Entry. Unless otherwise determined by the Bank at any time and from time to time, the shares of the Series 2011-A Preferred Stock shall be book entry and not certificated. If certificated, the Bank may place a restrictive legend on each certificate, and may place a stop order with its transfer agent, specifying the manner of, and limitations on, transfer.

6.8.8 Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution, or winding up of the affairs of the Bank, whether voluntary or involuntary, holders of Series 2011-A Preferred Stock shall be entitled to receive for each share of Series 2011-A Preferred Stock, out of the assets of the Bank or proceeds thereof (whether capital or surplus) available for distribution to shareholders of the Bank, subject to the rights of any creditors of the Bank, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Bank ranking junior to Series 2011-A Preferred Stock as to such distribution, payment in full in an amount equal to the sum of (i) the Liquidation Amount per share and (ii) the amount of any accrued and unpaid dividends (including, if applicable as provided above, dividends on such amount), whether or not declared, to the date of payment (such amount collectively, the "Liquidation reference"). The Bank's Series 2009 A Preferred Stock shall be deemed to rank equally with, and not to be junior to, the Series 2011-A Preferred Stock.

(b) Partial Payment. If in any distribution described above the assets of the Bank or proceeds thereof are not sufficient to pay in full the amounts payable with respect to all outstanding shares of Series 2011-A Preferred Stock and the corresponding amounts payable with respect of any other security of the Bank ranking equally with Series 2011-A Preferred Stock as to such distribution, holders of Series 2011-A Preferred Stock and the holders of such other stock shall share ratably in any such distribution in proportion to the full respective distributions to which they are entitled.

0053.2664

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series 2011-A Preferred Stock and the corresponding amounts payable with respect of any other security of the Bank ranking equally with Series 2011-A Preferred Stock as to such distribution has been paid in full, the holders of other securities of the Bank shall be entitled to receive all remaining assets of the Bank (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation, and Sale of Assets Not Liquidation. For purposes of this Section, the merger or consolidation of the Bank with any other corporation or other entity, including a merger or consolidation in which the holders of Series 2011-A Preferred Stock receive cash, securities, or other property for their shares, or the sale, lease, or exchange (for cash, securities or other property) of all or substantially all of the assets of the Bank, shall not constitute a liquidation, dissolution, or winding up of the Bank.

(e) Redemption. The Bank shall have no right to exchange or convert Series 2011-A Preferred Stock into cash or any other securities except as expressly herein stated.

(f) Put. No holder(s) of the Series 2011-A Preferred Stock shall have the right to cause the Bank to re-purchase such shares from such one or more holders.

6.8.9 Stated Value. The stated value of each share of the Series 2011-A Preferred Stock shall be one dollar (\$1.00).

6.8.10 Retirement. Any shares of the Series 2011-A Preferred Stock remaining unsold may be cancelled and the unsold shares shall be deemed to be authorized but unissued shares of the Bank's authorized preferred stock.

4. The Bank is a for-profit corporation.

5. These amendments were adopted on January 26, 2011, by the Board of Directors. No shareholder approval was required pursuant to Article 6 of the Charter of the Bank and pursuant to Section 48-16-102 of the Tennessee Business Corporation Act.

6. These amendments will be effective upon the filing hereof with the Secretary of State.

Dated: February 28, 2011.

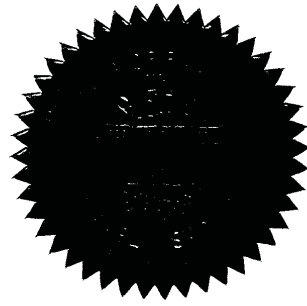
MIDSOUTH BANK

By: 
Lee M. Moss, Chairman

RECEIVED
STATE OF TENNESSEE
2011 MAR 22 PM 12:54
LEE JARRETT
SECRETARY OF STATE

Approved for Filing this 21st day of March 2011.

By: Greg Gonzales
Greg Gonzales, Commissioner
Tennessee Department of Financial Institutions



6853-2565

RECEIVED
STATE OF TENNESSEE
2011 MAR 22 PM 12:54
JEFF HARRETT
SECRETARY OF STATE

Record Book
1053 Pgs 1346

Heather Dawbarn, Register
Rutherford County Tennessee
Rec #: 651975
Rec'd: 6.00 Instrument #: 1720279
State: 0.00
Clerk: 0.00 Recorded
Other: 2.00 3/29/2011 at 2:45 PM
Total: 8.00 in
Record Book 1053 Pgs 1340-1346

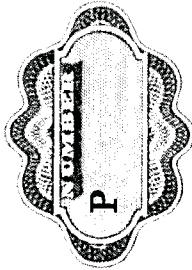
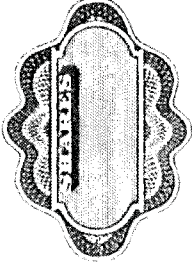
EXHIBIT 4.3(C)

FORM OF PREFERRED STOCK CERTIFICATE
(SERIES 2011-A PREFERRED STOCK)
OF MIDSOUTH BANK

MIDSOUTH BANK

MURFREESBORO, TENNESSEE
INCORPORATED UNDER THE LAWS OF THE STATE OF TENNESSEE
PREFERRED STOCK

CUSIP 59804Q 30 4
SEE REVERSE FOR CERTAIN DEFINITIONS



THIS CERTIFIES that

SPECIMEN

is the owner of

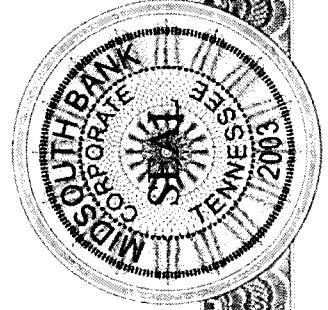
FULLY PAID AND NON-ASSESSABLE SHARES OF THE PREFERRED STOCK, STATED VALUE \$1.00 PER SHARE OF
MIDSOUTH BANK

hereinafter called the Bank transferable only on the books of the Bank by the holder hereof in person or by duly authorized attorney, upon surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued, and shall be held, subject to all of the provisions of the Charter and Bylaws of the bank, as amended or to be amended hereafter (copies of which Charter and Bylaws and all Amendments thereof are on file at the main office of the Bank), to all of which the holder by acceptance hereof assents. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

IN WITNESS WHEREOF, the said Bank has caused this Certificate to be signed by the facsimile signatures of its duly authorized officers and its seal to be hereunto affixed.

DATED:

Lu M. Moss
CHAIRMAN AND CEO



Naam Caudley, Jr.
PRESIDENT AND COO

COUNTERSIGNED AND REGISTERED
REGISTRAR AND TRANSFER COMPANY
TRANSFER AGENT AND REGISTRAR

BY

AUTHORIZED SIGNATURE

SPECIMEN

MIDSOUTH BANK

The Corporation will furnish to each shareholder on request in writing and without charge the designations, relative rights, preferences, and limitations applicable to each class of shares authorized to be issued.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

- TEN COM - as tenants in common
- TEN ENT - as tenants by the entireties
- JT TEN - as joint tenants with right of survivorship and not as tenants in common
- UNIF GIFT MIN ACT- Custodian (Cust) (Minor) under Uniform Gifts to Minors Act (State)

Additional abbreviations may also be used though not in the above list.

For Value Received, _____ do hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

[Empty box for Social Security or other identifying number]

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

_____ Shares of the Preferred Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____

_____ Attorney to transfer the said Shares on the books of the within named Bank with full power of substitution in the premises.

Dated: _____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THIS CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER

Signature(s) Guaranteed

By: _____ THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM) PURSUANT TO S.E.C. RULE 17Ad-15

The share(s) of MidSouth Bank Preferred Stock evidenced by this certificate have been issued without registration under the Securities Act of 1933, as amended, or the Tennessee Securities Act of 1980, as amended, based on an exemption from registration contained in such federal and state statutes.

This Certificate may evidence a detachable warrant to purchase one or more additional shares of MidSouth Bank Common Stock. There are strict limits on all warrants for MidSouth Bank Common Stock and any such warrant may have expired prior to the time that you seek to exercise the warrant or such warrant may have been exercised in whole or in part before you acquired the share(s) evidenced by this Certificate. You may contact the Bank to determine if all or any part of the warrant initially evidenced by this Certificate remains available for exercise and to ascertain the terms governing the warrant, including the number of shares of common stock to be acquired on exercise and the price of exercise for those shares.

EXHIBIT 4.4(C)

FORM OF STOCK PURCHASE WARRANT
(ISSUED IN CONNECTION WITH SERIES 2011-A PREFERRED STOCK)
OF MIDSOUTH BANK

NUMBER _____ WARRANTS

THIS WARRANT IS SUBJECT TO THE RESTRICTIONS STATED IN THIS DOCUMENT AND CAN BE EXERCISED ONLY AS SPECIFICALLY PERMITTED AND SET FORTH HEREIN.

PURCHASE WARRANT FOR THE PURCHASE OF SHARES OF THE COMMON STOCK, PAR VALUE \$1.00 PER SHARE OF



INCORPORATED UNDER THE LAWS OF THE STATE OF TENNESSEE

CUSIP 59804Q 12 2
SEE REVERSE FOR CERTAIN DEFINITIONS

This certifies that for value received,

SPECIMEN

COUNTERSIGNED
REGISTRAR AND TRANSFER COMPANY
WARRANT AGENT
BY

pursuant to the terms hereof, MidSouth Bank (the "Bank") hereby grants to the recipient named on the signature page hereof (the "Registered Holder"), the right to purchase that number of shares (the "Shares") of its common stock, One Dollar (\$1.00) par value (the "Common Stock"), specified herein, subject to adjustment as herein specified. This instrument shall govern the rights of the Registered Holder with respect to this right (the "warrant"). All terms and provisions set forth in this warrant agreement shall be read in conjunction with the other terms. There are significant restrictions and limitations on the exercise or transfer of this warrant and the Shares purchasable by the Registered Holder hereunder. The Registered Holder must read the entire document to understand such restrictions and limitations. This warrant expires and shall be null and void as herein provided and, thereafter, no rights herein given to the Registered Holder of this warrant shall exist thereafter. As used herein, the term "Bank" includes any corporation which shall after the date of this document succeed to or assume the obligations of the Bank or that shall acquire control of the Bank before the expiration hereof. The terms of Section 8 and the legend specified in Section 8.3 apply to this warrant and shall be read as restrictions applicable to this warrant as well as to any Shares issued or issuable pursuant to this warrant. As used herein, reference to "Common Shares" means shares of the Common Stock. This Warrant Certificate shall not be valid for any purpose until it shall have been countersigned by the Warrant Agent.

IN WITNESS WHEREOF, MidSouth Bank has caused this Warrant Certificate to be executed by the facsimile signatures of its duly authorized officers and has caused a facsimile of its corporate seal to be hereunto affixed.

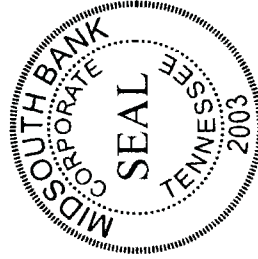
DATED:

ATTEST:

Lee M. Ross
CHAIRMAN AND CEO

MIDSOUTH BANK

BY:



Naam Caudle, Jr.
PRESIDENT AND CCO

AUTHORIZED SIGNATURE

FORM NO. 10, U.S.A.

M. BURR KEIM, PHILA.

Section 1 Number of Shares Available Under this Warrant, Exercise Price, Expiration

Section 1.1 Number of Shares Except as specified in Section 8 of this warrant, the Registered Holder is entitled to purchase that number of Shares of the Bank's Common Stock as specified in Section 10 of this warrant, subject to adjustment as herein provided. The number of Shares shall be as specified in the Bank's Offering Circular dated March 17, 2011, subject to adjustment herein. The Bank shall reserve for issuance to the Registered Holder the Shares that can be acquired or exercised pursuant to this warrant.

Section 1.2 Exercise Price The exercise price ("Purchase Price") for each Share to be acquired by the Registered Holder by exercise of this warrant shall be a price per share equal to eighty-five percent (85%) of the book value of a share of Bank common stock as of the immediately preceding calendar quarter end, and rounded, as determined by the Bank. The exercise price cannot, however, be less than \$1.00 per share. The Purchase Price shall be adjusted as herein provided. A "calendar quarter end" shall be the last day of the month of each March, June, September, or December of each year prior to the exercise or expiration of this warrant.

Section 1.3 Exercise and Expiration Except as set forth in Section 3, this warrant is exercisable upon issuance and at any time thereafter until 4:00 p.m., local time in Murfreesboro, Tennessee on May 31, 2017 (the "Expiration Time"). After the Expiration Time, no unexercised portion of this warrant shall be exercisable. All local times are Central Time in the United States of America.

Section 1.4 Notice of Adjustment(s) At the time of exercise by the Registered Holder, the Bank shall advise the Registered Holder of any adjustments made with respect to this warrant as provided by this warrant agreement.

Section 1.5 Reissuance after Transfer In the event of a transfer of this warrant in accordance with the terms and subject to the limitations specified in this warrant agreement, and upon surrender of this warrant to the Bank or its transfer agent's principal executive office for such purpose, the Bank or its transfer agent, at the Bank's discretion and expense, will (a) make an appropriate book-entry notation of the transfer or (b) issue and deliver a new warrant of like tenor in the name of such Registered Holder or Registered Holders (upon payment of any applicable transfer taxes) as the Registered Holder hereof may direct. Until this warrant is transferred on the books of the Bank, the Bank may treat the Registered Holder hereof as absolute owner of this warrant for all purposes without being affected by any notice to the contrary. This warrant may be transferred only in accordance with all applicable state and federal corporate and securities laws and may only be transferred in whole and not in part. To the extent that transfer is permitted by the Bank, this warrant may be transferred separately from the Bank's preferred stock.

Section 2 No Fractional Shares In the event that the exercise of this warrant would result in the issuance of a fractional Share of Common Stock (that is, in the issuance of less than a whole Share of Common Stock), then the fraction shall be disregarded and the Registered Holder shall not be entitled to any compensation therefor.

Section 3 Adjustments of Number of Shares Issuable Upon Exercise of Warrant, Adjustment of Purchase Price

Section 3.1 Adjustment of Number of Shares and Purchase Price

(a) In the event of any change in the outstanding number of Common Shares by reason of stock dividend, stock split, reverse stock split or reclassification, or any combination in which the Bank is the surviving corporation or other similar change affecting the capital structure of the Bank, but excluding Common Shares issued for consideration (inclusive of stock options, restricted stock, previously authorized but unissued Shares, treasury Shares, and other issuances), and the number of Shares issuable upon the exercise of this warrant shall be appropriately increased or decreased by the Bank to reflect such change. However, anything in this Section to the contrary notwithstanding, no adjustment in the number of Shares shall be required unless such adjustment would require an increase or decrease of at least 5% in such number. The Purchase Price, however, is not adjusted. However, if any adjustment of the number of Shares by reason of this Section is not required to be made shall be carried forward and taken into account (together with any other adjustments so carried forward) in any subsequent adjustment. All calculations under this Section shall be made to the nearest one-hundredth of a Share, as the case may be, but in no event shall the Bank be obligated to issue any one or more fractional Common Shares upon the exercise of this warrant.

(b) In the event of an adjustment of the number of Shares, the Purchase Price shall be adjusted appropriately to correlate with the adjustment in number of Shares. Thus, by way of example, if the number of Shares is decreased by a one-for-two reverse stock split, then the Purchase Price would be multiplied by two, and, by way of further example, if the number of Shares is increased by a two-for-one stock split, the Purchase Price would be decreased by dividing the same by two.

(c) Except to the extent specified in Section 3.2 of this instrument, the Registered Holder shall not be entitled to any adjustment as a result of the issuance of Common Shares for value, including, by way of example only, the sale of authorized but unissued Common Shares or shares of the Bank's preferred stock, the issuance of restricted shares pursuant to any equity incentive or compensation plan, the exercises of options or warrants, or any other issuance of any securities of the Bank for value.

Section 3.2 Corporate Reorganizations, Formation of a One-Bank Holding Company

(a) Except as expressly set forth herein, in case of any capital reorganization or reclassification of Common Shares, or in case of any Corporate Reorganization in which the Bank is not the surviving entity, then, and in each such case, the Registered Holder shall have the right to receive upon the exercise of warrants under this warrant agreement, at any time after the consummation of such Corporate Reorganization, warrants to acquire the kind and amount of shares of stock or other securities or property receivable upon such Corporate Reorganization by a Registered Holder of the number of Shares issuable upon exercise of this warrant immediately prior to such Corporate Reorganization, reclassification, or comparable transaction. In any such case, if necessary, the provisions set forth in this warrant agreement with respect to the rights and interests thereafter of the Registered Holder of this warrant shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter receivable upon the exercise of this warrant. The above provisions of this Section 3.2 shall similarly apply to successive Corporate Reorganizations or changes specified in Sections 3.1(a), 3.1(b), and/or 3.2. In all cases, the determination of the Bank or its successor shall be conclusive unless manifestly in error. As used in this warrant agreement, the term "Corporate Reorganization" means any merger, share exchange, consolidation, sale of all (or substantially all) of the assets of the Bank, or liquidation of the Bank. If, based on the determination of tax counsel satisfactory to the Bank, a Corporate Reorganization would not be eligible to be a tax-free exchange pursuant to the Internal Revenue Code as then in effect, the Registered Holder may be required to exercise so much of the Registered Holder's rights under this instrument as the Registered Holder elects not to forfeit not later than the time of day immediately preceding the legal effective time of such Corporate Reorganization (such as the filing of articles of merger or share exchange, etc.) (the "Reorganization Deadline"). In such latter case, any part of the warrants exercisable hereunder that have not been exercised by the Reorganization Deadline shall be deemed to have expired and not to be exercisable after such Reorganization Deadline.

(b) The warrant expires on May 31, 2017 except for the right of the Bank's board of directors to require its prompt exercise under extraordinary circumstances, such as a pending merger or share exchange. The Bank will have the right to cause the warrant to be exchanged for a holding company warrant for an equivalent number of ordinary common shares of the holding company's common stock if the Bank forms a one-bank holding company for itself (or to cause the warrants to be cancelled if the bank holding company, as part of its formation, offers bank holding company warrants to replace them on substantially the same terms and conditions, and for the same strike price and number of shares) as govern this warrant. The formation of a one-bank holding company for the Bank shall not be deemed a "Corporate Reorganization" as that term is used in this Warrant.

Section 3.3 Notice of Reclassifications, Consolidations, Mergers, Etc. In case of any Corporate Reorganization or other change with respect to the number, type or character of the Shares for which this warrant is exercisable, or in the event that the Bank determines that there is a Reorganization Deadline, then the Bank shall send written notice thereof in accordance with the notice provisions of this warrant agreement. Such notice shall contain a brief description of any action(s) that need(s) to be taken by the Registered Holder, with respect to such Corporate Reorganization, including any Reorganization Deadline, at least twenty (20) days prior to the date that the Registered Holder would need to take such action(s) or otherwise respond to the proposed Reorganization Deadline and/or otherwise with regard to a Corporate Reorganization.

Section 4 Covenants of the Bank The Bank covenants and agrees that all Shares which may be issued upon the exercise of this warrant shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable and free from all preemptive rights of any shareholder and all taxes, liens and charges with respect to the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Section 5 Warrant Registered Holder Not Deemed a Shareholder No Registered Holder of this warrant as such, shall be entitled to vote or receive dividends or be deemed the Registered Holder of Common Shares for any purpose, nor shall anything contained in this warrant be construed to confer upon the Registered Holder hereof, as such, any of the rights of a shareholder of the Bank or any right to vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends, or subscription rights, or otherwise, prior to the issuance of record to the Registered Holder of this warrant of the Shares to which such Registered Holder is then entitled to receive upon the due exercise of this warrant.

Section 6 No Limitation on Corporate Action No provisions of this warrant and no right or option granted or conferred hereunder shall in any way limit, affect or abridge the exercise by the Bank of any of its corporate rights or powers to recapitalize, amend its charter, reorganize, consolidate or merge with or into another corporation, to engage in any other type of Corporate Reorganization or to transfer all or any part of its property or assets, or the exercise of any other of its corporate rights and powers.

Section 7 Limitations On Purchases, Issuances, and Transfers, Exercise of Warrant, Issuance of Shares

Section 7.1 Exercise This warrant may be exercised in whole and in part on one or more occasions, provided, that partial exercises shall be for not fewer than the purchase of the lesser of (a) not less than one hundred (100) Shares or (b) all Shares then available for exercise under the warrant. The lawful Registered Holder may exercise the same by surrendering this warrant, with the form of subscription at the end hereof duly executed by such Registered Holder, to the Bank at the principal office of the Bank, until such time as the Bank may appoint a transfer agent and thereafter at the principal office of the transfer agent, accompanied by payment in cash or by certified or official Bank check, payable to the order of the Bank, of the sum obtained by multiplying the number of Shares called for on the face of this warrant (giving effect to any adjustments therein) by the Purchase Price, plus any applicable transfer tax. If the Bank appoints a non-affiliated transfer agent, the Bank agrees to notify the Registered Holder of this warrant of the address of such transfer agent's principal office. If less than all of the Shares available to be exercised are purchased in a partial exercise, the Registered Holder will surrender the warrant and receive from the Bank or its transfer agent a replacement warrant reflecting the number of the Shares which remain available for exercise. Any person who obtains participations in, or benefits from an improper transfer of all or any part of a warrant shall not be entitled to exercise the same and any such exercise shall be a nullity in the exercise of the board of directors of the Bank. In its sole and absolute discretion, the Bank may permit cashless exercises of all or part of the Shares covered by this warrant agreement.

Section 7.2 Issuance of Shares As soon as practicable after exercise of this warrant and payment of the or any sum payable upon such exercise, and in any event within twenty (20) business days thereafter, the Bank will cause to be issued in the name of and delivered to the Registered Holder hereof, or as such Registered Holder may direct (upon payment by such Registered Holder of any applicable transfer taxes), a certificate or certificates for the number of fully paid and non-assessable Shares or other securities or property to which such Registered Holder shall be entitled upon such exercise, plus, in lieu of fractional Shares to which such Registered Holder would otherwise be entitled, call equal to such action multiplied by the then current fair market value of one full Share. Issuance and delivery of the Shares deliverable on the due exercise of this warrant may be postponed by the Bank and its transfer agent during any period, not exceeding forty (40) calendar days, for which the transfer books of the Bank for its Common Stock are closed between (1) the record date set by the board of directors for the determination of shareholders entitled to vote at or to receive notice of any shareholders' meeting, or entitled to receive payment of any dividends or to any allotment of rights or to exercise rights in respect of any change, conversion or exchange of capital stock, and (2) the date of such allotment of rights, or the date when any such change or conversion or exchange of capital stock shall go into effect, as the case may be.

Section 7.3 Limitations This warrant and this Section 7 are entirely limited by the provisions of Section 8 of this warrant.

Section 8 Compliance with Securities Laws, Limitations On Purchases, Issuances, and Transfers, Exercise of Warrant, Issuance of Shares

Section 8.1 Compliance with Securities Laws The Registered Holder agrees that the Bank, if it so elects in the exercise of its sole and absolute discretion, may permit transfers of or exercises under this warrant and/or the transfers of any Share(s) purchased upon the full or partial exercise of this warrant, but such transfer(s) may only be made when the Bank is reasonably satisfied that such transfer(s) will be made in compliance with the Applicable Securities Laws including, without limitation, the Securities Act of 1933, as amended (the "Securities Act"). As used herein, the term "Applicable Securities Laws" means the securities laws, rules and regulations of the United States of America, including the Securities Act of 1933 and the securities laws, rules and regulations of each other jurisdiction that apply to a proposed sale, purchase, issuance or transfer of securities.

Section 8.2 Limitations on Purchases, Issuances, and Transfers This warrant may be transferred only based upon an Exemption. An "Exemption" is an exemption from registration of securities under the Applicable Securities Laws. This warrant may be exercised in whole and in part on one or more occasions as provided below only if there is an Exemption. The Bank will permit the transfer of this warrant or Shares issued hereunder, and the Bank will issue Shares pursuant to this warrant only if the Bank believes that the whole or partial exercise of this warrant, at any time of a proposed transfer or exercise by the Registered Holder, can be effected pursuant to an Exemption under the Applicable Securities Laws. The Bank may require that the request for transfer of this warrant and/or the issuance or transfer of Shares be accompanied by an opinion of counsel (which opinion and the counsel rendering such opinion shall be reasonably acceptable to the Bank) to the effect that the sale or proposed transfer does not require registration under the Securities Act or any state or other jurisdiction's securities laws. The Bank shall have the complete right to rely on the advice of legal counsel chosen by the Bank in making the Bank's decision under this Section. All other terms and conditions of this warrant are expressly made subject to the limitations in this Section 8.

Section 8.3 Legend It is intended that this warrant will be issued in book-entry format only. However, if the Bank later determines to issue a certificate or other paper form of this document, then the Registered Holder expressly agrees that the following legend, if the Bank so desires, may be placed on the certificate or certificates representing any of the Shares purchased upon exercise of this warrant and a stop transfer order may be placed with respect thereto.

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS SHALL HAVE BECOME EFFECTIVE WITH REGARD THERETO, OR (2) IN THE OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER, REGISTRATION UNDER SUCH SECURITIES ACT AND SUCH APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED TRANSFER.

The Registered Holder understands that the Bank shall have no obligation (a) to permit the purchase of any Shares under this warrant by any person or (b) to permit the transfer of this warrant, and/or any Shares issued pursuant to the whole or partial exercise of this warrant, to any person except as permitted under this Section 8. The Registered Holder further understands that only the Registered Holder may exercise or attempt to exercise this warrant.

Section 9 Notices All communications hereunder shall be in writing and, if sent to the Bank, shall be mailed by registered or certified mail, or delivered by courier, to the Main Office of the Bank as then set forth on the records of the Bank's primary federal regulator. Attention: President. Such notice shall be deemed received only when the Bank's president has actually physically received the notice. All communications hereunder shall be in writing and, if sent to the Registered Holder, shall be mailed by registered or certified mail, or delivered by courier, to the address of such Registered Holder as set forth in the Bank's stock transfer or warrant agreement records. The Registered Holder may change his, her or its address by proper notice to the Bank sent in conformity with this Section. Risk of non-transmission or untimely delivery of any notice shall be and remain at all times on the Registered Holder.

Section 10 Shares Attributable to this Warrant The Registered Holder of this warrant is entitled to purchase at the price set forth above the following number of Shares (subject to adjustment as herein provided and further subject to expiration) set forth on the following line:

Dated _____ 20 _____

MIDSOUTH BANK

REGISTERED HOLDER

BY _____
Authorized Officer or Agent

BY _____
Typed or Printed Name and Title

Tax Identification Number _____

EXHIBIT 31

CERTIFICATIONS FILED AS PART OF THIS ANNUAL REPORT ON FORM 10-K

CERTIFICATION

I, Lee M. Moss, Chairman and Chief Executive Officer of MidSouth Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K for fiscal year ended December 31, 2010, of MidSouth Bank (“registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2011

/s/ Lee M. Moss
Lee M. Moss, Chairman and Chief Executive Officer

CERTIFICATION

I, Kevin D. Busbey, Senior Vice President and Chief Financial Officer of MidSouth Bank, certify that:

1. I have reviewed this Annual Report on Form 10-K for fiscal year ended December 31, 2010, of MidSouth Bank ("registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2011

/s/ Kevin D. Busbey
Kevin D. Busbey, Senior Vice President
and Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS FILED AS PART OF THIS ANNUAL REPORT ON FORM 10-K

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Annual Report on Form 10-K of MidSouth Bank (the “Bank”) for the year ended December 31, 2010, as filed with the Board of Governors of the Federal Reserve System on or about the date hereof (the “Report”), I, Lee M. Moss, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 25, 2011

/s/ Lee M. Moss
Lee M. Moss, Chairman
and Chief Executive Officer

* Pursuant to Item 601 of Regulation S-K, any certification furnished pursuant to this Item will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. § 78r), or otherwise subject to the liabilities of that section.

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Annual Report on Form 10-K of MidSouth Bank (the “Bank”) for the year ended December 31, 2010, as filed with the Board of Governors of the Federal Reserve System on or about the date hereof (the “Report”), I, Kevin D. Busbey, Senior Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 25, 2011

/s/ Kevin D. Busbey
Kevin D. Busbey, Senior Vice President
and Chief Financial Officer

* Pursuant to Item 601 of Regulation S-K, any certification furnished pursuant to this Item will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. § 78r), or otherwise subject to the liabilities of that section.

APPENDIX F

**2010 ANNUAL FINANCIAL DISCLOSURES
AND INDEX TO FINANCIAL DISCLOSURES**

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MIDSOUTH BANK FINANCIAL HIGHLIGHTS (UNAUDITED)

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
<u>BALANCE SHEETS:</u>					
End of period:					
Total assets	\$ 233,905	\$ 248,877	\$ 270,770	\$ 246,982	\$ 219,524
Loans, net	152,337	188,116	216,730	191,074	148,457
Securities	53,090	22,010	33,146	31,248	36,347
Deposits	204,890	224,236	222,863	207,448	192,516
Stockholders' equity	23,403	19,851	28,128	30,978	26,228
<u>STATEMENTS OF OPERATIONS:</u>					
Interest income	\$ 11,433	\$ 13,137	\$ 14,436	\$ 15,049	\$ 11,020
Interest expense	2,712	4,001	5,778	7,179	5,304
Net interest income	8,721	9,136	8,658	7,870	5,716
Provision for loan losses	1,130	11,920	4,514	400	611
Net interest income (loss) after provision for loan losses	7,591	(2,784)	4,144	7,470	5,105
Non-interest income	2,306	2,728	1,809	1,542	1,047
Non-interest expense	9,186	10,171	9,662	8,853	7,356
Earnings (loss) before income taxes	711	(10,227)	(3,709)	159	(1,204)
Income taxes	-	-	-	-	-
Net earnings (loss)	\$ 711	\$ (10,227)	\$ (3,709)	\$ 159	\$ (1,204)
Comprehensive earnings (loss)	\$ 576	\$ (11,121)	\$ (3,079)	\$ 526	\$ (751)
<u>PER SHARE DATA:</u>					
Basic earnings (loss) per common share	\$ 0.19	\$ (2.66)	\$ (0.99)	\$ 0.04	\$ (0.38)
Diluted earnings (loss) per common share	0.13	(2.66)	(0.99)	0.04	(0.38)
Cash dividends per share	-	-	-	-	-
Book value per common share, end of year, fully converted basis	3.97	4.25	7.48	8.28	7.89
<u>RATIOS:</u>					
Return on average stockholders' equity	3.12 %	- %	- %	0.53 %	- %
Return on average assets	0.29 %	- %	- %	0.07 %	- %
Stockholders' equity to assets	10.01 %	7.98 %	10.39 %	12.54 %	11.95 %
Dividends declared per share as percentage of basic earnings per share	- %	- %	- %	- %	- %

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

MidSouth Bank ("Bank") is a community bank headquartered in Murfreesboro, Rutherford County, Tennessee, which is part of the Nashville-Davidson County-Murfreesboro MSA. The Bank is a state-chartered bank that began operations on January 20, 2004. The Bank currently operates from five locations – its main office and three branches in Murfreesboro, and one location in Smyrna. All five offices are located in Rutherford County, Tennessee. In addition, the Bank has a wholly-owned subsidiary, MSB Services, Inc., that provides credit life insurance services to the Bank. The Bank offers a wide range of banking services including checking, savings, money market accounts, treasury management, certificates of deposit and loans for consumer, commercial and real estate purposes. In addition to these traditional services, the Bank offers trust services and investment services through Raymond James to its customers.

The purpose of this discussion is to provide insight into the financial condition and results of operations of the Bank. This discussion should be read in conjunction with the Bank's annual consolidated financial statements filed in conjunction with the Bank's Annual Report on Form 10-K for the year ended December 31, 2010.

Since mid-2008, the United States economy has been struggling through an extended recessionary period, which has proven to be an extremely challenging time for banks across the nation. From mid-2008 through 2010, 317 banks in the United States have been closed by the Federal Deposit Insurance Corporation; however, none of the closings have occurred in Tennessee. While no Tennessee banks have been closed, a number of those banks have been feeling the effects of the struggling economy, especially in terms of profitability. The recession has been strongly felt in the Bank's primary market areas, with the most severely impacted area being the construction and development market.

For many years, Rutherford County has relied heavily on residential growth as a primary economic driving force. Beginning in 2008, the county experienced a significant slowdown in residential expansion, especially in residential construction. When combined with the recession that worsened in 2009 and carried over into 2010, these factors have negatively impacted our loan growth and, in turn, the Bank's earnings. Deposit growth also slowed during 2009, and in 2010, the Bank's deposits declined by 8.6%, primarily due to competitive pressures, although business generated from our existing customers remained relatively strong.

Since opening in 2004, the Bank has made a number of loans to developers and builders, and a substantial portion of the Bank's loans are currently secured by real property. While Rutherford County did not see the extreme decreases in real estate values that many parts of the country experienced, values have declined sharply due in part to the county's excessive real estate development inventory. Real estate lending has become extremely difficult in all of its many facets. The number of quality real estate loan applications has declined. Borrowers, specifically builders and developers, have had difficulty selling their real estate inventories. Many real estate projects have failed due to lack of demand.

As the Bank's management has worked through many of its problem loans, many of which were directly related to the real estate problems affecting Rutherford County and surrounding areas, the Bank recorded large provisions for loan losses in 2008 and 2009 – \$4.5 million and \$11.9 million, respectively. Comparatively speaking, the Bank recorded \$1.1 million in loan loss provisions for 2010. Management believes that this indicates that the problem loans within the Bank's loan portfolio have been properly identified and that management's credit risk management processes are effective and producing results.

In addition, the Bank's pre-loan loss provision earnings increased from \$1,693,000 in 2009 to \$1,841,000 in 2010, reflecting an improvement in core earnings during 2010. That increase is due to

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

management's efforts to maintain a healthy net interest margin, improve the Bank's capital ratios and control/reduce the Bank's non-interest expenses.

While the year 2011 may be another difficult year for the banking industry, since economic growth is expected to be slow, the management of MidSouth Bank is optimistic that the Bank's core earnings will continue to improve. Management also believes that the Bank can achieve a measure of success in its local markets, although Rutherford County is considered by many to be over-banked. That judgment is based on the market being served by 20-plus financial institutions and credit unions and their related branches.

From a community bank's perspective, the cost of FDIC deposit insurance is expected to decrease in 2011 as the FDIC changes the insurance assessment calculation methodology effective April 1, 2011 under the provisions of the Dodd-Frank Act. Under current rules, a bank's deposit insurance premium is based on its total domestic deposits, with adjustments made depending on examination ratings, brokered deposits and balance sheet risk. Under the new rules, deposit assessments will be based on a bank's average consolidated total assets, less its average tangible equity capital. The new rules also revise the risk-based assessments for larger banks, generally, those institutions with at least \$10 billion in total assets. According to the FDIC, nearly all of the 7,600-plus institutions with assets less than \$10 billion will pay smaller assessments as a result of the final rule that is designed to have larger banks fund a larger portion of the insurance fund, since those larger institutions potentially create a larger risk to the Deposit Insurance Fund.

There can be no real assurance that the local or national economies have either stopped declining or started a recovery, although there are some positive signs of potential recovery. For instance, state and local unemployment rates have decreased by a full percentage point or more since the end of 2009. In addition, some local realtors have indicated that they are seeing some improved property values and sales numbers, but only in certain areas. Because the Bank's historical lending strategy and its loan portfolio have been to a substantial extent dependent upon real estate values, the Bank's profitability may be adversely affected if there are further declines in the real estate market.

The costs of regulatory compliance can be expected to rise as governments attempt to respond to perceived problems in financial markets, whether financial or in relation to how consumers are treated by banks and other financial institutions. A number of new regulations stemming from the Dodd-Frank Act are expected to be introduced over the course of the next 12 to 18 months that are likely to intensify the compliance burden on financial institutions. It is foreseen that the new regulations may create a need to invest in certain resources, such as a full-time compliance officer, or similar position, in order to meet the requirements being handed down. This will make it more difficult for smaller community banks to keep overhead costs down.

Competition with other financial services providers in our marketplace remains intense. When the bank opened in 2004, there were 11 financial competitors, and as previously mentioned, that has now grown to over 20, with other financial institutions planning to open offices in Rutherford County during 2011. The impact of federal stimulus programs may prove decisive in how rapidly the economy recovers, but neither the timing of any economic recovery nor the ultimate cost and impact of these stimulus programs can be predicted.

During 2010, management continued its strong emphasis on managing the Bank's net interest margin. The Bank was able to reduce its interest costs related to deposits and interest-bearing liabilities to an even greater extent. While our interest income declined 13.0% to \$11.4 million, down from \$13.1 million, that decrease was mostly offset by the decline in total interest expense, which decreased 32.5%, from \$4.0 million to \$2.7 million. This was due to our strategy of aggressively managing the Bank's cost of funds through deposit pricing and strategic funding opportunities. Total non-interest income decreased

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

14.8% from \$2.7 million to \$2.3 million while non-interest expense decreased 9.8% from \$10.2 million to \$9.2 million. These variances are discussed more fully later in this document.

In 2010, management continued to shrink the Bank's balance sheet, moving troubled assets off the balance sheet and changing the composition of the Bank's investment portfolio, thereby improving the Bank's capital ratios. The Bank also continued its cost containment initiatives in 2010, pursuant to a number of cost-cutting measures that began in 2009. Management expects to continue its careful monitoring and management of the net interest margin going into 2011; however, the Bank's ability to enhance core profitability continues to be greatly dependent on our community's economic recovery. Over the past two-plus years, the Bank, like so many other financial institutions, has been focused on credit quality, improving profitability, improving capital ratios and working through the increased regulatory oversight that has been prominent in our industry during the economic recession. The Bank's strategy for 2011 calls for focusing on and improving asset quality, seeking out quality loan growth and core deposit growth opportunities, as well as finding ways to overcome the regulatory issues that will negatively impact profitability in the banking industry nationwide.

Forward-Looking Statements

Management's discussion of the Bank and management's analysis of the Bank's operations and prospects, and other matters, may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other provisions of federal and state securities laws. Although the Bank believes that the assumptions underlying such forward-looking statements contained in this Report are reasonable, any of the assumptions could be inaccurate and, accordingly, there can be no assurance that the forward-looking statements included herein will prove to be accurate. The use of such words as expect, anticipate, forecast, and comparable terms should be understood by the reader to indicate that the statement is "forward-looking" and thus subject to change in a manner that can be unpredictable. Factors that could cause actual results to differ from the results anticipated, but not guaranteed, in this Report, include (without limitation) economic and social conditions, competition for loans, mortgages, and other financial services and products, changes in interest rates, unforeseen changes in liquidity, results of operations, and financial conditions affecting the Bank's customers, as well as other risks that cannot be accurately quantified or completely identified. Many factors affecting the Bank's financial condition and profitability, including changes in economic conditions, the volatility of interest rates, political events and competition from other providers of financial services simply cannot be predicted. Because these factors are unpredictable and beyond the Bank's control, earnings may fluctuate from period-to-period. The purpose of this type of information is to provide readers with information relevant to understanding and assessing the financial condition and results of operations of the Bank, and not to predict the future or to guarantee results. The Bank is unable to predict the types of circumstances, conditions, and factors that can cause anticipated results to change. The Bank undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of changes or unanticipated events, circumstances, or results.

Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States and with general practices within the banking industry. In connection with the application of those principles to the determination of our allowance for loan and lease losses (ALLL), we have made judgments and estimates which have significantly impacted our financial position and results of operations.

Our management assesses the adequacy of the ALLL on a regular basis. This assessment includes procedures to estimate the ALLL and test the adequacy and appropriateness of the resulting balance. The ALLL consists of two portions: (1) an allocated amount representative of specifically

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

identified credit exposure and exposures readily predictable by historical or comparative experience; and (2) an unallocated amount representative of inherent loss which is not readily identifiable. Even though the ALLL is composed of two components, the entire allowance is available to absorb any credit losses.

We establish the allocated amount separately for two different risk groups: (1) unique loans (commercial loans, including those loans considered impaired); and (2) homogenous loans (generally single-family residential and consumer loans). We base the allocation for unique loans primarily on the projected collateral shortfall in relation to the recorded investment. We estimate losses on impaired loans based on estimated cash flows discounted at the loan's original effective interest rate or the underlying collateral value. We also assign estimated loss ratios to our consumer portfolio; however, we base the estimated loss ratios for these homogenous loans on the category of consumer credit (e.g., automobile, residential mortgage, home equity) and not on the results of individual loan reviews.

The unallocated amount is particularly subjective and does not lend itself to exact mathematical calculation. We use the unallocated amount to absorb inherent losses which may exist as of the balance sheet date for such factors as historical loss rates, changes in the local or national economy, the depth or experience of the lending staff, changes in the lending policies, changes in the nature or volume of loan types, any concentrations of credit in any particular industry group, past due loan volumes and trends, the quality of loan reviews performed and changes in collateral values. After we assess the applicable factors, we evaluate the aggregate unallocated amount based on our management's experience.

We then test the resulting ALLL balance by comparing the balance in the allowance account to historical trends and peer information. Our management then evaluates the result of the procedures performed, including the result of our testing, and concludes on the appropriateness of the balance of the ALLL in its entirety. The provision resulting from the ALLL assessment is presented to the board of directors prior to the public reporting of financial information.

Results of Operations

The Bank had earnings of \$711,000 for the year ended December 31, 2010 as compared to a loss of \$10,227,000 for the year ended December 31, 2009. For the years ended December 31, 2010 and 2009, on a per share basis, the net earnings were \$0.19 per common share, and the loss was \$2.66 per common share, respectively. The largest impact in the Bank's 2010 earnings was the fact that the Bank recorded provisions for loan losses of \$1,130,000, as compared with 2009 recorded provisions of \$11,920,000, a difference of almost \$10.8 million. In addition, the Bank's core earnings continued to improve in 2010, a large portion of which is attributable to the \$985,000 reduction of non-interest expenses from 2009 to 2010, which is discussed more fully later in this document.

While the local real estate market continued to be impacted by the recessionary economy in 2010, the real estate values in some areas of our market began to show signs of improvement, according to information obtained from local realtors. In addition, the unemployment rate in Rutherford County improved during 2010, going from 9.5% in December 2009 to 8.1% in December 2010, exceeding the improvement in the State's unemployment rate, which improved to 9.4% in 2010 from 10.5% in 2009.

Net Interest Income

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Bank's earnings. Total interest income for the years ended December 31, 2010 and 2009 was \$11,433,000 and \$13,137,000, respectively, a decrease of 13.0%, and total interest expense was \$2,712,000 and \$4,001,000, respectively, a decrease of 32.2%. Net interest income for 2010 and 2009 totaled \$8,721,000 and \$9,136,000, respectively, a decrease of 4.5%. The decrease in net interest income

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

for 2010 directly relates to the reduction in the Bank's loan portfolio. During 2010, the Bank worked through a number of troubled loan relationships, reducing loans through payoffs, collateral liquidations and charge-offs. The decrease in the loan portfolio directly reduced the Bank's interest income. As funds were taken in from the loan pay downs, they were reinvested in the Bank's securities portfolio, but the rates that were available in the securities market were lower than the loan rates that the Bank was earning previously.

Interest rates are projected to remain unchanged for most of 2011, while there is some speculation that rates may begin to increase gradually beginning in late-2011, or perhaps in early-2012. Management believes that loan volumes will be relatively low with loan demand continuing to be at a low level and quality credits being somewhat challenging to locate and originate. Deposit volumes may also diminish somewhat in 2011, since some depositors are expected to move funds from traditional bank deposits to the equity markets as they seek better returns on their funds.

Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. The provision for loan losses was \$1,130,000 and \$11,920,000 for the years ended December 31, 2010 and 2009, respectively, a decrease of 90.5%. The reason for the large decrease is directly related to the number of potential losses that were identified in 2009, especially in the Bank's construction and land development segment of the loan portfolio. In 2009, management had identified a large number of loans as impaired and took the actions needed to evaluate the relationships' collateral and cash flow positions related to those credits. Once the Bank moved into 2010, a number of the relationships identified in 2009 were worked out by the Bank through a combination of payoffs, collateral liquidations and charge-offs. Since that time, the number of relationships that were newly identified as impaired has been much less than the loans identified in 2009.

The level of the allowance and the amount of the provision involve evaluation of uncertainties and matters of judgment. Based on the analyses that have been performed, management believes the allowance for loan losses at December 31, 2010 and 2009 to be adequate. The allowance for loan losses was 2.84% and 4.12% of loans at December 31, 2010 and 2009, respectively. The reduction in the allowance was a direct result of the volume of loans that were charged off in 2010, many if not all of which had been identified and allowance provided in 2009, and as a result of the decline in loan loss provisions mentioned previously.

Non-Interest Income

The Bank's non-interest income consists of service charges on deposits, fees on mortgage originations, fees from brokerage operations, other fees and commissions and gains on sales of available-for-sale securities. Total non-interest income for the year ended December 31, 2010 and 2009 was \$2,306,000 and \$2,728,000, respectively, a decrease of \$422,000 or 15.5%. The decrease in non-interest income is primarily related to the difference in the gain from the sale of available-for-sale securities in 2009 of \$1,017,000, compared with 2010 gain of \$511,000, a difference of \$506,000, or 49.8%. The decrease in gains from the sales of available-for-sale securities was offset by the 30.1% increase in fees from brokerage operations, which was \$506,000 for the year ended December 31, 2010, compared with \$389,000 for the year ended December 31, 2009.

The gain that was recorded in 2009 was much larger than the gain recorded in 2010 since the market values of the bonds that the Bank sold in 2009 were greater relative to that timeframe. The securities gains that were taken in 2009 were a direct and purposeful strategy that was carried out by management to provide a capital injection by selling certain securities in order to take advantage of the

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

market valuation gains that existed in the portfolio at that time. Those gains served to offset the large loan loss provisions that had reduced the Bank's capital during 2009. In 2010, management developed another similar strategy that had two purposes: (1) to increase the Bank's risk-based capital ratios; and (2) to increase the Bank's stockholders' equity. To accomplish the strategic objectives, management sold securities that were risk-weighted at 20% in regulatory capital ratio standards and purchased securities that had 0% risk weight. The targeted securities to be sold also carried market valuation gains at that time, which were realized when the sales took place. The gains realized were less than the gain recorded in 2009, but the strategy served us well, improving the Bank's total risk-based capital ratio from 10.4% at December 31, 2009 to 14.6% at December 31, 2010.

Non-Interest Expense

Non-interest expenses primarily consist of employee costs, occupancy expenses, furniture and equipment expenses, professional fees, advertising expense, data processing expense, foreclosed asset expenses, FDIC insurance and other operating expenses. Total non-interest expense for the years ended December 31, 2010 and 2009 was \$9,186,000 and \$10,171,000, respectively, a decrease of \$985,000, or 9.7%. The largest expense items that affected the decrease were salaries and employee benefits (\$396,000), advertising expense (\$74,000), occupancy expense (\$104,000), professional fees (\$87,000) and decreased valuation losses on foreclosed assets (\$318,000). These decreases helped to offset the \$104,000 increase in FDIC insurance assessments. Management will continue to seek out opportunities to cut/control expenses over which it has some measure of control.

Income Taxes

Due to the Bank's cumulative loss, there was no income tax expense provision in 2010 or 2009.

Financial Condition

Balance Sheet Summary. The Bank's total assets were \$233,905,000 and \$248,877,000 at December 31, 2010 and 2009, respectively, a decrease of 6.0%. Loans, net of allowance for loan losses, totaled \$152,337,000 and \$188,116,000 at December 31, 2010 and 2009, respectively, and investment securities totaled \$53,090,000 and \$22,010,000, respectively.

Total liabilities were \$210,502,000 and \$229,026,000 at December 31, 2010 and 2009, respectively, and stockholders' equity was \$23,403,000 and \$19,851,000, respectively. A more detailed discussion of assets, liabilities and capital follows.

Loans

Loan categories are as follows:

	December 31, 2010		December 31, 2009	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
	<i>(In Thousands, except percentages)</i>		<i>(In Thousands, except percentages)</i>	
Commercial, financial and agricultural	\$ 30,283	19.3%	\$ 36,341	18.5%
Real estate:				
Commercial	58,152	37.1	55,525	28.3
Residential	40,901	26.1	42,059	21.4
Construction and land development	18,193	11.6	50,114	25.6
Multifamily	2,714	1.7	2,496	1.3
Consumer and other	<u>6,541</u>	<u>4.2</u>	<u>9,661</u>	<u>4.9</u>
Total	<u>\$ 156,784</u>	<u>100.0%</u>	<u>\$ 196,196</u>	<u>100.0%</u>

MIDSOUTH BANK

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loans are a large component of the Bank's assets and are a primary source of income. The loan portfolio is composed of six primary loan categories: commercial, financial and agricultural; commercial real estate; residential real estate; construction and land development; multifamily real estate; and consumer and other. The table on the previous page sets forth the loan categories and the percentage of such loans in the portfolio at December 31, 2010 and 2009.

As represented in the table, total loans decreased during 2010. This was intentional as management took aggressive actions to work out troubled assets, especially in the construction and land development and commercial segments of the Bank's loan portfolio. Management intends to make loans in a very orderly fashion and to monitor loans tightly once originated to maintain maximum possible asset quality, especially during the currently stressed economic cycle.

The Bank follows the provisions of ASC 310, *Receivables*, as this standard applies to impaired loans, except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment.

A loan is impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Bank recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Bank's single-family residential mortgage and consumer loans that are not individually evaluated for impairment are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and thus are not subject to the provisions of ASC 310. Substantially all other loans of the Bank are evaluated for impairment under the provisions of ASC 310.

The Bank considers all loans subject to the provisions of ASC 310 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Delays or shortfalls in loan payments are evaluated with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such interest received is applied as a reduction of principal. A nonaccrual loan may be restored to accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt. There were 41 nonaccrual loans totaling \$9,899,000 and 44 nonaccrual loans totaling \$13,649,000 as of December 31, 2010 and December 31, 2009, respectively.

Other loans may be classified as impaired when the current net worth and financial capacity of the borrower or of the collateral pledged, if any, is viewed as inadequate. In those cases, such loans have

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Bank will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Bank's criteria for nonaccrual status.

Generally the Bank also classifies as impaired any loans the terms of which have been modified in a troubled-debt restructuring. Interest is accrued on such loans that continue to meet the modified terms of their loan agreements. The Bank had four loans that had terms modified in a troubled-debt restructuring at December 31, 2010, and had one such loan at December 31, 2009.

The Bank's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged-off in the month when they are considered uncollectible.

At December 31, 2010 and 2009, the Bank had \$16,831,000 and \$21,488,000, respectively, in impaired loans outstanding and no loans past due 90 days that were still accruing interest.

At December 31, 2010 and 2009, there were \$26,804,000 and \$37,389,000, respectively, in loans included in the Bank's internal classified loan list. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the agreed repayment terms of the loan agreement. The volume of loan classifications could represent or be a result of trends or uncertainties which management realizes could potentially impact future operating results, liquidity or capital resources if not properly monitored and managed.

The allowance for loan losses is discussed under "Provision for Loan Losses." The Bank maintains its allowance for loan losses at an amount considered by management to be adequate to provide for the possibility of loan losses in the loan portfolio. The Bank does not originate, make or service "subprime" loans.

Essentially all of the Bank's loans originate from Rutherford and adjacent counties in Tennessee. The Bank seeks to exercise prudent risk management in lending, including diversification by loan category and industry segment, as well as by identification of credit risks.

The Bank's management believes there are selective loan opportunities in the Bank's primary market area for potential growth in the loan portfolio. In the recent past, the Bank has targeted commercial business lending, commercial and residential real estate lending and consumer lending. The Bank lending practices have largely been driven by the local market, which historically has been based on real estate development due to the growth of the population in the Rutherford County market. Management seeks to build a loan portfolio which is capable of adjusting to swings in the interest rate market, and it is the Bank's policy to maintain a diverse loan portfolio not truly dependent on any particular market or industrial segment. Portfolio diversification is even more critical during stressed economic times. Management has set a goal for loans to approximate between 85% and 90% of deposits, although during the current recession, the Bank's ratio of loans to deposits has decreased to below 80%. That does create more liquidity for the Bank, and although that impacts the Bank's earnings somewhat, management believes that it has been prudent to have the additional liquidity available in light of the current economic environment.

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Securities

Securities totaled \$53,090,000 and \$22,010,000 at December 31, 2010 and 2009, respectively, and were a significant component of the Bank's earning assets. The Bank follows the provisions of ASC 320, *Investments – Debt and Equity Securities*. Under the provisions of the Standard, securities are classified in three categories and accounted for as follows:

- Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity.

The Bank's classification of securities as of December 31, 2010 is as follows:

	Available-for-Sale	
	Amortized Cost	Estimated Market Value
	<i>(In Thousands)</i>	
U.S. Treasury and other U.S.		
Government agencies and corporations	\$ 4,759	\$ 4,700
Mortgage-backed securities	48,330	48,390
	\$ 53,089	\$ 53,090

The Bank's classification of securities as of December 31, 2009 is as follows:

	Available-for-Sale	
	Amortized Cost	Estimated Market Value
	<i>(In Thousands)</i>	
U.S. Treasury and other U.S.		
Government agencies and corporations	\$ 1,000	\$ 1,007
Mortgage-backed securities	20,874	21,003
	\$ 21,874	\$ 22,010

No securities have been classified as trading or held-to-maturity.

As evidenced by the increase in investment securities from 2009 to 2010, the Bank's management purchased securities as loans have decreased due to the additional liquidity created by the loan pay-downs and workouts. Also, some of the Bank's securities were sold during 2010 to restructure the investment portfolio, reducing the risk-weighted percentages on a number of the Bank's securities in an effort to

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maximize the Bank's regulatory capital ratios. As a result of those sales, the Bank realized gains on available-for-sale securities of \$511,000.

Deposits

Total deposits, which are the principal source of funds for the Bank, totaled \$204,890,000 and \$224,236,000 at December 31, 2010 and 2009, respectively, which is a decrease of \$19,346,000, or 8.6%. This decrease primarily resulted from the Bank's strategy to reduce non-core funding dependence by reducing the amount of certificates of deposit \$100,000 or greater. Those deposits are considered more volatile, especially when evaluated by the Bank's regulators, and they are historically priced higher than time deposits less than \$100,000. Since deposits in this category have historically higher rates, reducing the amount of deposits in that category helped to improve the Bank's cost of interest-bearing funds which, in turn, helped to improve the Bank's net interest margin.

The Bank's strategy relative to reducing non-core funding dependence was effective during 2010 since the Bank's certificates of deposit of \$100,000 or more decreased by \$33.6 million, or 49.8%, when comparing December 31, 2010 with December 31, 2009. During that same period, the Bank's money market deposit accounts increased \$4.9 million, or 12.5%, and certificates of deposit less than \$100,000 increased \$7.2 million, or 13.4%.

The Bank has targeted local consumers, professionals, local governments and commercial businesses as its central client base; therefore, deposit instruments in the form of checking accounts, savings accounts, money market deposit accounts, certificates of deposit and individual retirement accounts are offered to customers.

Management believes Rutherford County and the surrounding area is a viable market offering growth opportunities for the Bank; however, the Bank competes with several of the larger bank holding companies that have bank offices in this area, as well as other community banks and credit unions; therefore, no assurances of market growth can be given. Even though the Bank is in a very competitive market, management currently believes that its market share can be expanded. Management firmly believes that its position as a locally-owned financial institution that offers personalized service will contribute significantly to quality loan and deposit growth; however, with the low rate deposit environment that currently exists, a number of depositors are looking for alternative ways of gaining a return on their funds. As a result, some deposit customers are using their funds to pay off debt on larger items like automobiles or houses, or some are moving funds from deposits into equity or stock investments.

Liquidity and Asset Management

The Bank's management seeks to maximize net interest income by managing the Bank's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers and fund attractive investment opportunities. The Bank's primary source of liquidity is expected to be a stable core deposit base, meaning that the Bank will have to look for innovative ways for growing its deposits. In addition, short-term investments, loan payments, investment security maturities and short-term borrowing lines at the Federal Home Loan Bank and correspondent banks provide secondary sources of liquidity. At the present time, there are no known trends or any known commitments, demands, events or uncertainties that will result in or that are reasonably likely to result in the Bank's liquidity position changing materially.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings

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through funds management/interest rate risk management. The Bank's rate sensitivity position has an important impact on earnings. Senior management of the Bank meets frequently to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments.

The following table shows the rate sensitivity gaps for different time period as of December 31, 2010:

Interest Rate Sensitivity Gaps					
December 31, 2010	1-90	3 months to		Over	
<u>(In Thousands)</u>	<u>Days</u>	<u>12 months</u>	<u>1 to 5 Years</u>	<u>5 Years</u>	<u>Total</u>
Interest-earning assets	\$ 59,084	\$ 12,192	\$ 86,572	\$ 55,807	\$ 213,665
Interest-bearing liabilities	<u>109,416</u>	<u>49,663</u>	<u>21,687</u>	<u>-</u>	<u>180,766</u>
Interest-rate sensitivity gap	<u>\$ (50,332)</u>	<u>\$ (37,471)</u>	<u>\$ 64,885</u>	<u>\$ 55,807</u>	<u>\$ 32,889</u>
Cumulative gap	<u>\$ (50,332)</u>	<u>\$ (87,803)</u>	<u>\$ (22,918)</u>	<u>\$ 32,889</u>	

Capital Position and Dividends

The Bank's principal regulators have established minimum risk-based capital requirements and leverage capital requirements for the Bank. These guidelines classify capital into two categories of Tier I and Total risk-based capital. Total risk-based capital consists of Tier I (or core) capital (essentially common equity less intangible assets) and Tier II capital (essentially qualifying long-term debt, of which the Bank has none, and a part of the allowance for loan losses). In determining risk-based capital requirements, assets are assigned risk-weights of 0% to 100%, depending on regulatory assigned levels of credit risk associated with such assets. The risk-based capital guidelines require the Bank to have a total risk-based capital ratio of 8.0% and a Tier I risk-based capital ratio of 4.0%. At December 31, 2010 and 2009, the Bank's total risk-based capital ratios were 14.6% and 10.4%, respectively, and its Tier I risk-based capital ratios was 13.4% and 9.1%, respectively. The required Tier I leverage capital ratio (Tier I capital to average assets for the most recent quarter) for the Bank is 4.0%. At December 31, 2010 and 2009, the Bank had a leverage ratio of 9.8% and 7.9%, respectively. The increases in these ratios are attributed to the Bank's earnings for 2010, the Bank shrinking and reallocating its balance sheet and the additional capital that was raised in the first half of 2010 through the preferred stock offering discussed below.

Based on a joint examination conducted in the fourth quarter of 2009 by the Federal Reserve Bank of Atlanta (Reserve Bank) in conjunction with the Tennessee Department of Financial Institutions, the Bank entered into a formal Written Agreement (Agreement) with the Reserve Bank effective August 5, 2010. The Agreement imposed specific requirements concerning Board oversight, credit risk management and administration, capital and strategic plans, profitability, liquidity, loan losses and the allowance for loan losses, the Bank's reliance on "non-core" deposits, including the Bank's use of certain brokered funds, the Bank's budget and profit plans and other matters. A copy of the Agreement was included with the Bank's Form 10-Q for the quarter ended June 30, 2010 that is available at the following address on the Bank's website: <http://www.midsouthbanking.com/pdf/MSB10Q-2Q10.pdf>, and at <http://www.federalreserve.gov/newsevents/press/enforcement/20100819c.htm> on the Reserve Bank's website.

The Bank has submitted all plans and documentation that are required by the Agreement. All of the Bank's plan submissions to date have been accepted by the Reserve Bank, with the exception of one plan that has been submitted, and the Reserve Bank has yet to provide feedback on the status of that plan submission.

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At December 31, 2010 and 2009, total stockholders' equity was \$23,403,000 and \$19,851,000, respectively, or 10.01% and 7.98%, respectively, of total assets. The change in stockholders' equity resulted from earnings of \$711,000, a decrease in unrealized gains on available-for-sale securities of \$135,000, net proceeds from the issuance of common stock totaling \$4,000, net proceeds from the issuance of Series 2009A Preferred Stock totaling \$2,956,000 and stock-based compensation expense of \$16,000.

As part of the original common stock offering, any shares purchased received non-detachable warrants which provide the stockholder the ability to purchase one additional share of common stock for every two shares of common stock purchased. Of the warrants that were outstanding as of December 31, 2008, 79,574 were exercised, and 430,357 were forfeited during January 2009.

At December 31, 2009, the Bank initiated an offering of convertible voting noncumulative Series 2009A Preferred Stock. Each share of Series 2009A Preferred Stock automatically converts into two shares of the Bank's common stock on March 31, 2015; however, each share is convertible at any time prior to the mandatory conversion date at the discretion of the stockholder. In addition, for every five shares of Series 2009A Preferred Stock purchased, stockholders received one warrant to purchase one share of the Bank's common stock at a price equal to 75% of the Bank's book value per common share as of the preceding quarter-end. During 2010, the bank sold 609,538 shares of Series 2009A Preferred Stock, which resulted in the issuance of 121,901 detachable warrants to purchase common stock. During 2009, the Bank sold 415,190 shares of Series 2009A Preferred Stock, which resulted in the issuance of 83,038 detachable warrants to purchase common stock. During 2010, 1,380 of the detachable warrants were exercised. During the year ended December 31, 2009, the Bank issued 79,574 shares at \$10 per share, of its voting common stock in connection with the non-detachable warrants and 200 shares at \$10 per share in connection with the exercise of stock options. No shares of the Bank's common voting stock were redeemed for the years ended December 31, 2010 and 2009.

Based on the stated interest of one or more local investors, the Bank has initiated a secondary offering of convertible voting noncumulative preferred stock in the first quarter of 2011. Similar to the Series 2009A Preferred Stock, this issue of preferred stock would automatically convert into two shares of the Bank's common stock and will be convertible at any time prior to the mandatory conversion date at the discretion of the stockholder. In addition, for every five shares of preferred stock purchased, stockholders will receive one warrant to purchase one share of the Bank's common stock at a price equal to 85% of the Bank's book value per common share as of the preceding quarter-end.

There is no established trading market for the Bank's common stock. Privately negotiated trades may involve the Bank's directors and officers, and their interests and, accordingly, may not be reliable indicators of value.

In October, 2004, the Shareholders of the Bank approved the MidSouth Bank's 2004 Stock Option Arrangement (the "Arrangement"). The Arrangement provides for the granting of stock options, and authorizes the issuance of common stock upon the exercise of such options, for up to 380,000 shares of common stock, to employees and organizers of the Bank and up to 143,080 shares of common stock for future use as decided by the Directors of the Bank. Under the Stock Option Arrangement, stock option awards may be granted in the form of incentive stock options or non-statutory stock options, and generally vest over a five-year period with a ten-year option to purchase. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date.

At both December 31, 2010 and 2009, 495,000 options had been granted. All of the options granted prior to 2008 were granted at \$10 per share. There were 5,000 options granted during 2008 at \$12.80 per share, and 25,000 options were granted during 2009 at \$5.00 per share. Of the options

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granted, 384,800 and 435,300 were outstanding at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, 347,231 and 365,192 shares were exercisable, respectively.

FDICIA. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking regulators have assigned each insured institution to one of five categories ("well-capitalized," "adequately-capitalized," or one of three undercapitalized categories) based upon the three measures of capital adequacy discussed above. Institutions which have a Tier I leverage capital ratio of 5%, a Tier I risk-based capital ratio of 6% and a total risk-based capital ratio of 10% are defined as "well-capitalized". All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees that would cause the institution to fail to satisfy the minimum levels for any of its capital requirements for "adequately-capitalized" status. The Bank currently meets the requirements for "well-capitalized" status.

An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days (which must be guaranteed by the institution's holding company); (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The bank regulatory agencies have discretionary authority to reclassify a well-capitalized institution as adequately capitalized or to impose on an adequately-capitalized institution requirements or actions specified for undercapitalized institutions if the agency determines that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice.

A "significantly-undercapitalized" institution may be subject to a number of additional requirements and restrictions, including orders to sell sufficient voting stock to become "adequately-capitalized," requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. "Critically-undercapitalized" institutions are subject to the appointment of a receiver or conservator.

Under FDICIA, bank regulatory agencies have prescribed safety and soundness guidelines for all insured depository institutions relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation.

The Federal Deposit Insurance Corporation ("FDIC") significantly raised the deposit insurance rate paid by banks during 2009 to replenish the Deposit Insurance Fund that had been diminished by a number of bank failures during 2008. In 2010, the Bank's risk category was changed in relation to the Written Agreement with the Federal Reserve Bank of Atlanta, which increased the base assessment rate and increased the Bank's FDIC insurance expense. With the increased rates, FDIC insurance expense for 2010 amounted to \$735,000, as compared with \$631,000 for 2009. According to the last assessment statement received, the Bank is assessed annually at the rate of 0.3274% of insured deposits for deposit insurance, but the rate can be changed by the FDIC based on risk category or other regulatory needs, such as special assessments. The assessments historically have been paid quarterly; however, at the end of 2009, the FDIC required financial institutions to prepay their assessments for 2010, 2011 and 2012. For MidSouth Bank, that was a total prepaid assessment of \$1,922,000 that is being expensed over the three-year period based on the assessment schedule provided by the FDIC and adjusted based on the quarterly assessment statements from the FDIC. At December 31, 2010, the remaining prepaid assessment balance is \$1,254,000.

Beginning with the assessment for the second quarter of 2011, the FDIC assessment calculation will change. On February 7, 2011, the FDIC Board of Directors adopted a final rule for assessments, which redefines the deposit insurance assessment base as required by the Dodd-Frank Act; makes changes

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to assessment rates; implements the Dodd-Frank Act's Deposit Insurance Fund (DIF) dividend provisions; and revises the risk-based assessment system for all large insured depository institutions (IDIs), generally, those institutions with at least \$10 billion in total assets. According to FDIC estimates, nearly all of the 7,600-plus insured financial institutions with assets less than \$10 billion will pay smaller assessments as a result of this final rule.

The final assessment rule: (i) redefines the deposit insurance assessment base as average consolidated total assets minus average tangible equity; (ii) makes generally conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates; (iii) creates a depository institution debt adjustment; and (iv) eliminates the secured liability adjustment from the calculation. The Bank is expected to pay smaller assessments once the new assessment calculation rules are applied beginning April 1, 2011. The total benefit to the Bank for 2011 is estimated to be in the range of \$80,000 to \$90,000.

Monetary Policy. The Bank is affected by commercial bank credit policies of regulatory authorities, including the Federal Reserve Board (the "Board"). An important function of the Board is to regulate the national supply of bank credit in order to attempt to combat recessionary and curb inflationary pressures. Among the instruments of monetary policy used by the Board to implement these objectives are: open market operations in U.S. Government securities, changes in discount rates on member borrowings, changes in reserve requirements against bank deposits and limitations on interest rates which member banks may pay on time and savings deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits, and may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Board have had a significant effect on the operating results of commercial banks, including nonmembers as well as members, in the past and are expected to continue to do so in the future.

Contractual Obligations

The Bank has the following contractual obligations as of December 31, 2010:

<i>(In Thousands)</i>	Less Than <u>1 Year</u>	1 – 3 <u>Years</u>	3 - 5 <u>Years</u>	More Than <u>5 Years</u>	<u>Total</u>
Long-term FHLB advances	\$ 36	78	827	-	941
Federal funds purchased	-	-	-	-	-
Securities sold under agreement to repurchase	4,059	-	-	-	4,059
Capital leases	-	-	-	-	-
Operating leases	82	164	164	722	1,132
Purchases	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Total	<u>\$ 4,177</u>	<u>242</u>	<u>991</u>	<u>722</u>	<u>6,132</u>

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Off Balance Sheet Arrangements

At December 31, 2010, the Bank had unfunded loan commitments outstanding of \$28.7 million and outstanding standby letters of credit of \$1.6 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate securities available-for-sale or, on a short-term basis, to purchase Federal funds from correspondent banks or borrow from the Federal Home Loan Bank. Additionally, the Bank could sell participations in these or other loans to correspondent banks. As mentioned above, the Bank has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, investment security maturities/pay downs and short-term borrowings.

Impact of Inflation

Although interest rates are significantly affected by inflation, the inflation rate is immaterial when reviewing the Bank's results of operations.

Quantitative and Qualitative Disclosures About Market Risk

The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. Based upon the nature of the Bank's operations, the Bank is not subject to foreign currency exchange or commodity price risk.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long-term earnings through funds management/interest rate risk management. The Bank's rate sensitivity position has an important impact on earnings. Senior management monitors the Bank's rate sensitivity position throughout each month, and then quarterly the Asset Liability Committee (ALCO) of the Bank meets to analyze the rate sensitivity position and other aspects of asset/liability management. These meetings cover the spread between the cost of funds (primarily time deposits) and interest yields generated primarily through loans and investments, rate shock analyses, liquidity and dependency positions, and other areas necessary for proper balance sheet management.

MIDSOUTH BANK

Consolidated Financial Statements

December 31, 2010, 2009 and 2008

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

**The Board of Directors
MidSouth Bank**

We have audited the accompanying consolidated balance sheets of MidSouth Bank and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive earnings (losses), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MidSouth Bank and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Maggart & Associates, P.C.

Nashville, Tennessee
March 11, 2011

Consolidated Balance Sheets
December 31, 2010 and 2009

<i>(In Thousands, Except Share Amounts)</i>	2010	2009
ASSETS		
Loans, less allowance for loan losses of \$4,447,000 and \$8,080,000, respectively	\$ 152,337	\$ 188,116
Securities available-for-sale, at market (amortized cost of \$53,089,000 and \$21,874,000, respectively)	53,090	22,010
Loans held for sale	2,401	560
Restricted equity securities.....	1,429	1,317
Interest-bearing accounts at other financial institutions	9,850	20,808
<i>Total earning assets</i>	219,107	232,811
Cash and due from banks	1,269	1,129
Bank premises and equipment, net.....	9,170	9,591
Accrued interest receivable	620	536
Foreclosed assets	2,200	2,142
Other assets	1,539	2,668
<i>Total assets</i>	\$ 233,905	\$ 248,877
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 204,890	\$ 224,236
Advances from Federal Home Loan Bank	941	1,600
Securities sold under agreement to repurchase.....	4,059	2,577
Accrued interest payable	129	237
Accounts payable and other liabilities.....	483	376
<i>Total liabilities</i>	210,502	229,026
Stockholders' equity:		
Preferred stock, par value \$1 per share, authorized 20,000,000 shares, 1,024,728 and 415,190 shares issued and outstanding, respectively	1,025	415
Common stock, par value \$1 per share, authorized 20,000,000 shares, 3,843,315 and 3,841,935 shares issued and outstanding, respectively	3,843	3,842
Additional paid-in capital	38,697	36,332
Deficit	(20,163)	(20,874)
Net unrealized gains on available-for-sale securities.....	1	136
<i>Total stockholders' equity</i>	23,403	19,851
COMMITMENTS AND CONTINGENCIES		
<i>Total liabilities and stockholders' equity</i>	\$ 233,905	\$ 248,877

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations
For the Three Years Ended December 31, 2010

<i>(In Thousands, Except Per Share Amounts)</i>	2010	2009	2008
Interest income:			
Interest and fees on loans	\$ 10,159	\$ 11,882	\$ 12,699
Interest and dividends on taxable securities ..	1,177	1,166	1,641
Interest on Federal funds sold.....	-	2	8
Interest and dividends on restricted equity securities	70	81	87
Interest on interest-bearing balances at other financial institutions.....	27	6	1
<i>Total interest income.....</i>	11,433	13,137	14,436
Interest expense:			
Interest on negotiable order of withdrawal accounts	92	100	130
Interest on money market and other savings accounts	296	346	745
Interest on certificates of deposit.....	2,258	3,423	4,598
Interest on Fed funds purchased and securities sold under agreement to repurchase	13	24	53
Interest on advances from Federal Home Loan Bank.....	53	108	252
<i>Total interest expense</i>	2,712	4,001	5,778
Net interest income before provision for loan losses	8,721	9,136	8,658
Provision for loan losses.....	1,130	11,920	4,514
Net interest income (loss) after provision for loan losses	7,591	(2,784)	4,144
Non-interest income	2,306	2,728	1,809
Non-interest expense	9,186	10,171	9,662
<i>Earnings (loss) before income taxes ...</i>	711	(10,227)	(3,709)
Income taxes	-	-	-
<i>Earnings (loss).....</i>	\$ 711	\$ (10,227)	\$ (3,709)
Basic earnings (loss) per common share.....	\$ 0.19	\$ (2.66)	\$ (0.99)
Diluted earnings (loss) per common share	\$ 0.13	\$ (2.66)	\$ (0.99)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Earnings (Losses)
For the Three Years Ended December 31, 2010

<i>(In Thousands)</i>	2010	2009	2008
Net earnings (losses).....	\$ 711	\$ (10,227)	\$ (3,709)
Other comprehensive earnings (losses):			
Unrealized gains on available-for-sale securities arising during period.....	376	123	630
Less: Reclassification adjustment for gains included in net earnings (loss).....	(511)	(1,017)	-
Other comprehensive earnings (losses).....	(135)	(894)	630
Comprehensive earnings (losses).....	\$ 576	\$ (11,121)	\$ (3,079)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
For the Three Years Ended December 31, 2010

<i>(In Thousands)</i>	<i>Preferred Stock</i>	<i>Common Stock</i>	<i>Additional Paid-In Capital</i>	<i>Deficit</i>	<i>Net Unrealized Gains on Available- For-Sale Securities</i>	<i>Total</i>
Balance December 31, 2007.....	\$ -	\$ 3,742	\$ 33,774	\$ (6,938)	\$ 400	\$ 30,978
Issuance of 20,532 shares related to exercise of warrants and stock options	-	20	185	-	-	205
Stock-based compensation expense	-	-	24	-	-	24
Net change in unrealized gains on available-for-sale securities during the year	-	-	-	-	630	630
Loss for the period	-	-	-	(3,709)	-	(3,709)
Balance December 31, 2008.....	-	3,762	33,983	(10,647)	1,030	28,128
Issuance of 79,774 shares related to exercise of warrants and stock options	-	80	718	-	-	798
Issuance of 415,190 shares related to purchases of preferred stock	415	-	1,612	-	-	2,027
Stock-based compensation expense	-	-	19	-	-	19
Net change in unrealized gains on available-for-sale securities during the year	-	-	-	-	(894)	(894)
Loss for the period	-	-	-	(10,227)	-	(10,227)
Balance December 31, 2009.....	415	3,842	36,332	(20,874)	136	19,851
Issuance of 1,380 shares related to exercise of warrants	-	1	3	-	-	4
Issuance of 609,538 shares related to purchases of preferred stock	610	-	2,346	-	-	2,956
Stock-based compensation expense	-	-	16	-	-	16
Net change in unrealized gains on available-for-sale securities during the year	-	-	-	-	(135)	(135)
Earnings for the period.....	-	-	-	711	-	711
Balance December 31, 2010	\$ 1,025	\$ 3,843	\$ 38,697	\$ (20,163)	\$ 1	\$ 23,403

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
For the Three Years Ended December 31, 2010

<i>(In Thousands)</i>	2010	2009	2008
Cash flows from operating activities:			
Interest received	\$ 11,719	\$ 13,211	\$ 14,361
Fees received	1,412	1,307	1,355
Proceeds from sale of loans	25,157	30,946	35,750
Origination of loans held for sale.....	(26,615)	(30,520)	(34,907)
Interest paid	(2,820)	(4,113)	(6,060)
Cash paid to suppliers and employees	(7,252)	(11,426)	(8,936)
<i>Net cash provided by (used in)</i> <i>operating activities</i>	1,601	(595)	1,563
Cash flows from investing activities:			
Purchase of available-for-sale securities	(72,571)	(19,502)	(12,945)
Repayments of mortgage-backed securities..	5,986	5,813	3,793
Purchase of restricted equity securities	(125)	(37)	(172)
Proceeds from sales of available-for-sale securities.....	29,091	24,242	-
Proceeds from sale of restricted equity securities.....	13	301	30
Maturities of available-for-sale securities.....	6,420	1,065	8,044
Loans made to customers, net of repayments	33,136	14,798	(31,342)
Proceeds from sales of premises and equipment.....	4	29	-
Purchases of premises and equipment	(81)	(162)	(74)
Capitalized cost of foreclosed assets.....	-	-	(64)
Proceeds from sales of other assets.....	-	12	-
Proceeds from sales of foreclosed assets	1,271	768	1,024
<i>Net cash provided by (used in)</i> <i>investing activities</i>	3,144	27,327	(31,706)
Cash flows from financing activities:			
Net increase (decrease) in non-interest- bearing, savings and NOW deposit accounts	7,184	4,183	(1,468)
Net (decrease) increase in time deposits	(26,530)	(2,810)	16,950
Proceeds from advances from the Federal Home Loan Bank.....	-	10,210	101,055
Repayments of advances from the Federal Home Loan Bank.....	(659)	(22,077)	(94,934)
Proceeds from Fed funds purchased	-	-	4,467
Repayments of Fed funds purchased	-	(4,693)	-
Increase in securities sold under agreement to repurchase.....	1,482	1,741	836
Proceeds from sale of common stock	4	798	205
Proceeds from sale of preferred stock.....	2,956	2,027	-
<i>Net cash (used in) provided by</i> <i>financing activities.....</i>	(15,563)	(10,621)	27,111

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows, Continued
For the Three Years Ended December 31, 2010

<i>(In Thousands)</i>	2010	2009	2008
Net (decrease) increase in cash and cash equivalents	(10,818)	16,111	(3,032)
Cash and cash equivalents at beginning of year	21,937	5,826	8,858
Cash and cash equivalents at end of year	\$ 11,119	\$ 21,937	\$ 5,826

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows, Continued
For the Three Years Ended December 31, 2010

<i>(In Thousands)</i>	2010	2009	2008
Reconciliation of earnings (loss) to net cash provided by (used in) operating activities:			
Earnings (loss).....	\$ 711	\$ (10,227)	\$ (3,709)
Adjustments to reconcile earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation.....	500	596	709
Loss on sale/disposal of premises and equipment	-	45	-
Gain on sale of available-for-sale securities.....	(511)	(1,017)	-
Loss (gain) on sale of foreclosed assets	128	99	(4)
Gain on sale of other assets	-	(12)	-
Provision for loan losses	1,130	11,920	4,514
Amortization and accretion, net	370	(359)	(160)
Stock-based compensation expense.....	16	19	24
Valuation adjustment on foreclosed assets	56	374	38
(Increase) decrease in loans held for sale.....	(1,841)	34	393
(Increase) decrease in accrued interest receivable.....	(84)	433	85
Decrease (increase) in other assets..	1,127	(2,330)	(126)
Decrease in accrued interest payable.....	(108)	(112)	(282)
Increase (decrease) in accounts payable and other liabilities.....	107	(58)	81
<i>Total adjustments</i>	890	9,632	5,272
<i>Net cash provided by (used in) operating activities</i>	\$ 1,601	\$ (595)	\$ 1,563
Supplemental Schedule of Non-Cash Activities:			
Unrealized gain (loss) in value of securities available-for-sale.....	\$ (135)	\$ (894)	\$ 630
Transfer of loans to foreclosed assets	\$ 1,513	\$ 1,896	\$ 1,172
Reclassification of construction in process	\$ -	\$ -	\$ 18

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of MidSouth Bank and subsidiary (“the Bank”) are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

On July 1, 2009, the Financial Accounting Standards Board’s (FASB) generally accepted accounting principles (GAAP) Codification became effective as the sole authoritative source of U.S. GAAP. This codification was issued under SFAS No. 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*. This Codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF) statements, FASB Staff Positions (FSP), FASB Interpretations (FIN), FASB Derivative Implementation Guides (DIG), American Institute of Certified Public Accountants (AICPA) Statement of Positions (SOPS), Accounting Principals Board (APB) Opinions and Accounting Research Bulletins (ARBs) along with the remaining body of GAAP effective as of September 30, 2009. Financial statements issued for all interim and annual periods ending after September 15, 2009 will reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements. Accounting literature included in the Codification is referenced by Topic, Subtopic, Section and Paragraph. Future references in this document to the Accounting Standards Codification will appear as “ASC” accompanied by the relative topic number being referenced.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of MidSouth Bank and its wholly-owned subsidiary, MSB Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Nature of Operations

MidSouth Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulations of the Tennessee Department of Financial Institutions and the Board of Governors of the Federal Reserve System. The area served by MidSouth Bank is Rutherford County and adjacent counties of Middle Tennessee. Services are provided at the main office and three branch offices located in Murfreesboro, Tennessee and one branch office located in Smyrna, Tennessee.

(c) Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure in the financial statements.

(d) Estimates

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

Notes to Consolidated Financial Statements
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the near term relate to determination of the allowance for loan losses, valuation of debt and equity securities and the related deferred taxes, foreclosed assets and the fair value of financial instruments.

(e) **Loans**

Loans are stated at the principal amount outstanding. The allowance for loan losses is shown as a reduction of loans. Loan origination and commitment fees and certain loan-related costs are being deferred and the net amount amortized as an adjustment of the related loan's yield over the contractual life of the loan. Interest income on loans is accrued based on the principal amount outstanding.

The Bank follows the provisions of ASC 310, *Receivables*, specifically ASC 310-10-35-16, in relation to impaired loans. These provisions apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment.

A loan is impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Bank recognizes impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Bank's consumer and residential mortgage loans which are not individually evaluated for impairment are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and, thus, are not subject to the provisions of ASC 310. Substantially all other loans of the Bank are evaluated for impairment under the provisions of ASC 310.

The Bank considers all loans subject to the provisions of ASC 310 that are on a nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Past due status of loans is based on the contractual terms of the loan. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt.

Loans not on nonaccrual status are classified as impaired in certain cases when there is inadequate protection by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Bank will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Bank's criteria for nonaccrual status.

Generally, the Bank also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is generally accrued on such loans that continue to meet the modified terms of their loan agreements.

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The Bank's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged off in the month when they are considered uncollectible.

(f) Allowance for Loan Losses

The provision for loan losses represents a charge to earnings necessary, after loan charge-offs and recoveries, to maintain the allowance for loan losses at an appropriate level which is adequate to absorb estimated losses inherent in the loan portfolio. Such estimated losses arise primarily from the loan portfolio but may also be derived from other sources, including commitments to extend credit and letters of credit (which are separately classified in other liabilities). The level of the allowance is determined on a quarterly basis using procedures which include: (1) categorizing commercial and commercial real estate loans into risk categories to estimate loss probabilities based primarily on the historical loss experience of those risk categories and current economic conditions; (2) analyzing significant commercial and commercial real estate credits and calculating specific reserves as necessary; (3) assessing various homogeneous consumer loan categories to estimate loss probabilities based primarily on historical loss experience; and (4) considering various other factors, such as changes in credit concentrations, loan mix, and economic conditions which may not be specifically quantified in the loan analysis process.

The allowance for loan losses consists of an allocated portion and an unallocated, or general, portion. The allocated portion is maintained to cover estimated losses applicable to specific segments of the loan portfolio. The unallocated portion is maintained to absorb losses which probably exist as of the evaluation date but are not identified by the more objective processes used for the allocated portion of the allowance due to risk of errors or imprecision. While the total allowance consists of an allocated portion and an unallocated portion, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent loss in the entire portfolio.

The allowance for loan losses is increased by provisions for loan losses charged to expense and is reduced by loans charged off net of recoveries on loans previously charged off. The provision is based on management's determination of the amount of the allowance necessary to provide for estimated loan losses based on its evaluation of the loan portfolio. Determining the appropriate level of the allowance and the amount of the provision involves uncertainties and matters of judgment and therefore cannot be determined with precision.

(g) Securities

The Bank accounts for securities under the provisions of ASC 320, *Investments – Debt and Equity Securities*. Under these provisions, securities are classified in three categories and accounted for as follows:

- **Securities Held-to-Maturity**

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No securities have been classified as held-to-maturity.

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- **Trading Securities**

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. No securities have been classified as trading securities.

- **Securities Available-for-Sale**

Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. Premiums and discounts are recognized by the interest method.

If a decline in the fair value of a security below its amortized cost is judged by management to be an other-than-temporary loss, the cost basis of the security is written down to fair value, and the amount of the write-down is included in the statement of operations. In estimating other-than-temporary losses, management considers the following: the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Bank has the intention to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary loss exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The Bank has classified all its securities as available-for-sale. Realized gains or losses from the sale of securities are recognized based upon the specific identification method.

(h) Loans Held for Sale

Mortgage loans held for sale are reported at the lower of cost or market value determined by outstanding commitments from investors at the balance sheet date. These loans are valued on an aggregate basis.

(i) Bank Premises and Equipment

Premises and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations, and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of bank premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

(j) Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less estimated retention and disposition costs. Revenue and expenses from operations and changes in the valuation allowance are included in non-interest expenses.

Notes to Consolidated Financial Statements
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(k) Cash and Cash Equivalents

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 at other financial institutions. Generally, Federal funds sold are purchased and sold for one-day periods. The Bank, at times, maintains deposits in excess of the Federal insurance amounts with other financial institutions. Management makes deposits only with financial institutions it considers to be financially sound.

(l) Interest-Bearing Accounts at Other Financial Institutions

Interest-bearing accounts at other financial institutions mature within one year and are carried at cost.

(m) Long-Term Assets

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at the lower of cost or fair value.

(n) Stock Options

The Bank accounts for the MidSouth Bank 2004 Stock Option Arrangement (the "Arrangement") using the provisions of ASC 718, *Compensation – Stock Compensation*. The Bank recognizes stock compensation cost for services received in a share-based payment transaction over the required write-down period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The compensation cost of employee and director services received in exchange for stock awards is based on the grant date fair value of the award (as determined by using a Black-Scholes option valuation model). Stock compensation expense recognized reflects estimated forfeitures, adjusted as necessary for actual forfeitures.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions. Expected volatility is based on implied volatility from comparable publicly traded banks. The Bank uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the average of: 1) the weighted average vesting term and 2) original contractual term. The risk-free rate is based on the U.S. Treasury yield in effect at the time of grant and the weighted average expected life of the grant.

(o) Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) and deferred taxes on temporary differences between the amount of taxable and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax asset and liabilities are expected to be realized or settled as prescribed in ASC 740, *Income Taxes*. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the

Notes to Consolidated Financial Statements
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amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statement of operations, as applicable.

The Bank is currently open to audit under the statute of limitations by the Internal Revenue Service and by the State of Tennessee for the years ended December 31, 2007 through 2009. Once the Bank's 2010 taxes are filed, the statute of limitations will change to the years ended December 31, 2008 through 2010.

(p) ***Advertising Costs***

Advertising costs are expensed when incurred by the Bank.

(q) ***Off-Balance-Sheet Financial Instruments***

In the ordinary course of business the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

(r) ***Derivative Financial Instruments***

Derivative financial instruments are recognized as assets and liabilities in the consolidated financial statements and measured at fair value.

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value in the consolidated balance sheet with changes in their fair values recorded in fees on mortgage originations.

The Bank records a zero value for the loan commitment at inception (at the time the commitment is issued to a borrower ("the time of rate lock")), and accordingly, does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in fair values of the loan commitments are recognized based on changes in the fair values of the underlying mortgage loans due to interest rate changes, changes in the probability the derivative loan commitments will be exercised, and the passage of time. In estimating fair value, the Bank assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

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Forward Loan Sale Commitments

The Bank carefully evaluates each loan sales agreement to determine whether it meets the definition of a derivative as facts and circumstances may differ significantly for each agreement. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Bank utilizes “best efforts” forward loan sales commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Generally, the Bank’s best efforts contracts meet the definition of derivative instruments. Accordingly, forward loan sale commitments that economically hedge derivative loan commitments are recognized at fair value in the consolidated balance sheet with changes in their fair values recorded in fees on mortgage originations.

The Bank estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

(s) *Impact of New Accounting Standards*

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for the Transfer of Financial Assets and Amendment of FASB Statement No. 140 Instruments*. Under FASB’s Codification at ASC 105-10-65-1-d, SFAS No. 166 will remain authoritative until integrated into the FASB Codification. The statement removes the concept of a special purpose entity (SPE) from SFAS No. 140 and removes the exception of applying FASB Interpretation 46, *Variable Interest Entities*, to variable interest entities that are SPE’s. It limits the circumstances in which a transferor derecognizes a financial asset. The statement amends the requirements for the transfer of a financial asset to meet the requirements for “sale” accounting. The statement is effective for all interim and annual periods beginning after November 15, 2009. The adoption of this statement did not have a material impact on its consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. Under FASB’s Codification at ASC 105-10-65-1-d, SFAS No. 167 will remain authoritative until integrated into the FASB Codification. This Statement amends Interpretation No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise’s variable interest give it a controlling financial interest in the variable interest entity. The statement is effective for all interim and annual periods beginning after November 15, 2009. The adoption of this statement did not have a material impact on the Bank’s consolidated financial position, results of operations or cash flows.

In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets*, which updates the derecognition guidance in ASC Topic 860 for previously issued SFAS No. 166. This update reflects the Board’s response to issues entities have encountered when applying ASC 860, including: (1) requires that all arrangements made in connection with a transfer of financial assets be considered in the derecognition analysis, (2) clarifies when a transferred asset is considered legally isolated from the transferor, (3) modifies the requirements related to a transferee’s ability to freely pledge or exchange transferred financial assets, and (4) provides guidance on when a portion of a financial asset can be derecognized. This update is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. The adoption of this statement did not have a material impact on the Bank’s consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures amending Topic 820*. The ASU provides for additional disclosures of transfers between assets and liabilities valued under Level 1 and 2 inputs as well as additional disclosures regarding those assets and liabilities valued under Level 3 inputs. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for those provisions addressing Level 3 fair value measurements which provisions are effective for fiscal years, and periods therein, beginning after December 15, 2010. The adoption of this Statement did not have a material impact on the Bank’s consolidated financial statements.

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In January 2010, the FASB issued guidance clarifying the accounting for shareholder distributions where the shareholder has the ability to elect to have his/her distribution in the form of cash (up to a pre-determined maximum), stock or a combination of the two. The amendments of the update provide that the stock portion of a distribution where the shareholder had the ability to elect the distribution as stock or cash (up to a pre-determined maximum) should be accounted for as a share issuance and thereby eliminate diversity in practice. The provisions of this update became effective for financial statements dated on or after December 15, 2009. The adoption of this Statement did not have a material impact on the Bank's consolidated financial position, results of operations or cash flows.

In March 2010, the FASB issued ASU No. 2010-09 amending FASB ASC Topic 855 to exclude SEC reporting entities from the requirement to disclose the date on which subsequent events have been evaluated. It further modifies the requirement to disclose the date on which subsequent events have been evaluated in reissued financial statements to apply only to such statements that have been restated to correct an error or to apply U.S. GAAP retrospectively. The Bank has complied with ASU No. 2010-09.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires that more information be disclosed about the credit quality of a company's loans and the allowance for loan losses held against those loans. A company will need to disaggregate new and existing disclosures based on how it develops its allowance for loan losses and how it manages credit exposures. Existing disclosures to be presented on a disaggregated basis include a roll forward of the allowance for loan losses, the related recorded investment in such loans, the nonaccrual status of loans, and impaired loans. Additional disclosure is also required about the credit quality indicators of loans by class at the end of the reporting period, the aging of past due loans, information about troubled debt restructurings, and significant purchases and sales of loans during the reporting period by class. For public companies, ASU 2010-20 requires certain disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. Other required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of these additional disclosures did not have a material effect on the Bank's financial statements.

In January 2011, the FASB issued ASU No. 2011-01, Receivables (Topic 310): *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20*. Stakeholders raised concerns that the introduction of new disclosure requirements of ASC 310-10-50-31 through 50-34 about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information. They asked the Board to defer the effective date of the disclosure requirements for public entities about troubled debt restructurings in ASU No. 2010-20, Receivables (Topic 310): *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in ASU No. 2010-20. The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20 for public entities. The delay is intended to allow FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The Bank anticipates that delay of these additional disclosures will not have a material effect on its financial position or results of operations.

(t) **Reclassifications**

Certain reclassifications have been made to the 2009 and 2008 amounts to conform to the presentation for 2010.

Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

(2) LOANS AND ALLOWANCE FOR LOAN LOSSES

The classification of loans at December 31, 2010 and 2009 is as follows:

<i>(In Thousands)</i>	2010	2009
Commercial, financial and agricultural.....	\$ 30,283	\$ 36,341
Real estate:		
Commercial	58,152	55,525
Residential	40,901	42,059
Construction and land development	18,193	50,114
Multifamily.....	2,714	2,496
Consumer and other.....	6,541	9,661
	156,784	196,196
Allowance for loan losses	(4,447)	(8,080)
Net loans	\$ 152,337	\$ 188,116

At December 31, 2010, variable rate and fixed rate loans totaled \$42,118,000 and \$114,666,000, respectively. At December 31, 2009, variable rate and fixed rate loans totaled \$69,079,000 and \$127,117,000, respectively.

In the normal course of business, the Bank has made loans at prevailing interest rates and terms to its executive officers, directors and their affiliates aggregating \$12,218,000 and \$18,031,000 at December 31, 2010 and 2009, respectively. During 2010 and 2009, \$5,887,000 and \$6,450,000, respectively, in loan advances were made, and \$9,799,000 and \$6,208,000, respectively, in repayments were made. Of the December 31, 2009 balance, \$1,901,000 was related to directors who resigned or retired during 2010 and therefore were not included in the aggregate outstanding amount as of December 31, 2010. As of December 31, 2010 and 2009 none of these loans were restructured, nor were any related party loans charged off during the past three years. At December 31, 2010, one director relationship having \$1,595,000 in outstanding loan balances, net of participations sold to other financial institutions, was rated as substandard, but that relationship has performed in accordance with the terms of the loan agreements that are in place. At December 31, 2009, there were no other relationships with executive officers, directors or their affiliates that involved more than the normal risk of collectibility or present other unfavorable features.

Transactions in the allowance for loan losses of the Bank for the years ended December 31, 2010, 2009 and 2008 are summarized as follows:

<i>(In Thousands)</i>	2010	2009	2008
Balance - beginning of year	\$ 8,080	\$ 5,784	\$ 2,032
Provision charged to operating expense	1,130	11,920	4,514
Loans charged off	(5,028)	(9,635)	(767)
Recoveries	265	11	5
Balance - end of year	\$ 4,447	\$ 8,080	\$ 5,784

The Bank's principal customers are generally in the Middle Tennessee area with a concentration in Rutherford and adjacent counties. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans, including collateral, vary depending upon the purpose of each credit and each borrower's financial condition.

In 2010, 2009 and 2008, the Bank originated loans for sale in the secondary market of \$26,615,000, \$30,520,000, and \$34,907,000, respectively. The Bank's recourse related to its sold loans is limited since only three of the six entities to whom the Bank sold its loans during the third and fourth quarters of 2010 have recourse related to loans they purchase.

Notes to Consolidated Financial Statements
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The recourse period for these entities is 180 days from the purchase date for each loan and is effective only if: (1) a borrower defaults on an individual loan within that 180-day period; or (2) if a borrower misrepresents their financial position to obtain the loan and the Bank had knowledge of the misrepresentation but failed to act. At December 31, 2010, the Bank had loans sold with recourse totaling \$18,109,000. Since the inception of the Bank through December 31, 2010, the Bank has been required to repurchase only one of the loans originated and sold in the secondary market in the amount of \$65,000. The fees on mortgage loan originations totaled \$383,000, \$392,000 and \$450,000 in 2010, 2009 and 2008, respectively.

The allocation of the allowance for loan losses by portfolio segment at December 31, 2010 was as follows:

<i>(In Thousands)</i>	<i>Commercial, financial and agricultural</i>	<i>Commercial Real Estate</i>	<i>Residential Real Estate</i>	<i>Construction and Land Development</i>	<i>Multifamily Real Estate</i>	<i>Consumer and Other</i>	<i>Total</i>
Specific reserves –							
Impaired Loans.....	\$ 179	\$ 320	\$ 505	\$ 858	\$ -	\$ 2	\$ 1,864
General reserves.....	397	749	206	1,162	-	69	2,583
Total.....	\$ 576	\$ 1,069	\$ 711	\$ 2,020	\$ -	\$ 71	\$ 4,447
Loans individually evaluated for impairment.....	\$ 3,996	\$ 5,566	\$ 2,510	\$ 4,746	\$ -	\$ 13	\$ 16,831
Loans collectively evaluated for impairment.....	26,287	52,586	38,391	13,447	2,714	6,528	139,953
Total.....	\$ 30,283	\$ 58,152	\$ 40,901	\$ 18,193	\$ 2,714	\$ 6,541	\$ 156,784

Impaired loans and related allowance for loan loss allocation amounts at December 31, 2010 were as follows:

<i>(In Thousands)</i>	<i>Impaired Loans With Allowance</i>			<i>Impaired Loans With No Allowance</i>	
	<i>Principal Balance</i>	<i>Recorded Investment</i>	<i>Allocated Allowance for Loan Losses</i>	<i>Principal Balance</i>	<i>Recorded Investment</i>
Commercial, financial and agricultural.....	\$ 801	\$ 802	\$ 179	\$ 3,195	\$ 3,195
Real estate – commercial.....	1,515	1,524	320	4,051	4,058
Real estate – residential:					
Open ended.....	164	164	96	246	246
Closed ended.....	1,618	1,623	409	482	484
Construction and land development.....	4,093	4,097	858	653	653
Real estate – multifamily.....	-	-	-	-	-
Consumer and other.....	13	13	2	-	-
Total.....	\$ 8,204	\$ 8,223	\$ 1,864	\$ 8,627	\$ 8,636

Impaired loans and related allowance for loan loss allocation amounts at December 31, 2009 were as follows:

<i>(In Thousands)</i>	2009
Recorded investment.....	\$ 16,732
Loan loss allocation.....	\$ 3,678

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Impaired loans without allowance for loan loss allocation amounts at December 31, 2009 were as follows:

<u>(In Thousands)</u>	<u>2009</u>
Recorded investment	\$ 4,756

The average recorded investment in impaired loans for the year ended December 31, 2010 was \$23,660,000. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$667,000 for 2010. The average recorded investment in impaired loans for the year ended December 31, 2009 was \$16,783,000. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$908,000 for 2009. The average recorded investment in impaired loans for the year ended December 31, 2008 was \$6,308,000. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$384,000 for 2008.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed regularly by the Bank to determine if appropriately classified or to determine if the loan is impaired. The Bank's loan portfolio is reviewed for credit quality on a quarterly basis, with samples being selected based on loan size, credit grades, etc., to ensure that the Bank's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Bank uses the following definitions for risk ratings:

- Special Mention – Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification. Close management attention is required. New loans should not be made which will immediately be identified in this category. As a general rule, for the purposes of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserve. Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard – Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified as substandard. Loans in this category are evaluated individually as outlined in the Bank's loan policy when determining the general valuation reserve.
- Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable or improbable, based on currently existing facts, conditions, and values.

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The following table breaks down the Bank's credit quality indicators by type of loan as of December 31, 2010:

Credit Exposure

Credit Risk Profile by Internally Assigned Grade

<i>(In Thousands)</i>	<i>Commercial, financial and agricultural</i>	<i>Commercial Real Estate</i>	<i>Residential Real Estate</i>	<i>Construction and Land Development</i>	<i>Multifamily Real Estate</i>	<i>Consumer and Other</i>	<i>Total</i>
<i>Grade</i>							
Pass	\$ 25,390	\$ 51,921	\$ 35,802	\$ 9,001	\$ 2,714	\$ 6,420	\$ 131,248
Special Mention	852	-	2,405	982	-	25	4,264
Substandard	1,884	6,019	2,341	7,362	-	6	17,612
Doubtful	2,157	212	353	848	-	90	3,660
Total	\$ 30,283	\$ 58,152	\$ 40,901	\$ 18,193	\$ 2,714	\$ 6,541	\$ 156,784

The following table provides an aging analysis of the Bank's past due loans as of December 31, 2010:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days or Nonaccrual	Total Past Due Loans	Total Current Loans	Total Loans	Recorded Investment Past Due >90 Days and Still Accruing
Commercial, financial and agricultural	\$ -	\$ -	\$ 2,681	\$ 2,681	\$ 27,602	\$ 30,283	\$ -
Real estate:							
Commercial	-	-	2,666	2,666	55,486	58,152	-
Residential	195	-	1,144	1,339	39,562	40,901	-
Construction and land development	-	-	3,395	3,395	14,798	18,193	-
Multifamily	-	-	-	-	2,714	2,714	-
Consumer and other	7	-	13	20	6,521	6,541	-
Total	\$ 202	\$ -	\$ 9,899	\$ 10,101	\$ 146,683	\$ 156,784	\$ -

(3) DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The Bank's classification of securities at December 31, 2010 and 2009 is as follows:

<i>(In Thousands)</i>	2010			
	<i>Securities Available-for-Sale</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Market Value</i>
U.S. Treasury and other U.S. Government agencies and corporations	\$ 4,759	\$ 19	\$ 78	\$ 4,700
Mortgage-backed securities	48,330	300	240	48,390
	\$ 53,089	\$ 319	\$ 318	\$ 53,090

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<i>(In Thousands)</i>	2009			<i>Estimated Market Value</i>
	<i>Securities Available-for-Sale</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	
U.S. Treasury and other U.S. Government agencies and corporations	\$ 1,000	\$ 7	\$ -	\$ 1,007
Mortgage-backed securities	20,874	161	32	21,003
	<u>\$ 21,874</u>	<u>\$ 168</u>	<u>\$ 32</u>	<u>\$ 22,010</u>

The amortized cost and estimated market value of debt and equity securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(In Thousands)</i>	<i>Amortized Cost</i>	<i>Estimated Market Value</i>
<i>Securities Available-for-Sale</i>		
Due in one year or less.....	\$ 49	\$ 50
Due after one year through five years.....	40,006	40,125
Due after five years through ten years.....	11,602	11,494
Over ten years.....	1,432	1,421
	<u>\$ 53,089</u>	<u>\$ 53,090</u>

There were gross proceeds of \$29,091,000, gross gains of \$511,000, and no gross losses from sales of available-for-sale securities during 2010. There were gross proceeds of \$24,242,000, gross gains of \$1,017,000, and no gross losses from sales of available-for-securities during 2009. There were no sales of available-for-sale securities during 2008.

Securities carried in the consolidated balance sheets of approximately \$7,295,000 (approximate book value of \$7,215,000) and \$4,351,000 (approximate book value of \$4,300,000) at December 31, 2010 and 2009, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Securities that have rates that adjust prior to maturity totaled \$2,736,000 (approximate market value of \$2,753,000) and \$296,000 (approximate market value of \$303,000) at December 31, 2010 and 2009, respectively.

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The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2010:

	<i>In Thousands, Except Number of Securities</i>							
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
U.S. Treasury and other U.S. Government agencies and corporations.....	\$ 3,600	\$ 78	4	\$ -	\$ -	-	\$ 3,600	\$ 78
Mortgage-backed securities	22,558	240	16	-	-	-	22,558	240
Total temporarily impaired securities	\$ 26,158	\$ 318	20	\$ -	\$ -	-	\$ 26,158	\$ 318

These securities are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments. Consistent with the original classification as available-for-sale securities, the Bank does not intend to sell any of the debt securities with unrealized losses and does not believe that it is more likely than not that it will be required to sell a security in an unrealized loss position prior to a recovery in its value. Accordingly, we have not recognized any other-than-temporary impairment in our consolidated statement of operations.

The Bank may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or conducting a small volume of security transactions.

(4) RESTRICTED EQUITY SECURITIES

Restricted equity securities consist of stock of the Federal Reserve Bank and the Federal Home Loan Bank of Cincinnati amounting to \$720,000 and \$709,000, respectively, at December 31, 2010. At December 31, 2009, restricted equity securities consisted of stock of the Federal Reserve Bank of Atlanta and the Federal Home Loan Bank of Cincinnati amounting to \$608,000 and \$709,000, respectively. The stock can be sold back only at par or a value as determined by the issuing institution and only to the respective financial institution or to another member institution. These securities are recorded at cost.

During the year ended December 31, 2010, the Bank sold a portion of its restricted stock of the Federal Reserve Bank of Atlanta for proceeds of \$13,000, with no gain or loss realized. During the year ended December 31, 2009, the Bank sold a portion of its restricted stock of the Federal Reserve Bank of Atlanta for proceeds of \$301,000, with no gain or loss being realized. During the year ended December 31, 2008, the Bank sold a portion of its restricted stock of the Federal Reserve Bank for proceeds of \$30,000, with no gain or loss being realized.

Notes to Consolidated Financial Statements
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(5) BANK PREMISES AND EQUIPMENT

The classification of premises and equipment at December 31, 2010 and 2009 are as follows:

<i>(In Thousands)</i>	2010	2009
Land.....	\$ 3,914	\$ 3,911
Buildings.....	5,417	5,494
Leasehold improvements.....	-	-
Furniture and equipment.....	2,753	2,884
Automobiles.....	-	-
Assets not in use.....	275	-
Construction in process.....	386	386
	12,745	12,675
Less accumulated depreciation.....	(3,575)	(3,084)
	\$ 9,170	\$ 9,591

Depreciation expense was \$500,000, \$596,000 and \$709,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Bank closed one branch office in Smyrna, Tennessee as of December 31, 2009. The remaining leasehold improvements and fixtures attached to the structure were charged to expense as impaired at December 31, 2009.

(6) DEPOSITS

Deposits at December 31, 2010 and 2009 are summarized as follows:

<i>(In Thousands)</i>	2010	2009
Demand deposits.....	\$ 29,124	\$ 26,079
Savings deposits.....	1,849	2,042
Negotiable order of withdrawal accounts.....	28,187	28,793
Money market deposit accounts.....	44,515	39,577
Certificates of deposit \$100,000 or greater.....	33,840	67,470
Other certificates of deposit.....	61,181	53,950
Individual retirement accounts \$100,000 or greater.....	2,343	2,964
Other individual retirement accounts.....	3,851	3,361
	\$ 204,890	\$ 224,236

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2010 are as follows:

<i>(In Thousands)</i>	Total
2011.....	\$ 80,357
2012.....	16,695
2013.....	3,246
2014.....	262
2015.....	655
	\$ 101,215

At December 31, 2010 and 2009, certificates of deposit and individual retirement accounts in denominations of \$100,000 or more amounted to \$36,183,000 and \$70,434,000, respectively. Included in time deposits in denominations

Notes to Consolidated Financial Statements
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of \$100,000 or more at December 31, 2010 and 2009, are approximately \$34,084,000 and \$51,335,000, respectively, of time deposits in denominations of \$100,000 or greater through \$250,000, as those qualify for expanded FDIC insurance coverage.

The aggregate amount of overdrafts reclassified as loans receivable was \$11,000 and \$42,000 at December 31, 2010 and 2009, respectively.

The Bank is required to maintain cash balances or balances with the Federal Reserve Bank or other correspondent banks based on certain percentages of deposit types. The average required amounts for the years ended December 31, 2010 and 2009 were approximately \$1,813,000 and \$1,151,000, respectively.

(7) SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

The following is a summary of information pertaining to securities sold under agreement to repurchase at December 31, 2010 and 2009:

<i>(In Thousands)</i>	2010	2009
Ending balance.....	\$ 4,059	\$ 2,577
Weighted average interest rate at year-end	0.25%	0.90%

Securities sold under agreement to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreement to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying security. The securities sold under agreement to repurchase are collateralized by government agency and mortgage-backed securities held by the Bank.

Information concerning securities sold under agreement to repurchase is summarized below for the year ended December 31, 2010 and 2009:

<i>(In Thousands)</i>	2010	2009
Average daily balance during the year.....	\$ 2,462	\$ 1,525
Maximum month-end balance during the year....	\$ 4,059	\$ 2,577
Average interest rate during the year.....	0.53%	0.92%

(8) BORROWINGS

A summary of the Bank's borrowings is as follows:

<i>(Dollars In Thousands)</i>	Principal	Interest rate	Maturity date	Total committed
<i>December 31, 2010</i>				
Short-term borrowings:				
FHLB cash management advance line.....	\$ -	-		\$ 15,000
Total short-term borrowings.....	-			15,000
Long-term borrowings:				
FHLB term note (fixed rate).....	941	4.61%	5/1/2015	
Total long-term borrowings.....	941			
Total borrowings.....	\$ 941			\$ 15,000

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<i>(Dollars In Thousands)</i>	Principal	Interest rate	Maturity date	Total committed
<i>December 31, 2009</i>				
Short-term borrowings:				
FHLB cash management advance line.....	\$ -	- %		\$ 15,000
Total short-term borrowings	-			15,000
Long-term borrowings:				
FHLB term note (fixed rate).....	1,600	4.61%	5/1/2015	
Total long-term borrowings.....	1,600			
Total borrowings.....	\$ 1,600			\$ 15,000

The long-term note with the Federal Home Loan Bank (“FHLB”) is payable at its maturity date, with a prepayment penalty if paid prior to maturity; however, the Bank may pay down a portion of the principal each anniversary date. The weighted average rate on the FHLB term note is 4.61% at December 31, 2010. The note is amortized over 20 years and has a balloon payment due at maturity. The Bank’s note with FHLB matures on May 1, 2015.

The maturity schedule of the FHLB term note at December 31, 2010 is as follows:

<i>(In Thousands)</i>	Total
2011	\$ 36
2012	38
2013	40
2014	42
2015	785
	\$ 941

The Bank has executed a blanket pledge and security agreement with the FHLB in the amount of \$15,000,000 at December 31, 2010 and 2009, which encompasses certain types of loans as collateral for these borrowings. The maximum borrowing capacity for future borrowings, including term loans and the line of credit, was \$11,986,000 and \$13,474,000 at December 31, 2010 and 2009, respectively.

(9) NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The significant components of non-interest income and non-interest expense for the years ended December 31 are presented below:

<i>(In Thousands)</i>	2010	2009	2008
Non-interest income:			
Service charges on deposit accounts.....	\$ 461	\$ 488	\$ 450
Fees on mortgage originations.....	383	392	450
Fees from brokerage operations.....	506	389	529
Other fees and commissions	445	430	376
Gain on sale of available-for-sale securities	511	1,017	-
Gain on sale of available-for-sale securities	-	-	4
Gain on sale of other assets, net.....	-	12	-
<i>Total non-interest income</i>	\$ 2,306	\$ 2,728	\$ 1,809

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<i>(In Thousands)</i>	2010	2009	2008
Non-interest expense:			
Employee salaries and benefits.....	\$ 4,227	\$ 4,623	\$ 5,056
Occupancy expenses.....	763	867	878
Furniture and equipment expense.....	327	383	475
Professional fees.....	598	685	438
Advertising expense.....	153	227	396
Data processing expense.....	443	428	583
Computer network expense.....	105	116	105
Computer software amortization.....	29	39	28
Loss on disposals of premises and equipment.....	-	45	-
Foreclosed asset expenses.....	151	161	27
Loss on sales of foreclosed assets, net.....	128	99	-
Valuation losses on foreclosed assets.....	56	374	-
Directors fees.....	-	21	124
FDIC insurance.....	735	631	168
Other operating expenses.....	1,471	1,472	1,384
<i>Total non-interest expense.....</i>	\$ 9,186	\$ 10,171	\$ 9,662

(10) INCOME TAXES

The components of the net deferred income tax asset at December 31, 2010 and 2009 were as follows:

<i>(In Thousands)</i>	2010	2009
Deferred tax asset:		
Federal.....	\$ 6,492	\$ 6,731
State.....	1,328	1,376
	7,820	8,107
Deferred tax liability:		
Federal.....	199	243
State.....	41	50
	240	293
Total net deferred assets.....	7,580	7,814
Less valuation allowance.....	(7,580)	(7,814)
Net deferred assets.....	\$ -	\$ -

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The tax effects of each type of significant item that gave rise to deferred tax assets (liabilities) at December 31, 2010 and 2009 are:

<i>(In Thousands)</i>	2010	2009
Financial statement allowance for loan losses in excess of the tax allowance	\$ 881	\$ 2,381
Net operating loss carry forward.....	6,429	5,264
Stock compensation expense recognized for financial statement purposes and deferred for tax purposes	60	54
Unrealized contributions carryovers	7	7
Stock dividends on Federal Home Loan Bank stock recognized for financial statement purposes and deferred for tax purposes..	(9)	(9)
Interest on non-accrual loans deferred for financial statement purposes and recognized for tax purposes	63	117
Capital loss carryover	350	139
Allowance for foreclosed assets recognized for financial statement purposes and deferred for tax purposes	29	145
Excess of depreciation deducted for tax purposes over the amounts deducted for financial statements	(210)	(208)
Loan fees recognized for tax purposes deferred for financial statements	(20)	(24)
Excess of estimated market value over amortized cost related to available-for-sale securities	-	(52)
	7,580	7,814
Valuation allowance.....	(7,580)	(7,814)
	\$ -	\$ -

Management reviews the Bank's deferred tax assets for realization based upon historical taxable income, prudent and feasible tax planning strategies, the expected timing of the reversals of existing temporary differences and expected future taxable income. The Bank records a valuation allowance to reduce our deferred tax assets to the amount that management believes will more likely than not be realized.

The components of income tax expense (benefit) are summarized as follows:

<i>(In Thousands)</i>	2010	2009	2008
Current:			
Federal.....	\$ -	\$ -	\$ -
State	-	-	-
	-	-	-
Deferred:			
Federal.....	238	(3,232)	(1,157)
State	48	(661)	(236)
	286	(3,893)	(1,393)
Less valuation allowance related to realization of deferred tax assets	(286)	3,893	1,393
Actual tax expense	\$ -	\$ -	\$ -

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A reconciliation of actual income tax expense (benefit) in the consolidated financial statements to the “expected” tax benefit (computed by applying the statutory Federal income tax rate of 34% to loss before income taxes) is as follows:

<i>(In Thousands)</i>	2010	2009	2008
Computed “expected” tax benefit	\$ 242	\$ (3,477)	\$ (1,261)
State income taxes, net of effect of Federal income taxes	32	(436)	(156)
Disallowed deductions	12	20	24
Benefit of book net operating losses not recognized.....	-	3,893	1,393
Reversal of valuation allowance related to deferred tax assets, net.....	(286)	-	-
Actual tax expense.....	\$ -	\$ -	\$ -

At December 31, 2010, the Bank has a net operating loss carry-forward for tax purposes of approximately \$16,790,000 which are available to reduce Federal income taxes. Unused carry forwards begin to expire in 2025.

As of December 31, 2010 and December 31, 2009, the Bank did not have any unrecognized tax benefits. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Bank recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense and did not have any accrued interest and/or penalties at December 31, 2010 or 2009. No interest or penalties related to tax matters was incurred during 2010 or 2009. The Bank and its subsidiary are subject to U.S. federal income tax as well as income tax of the state of Tennessee.

(11) COMMITMENTS AND CONTINGENCIES

During November, 2004, the Bank entered into a ground lease for their new branch location on Memorial Boulevard in Murfreesboro, Tennessee. The agreement provides for lease payments of \$6,819 per month through November 2014. Thereafter, the lease payments will be adjusted every five years based on the change in the Consumer Price Index for the prior five-year lease term as provided by the Bureau of Labor Statistics of the United States Department of Labor. The ground lease expires in November 2024.

During 2005, the Bank entered into an operating lease agreement for a facility related to the operation of a branch office in Smyrna, Tennessee. That agreement provided for lease payments of \$4,000 per month through April 2010. The branch office was closed as of December 31, 2009, and the lease agreement was terminated at its expiration in April 2010. Lease payments of \$12,000 were charged to expense in December 2009 for the remaining payments due under the lease agreement.

Future minimum payments under the remaining operating lease as of December 31, 2010 are as follows:

<i>(In Thousands)</i>	<i>Total</i>
<u>Year Ending December 31,</u>	
2011	\$ 82
2012	82
2013	82
2014	82
2015	82
Thereafter.....	722
	\$ 1,132

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Rental payments under all leases totaled \$86,000, \$138,000 and \$131,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Bank has lines of credit with other financial institutions, including the Federal Home Loan Bank, totaling \$50,500,000. Included in these lines of credit is a fully secured \$25 million reverse repurchase line of credit with one financial institution. At December 31, 2010, no amounts were outstanding under these lines of credit.

(12) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

<i>(In Thousands)</i>	Contract or Notional Amount	
	2010	2009
Financial instruments whose contract amount represent credit risk:		
Unused commitments to extend credit.....	\$ 28,680	\$ 42,872
Standby letters of credit	1,632	1,901
Total.....	\$ 30,312	\$ 44,773

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 be drawn upon, the total commitment amounts generally represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The fair value of standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments and the present creditworthiness of such counterparties. Such commitments have been made on terms which are competitive in the markets in which the Bank operates, thus, the fair value of standby letters of credit equals the carrying value for the purposes of this disclosure. The maximum potential amount of future payments that the Bank could be required to make under the guarantees totaled \$1,632,000 and \$1,901,000 at December 31, 2010 and 2009, respectively.

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(13) ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loans that will result from the exercise of the commitments will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Bank to the risk that the price of the loans arising from exercise of the loan commitments might decline from inception of the rate locks to funding of the loans due to increases in mortgage interest rates. If interest rates increase, the values of these loan commitments decrease. Conversely, if interest rates decrease, the values of these loan commitments increases. The notional amount of undesignated mortgage loan commitments was \$2,230,000 and \$681,000 at December 31, 2010 and 2009, respectively. The total fair value of such commitments was immaterial as of December 31, 2010 and 2009.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Bank utilizes “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a “best efforts” contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loans being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sales commitments will experience changes in fair values opposite to the change in fair values of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was \$4,632,000 and \$1,240,000 at December 31, 2010 and 2009, respectively. The total fair value of such commitments was immaterial as of December 31, 2010 and 2009.

(14) CONCENTRATION OF CREDIT RISK

Practically all of the Bank’s loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank’s market area. Practically all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in note 2 to the consolidated financial statements.

At December 31, 2010 and 2009, the Bank had no cash and due from banks included in commercial bank deposits in excess of the Federal Deposit Insurance Corporation limit of \$250,000 per institution.

(15) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS

The Bank is subject to regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Tennessee Department of Financial Institutions. Failure to meet capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that could, in that event, have a direct material effect on the institution’s consolidated financial statements. The relevant regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting principles. The Bank’s capital classifications are also subject to

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qualitative judgments by the Regulators about components, risk weightings and other factors. Those qualitative judgments could also affect the Bank's capital status and the amount of dividends the Bank may distribute.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of December 31, 2010 and 2009, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification 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, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

Based on a joint examination conducted in the fourth quarter of 2009 by the Federal Reserve Bank of Atlanta in conjunction with the Tennessee Department of Financial Institutions, the Bank entered into a formal Written Agreement ("Agreement") with the Federal Reserve Bank of Atlanta ("Reserve Bank") effective August 5, 2010. The Agreement imposed specific requirements concerning Board oversight, credit risk management and administration, capital and strategic plans, profitability, liquidity, loan losses and the allowance for loan losses, the Bank's reliance on "non-core" deposits, including the Bank's use of certain brokered funds, the Bank's budget and profit plans and other matters. Under the terms of the Agreement noted above, the Bank cannot declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. The Bank is also restricted from seeking approval for the payment of dividends by Tennessee State law that requires a bank to be profitable for two consecutive years before paying dividends.

The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are also presented in the following table:

<i>(Dollars In Thousands)</i>	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010:						
Total capital to risk-weighted assets.....	\$ 25,616	14.6%	\$ 13,996	8.0%	\$ 17,495	10.0%
Tier 1 capital to risk-weighted assets.....	\$ 23,402	13.4%	\$ 6,998	4.0%	\$ 10,497	6.0%
Tier 1 capital to average assets.....	\$ 23,402	9.8%	\$ 9,546	4.0%	\$ 11,933	5.0%
December 31, 2009:						
Total capital to risk-weighted assets.....	\$ 22,485	10.4%	\$ 17,308	8.0%	\$ 21,635	10.0%
Tier 1 capital to risk-weighted assets.....	\$ 19,715	9.1%	\$ 8,654	4.0%	\$ 12,981	6.0%
Tier 1 capital to average assets.....	\$ 19,715	7.9%	\$ 9,957	4.0%	\$ 12,447	5.0%

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(16) PREFERRED STOCK

During 2010 the Bank issued 609,538 shares of non-cumulative convertible Series 2009A Preferred Stock. The issuance resulted in additional capital of \$2,956,000, net of stock issuance costs. During 2009, the Bank issued 415,190 shares of non-cumulative convertible Series 2009A Preferred Stock. The issuance resulted in additional capital of \$2,027,000, net of stock issuance costs. The liquidation preference for the Series 2009A Preferred Stock is \$5.00 per share. The Series 2009A Preferred Stock is not redeemable. Each share of Series 2009A Preferred Stock will automatically convert into shares of the Bank's common stock on March 31, 2015, subject to certain limitations. Each share of Series 2009A Preferred Stock is convertible into two shares of the Company's common stock. Additionally, anyone who purchased the Series 2009A Preferred Stock received one detachable warrant to purchase one share of the Bank's common stock for every five shares of the Series 2009A Preferred Stock that they purchased. These detachable warrants and their related terms are discussed further in Footnote 18.

The fair value of the detachable warrants that were issued in tandem with the Series 2009A Preferred Stock was determined to be approximately \$61,000 and \$29,000 at December 31, 2010 and 2009, respectively.

The fair value of the detachable warrants as of December 31, 2010 was estimated using the Black-Scholes warrant pricing model and the following assumptions:

Risk free interest rate	2.36%
Expected life of warrants	6 years
Expected dividend yield	0.00%
Expected volatility	15%
Weighted average fair value (per share)	\$0.06

The fair value of the Series 2009A Preferred Stock and the fair value of the detachable warrants were summed and the initial carrying amounts for the Series 2009A Preferred Stock and the detachable warrants were calculated based on an allocation of the two fair value components. The aggregate fair value result for both the Series 2009A Preferred Stock and the detachable warrants was calculated to be \$5,123,000, with 1.2% of this aggregate total allocated to the detachable warrants and 98.8% allocated to the Series 2009A Preferred Stock. As a result of this allocation, at December 31, 2010 the remaining warrants have a value of \$61,000 and the outstanding shares of Series 2009A Preferred Stock have a value of \$5,062,000.

During the first quarter of 2011, the Bank expects to release a new offering of preferred stock that will be issued with substantially similar features to the Series 2009A Preferred Stock. Under the terms of the offering, investors will be able to purchase the new series of preferred stock at a price of \$5.50 per share. The liquidation preference for this new series of preferred stock is \$5.50 per share, and this series of preferred stock will not be redeemable. Each share of the preferred stock will automatically convert into two shares of the Bank's common stock on May 31, 2016, subject to certain limitations, but investors may choose to convert their preferred stock shares at any time prior to May 31, 2016. Additionally, anyone who purchases this series of preferred stock will receive one detachable warrant to purchase one share of the Bank's common stock for every five shares of the preferred stock that they purchase. These detachable warrants will be exercisable at any time before they expire on May 31, 2017, and the exercise price will be 85% of the previous quarter's fully converted book value.

(17) STOCK OPTION ARRANGEMENT

In October, 2004, the stockholders of the Bank approved the MidSouth Bank 2004 Stock Option Arrangement (the "Arrangement"). The Arrangement provides for the granting of stock options, and authorizes the issuance of common stock upon the exercise of such options, for up to 380,000 shares of common stock to employees and organizers of the Bank and up to 143,080 shares of common stock for future use as decided by the Board of Directors.

Under the Arrangement, stock option awards may be granted in the form of incentive stock options or non-statutory stock options, and are generally exercisable for up to ten years following the date such option awards are granted.

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Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date and generally vest at the end of four years. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Arrangement).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Bank's common stock and other factors. The Bank uses historical data to estimate option exercise and employee termination with the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. No options were granted during 2010. A total of 25,000 and 5,000 options were granted during the years ended December 31, 2009 and 2008, respectively.

	2009	2008
Volatility	15.00%	15.00%
Dividend yield	- %	- %
Expected term (in years)	7.5	7.5
Risk-free rate	3.36%	3.57%

A summary of option activity under the Arrangement is presented below:

<i>Options</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Average Remaining Contractual Maturity</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at December 31, 2007	420,500	\$ 10.00		
Granted	5,000	\$ 12.80		
Exercised	(3,500)	\$ 10.00		
Forfeited	-	\$ -		
Outstanding at December 31, 2008	422,000	\$ 10.03		
Granted	25,000	\$ 5.00		
Exercised	(200)	\$ 10.00		
Forfeited	(11,500)	\$ 10.00		
Outstanding at December 31, 2009	435,300	\$ 9.75		
Granted	-	\$ -		
Exercised	-	\$ -		
Forfeited	(50,500)	\$ 10.00		
Outstanding at December 31, 2010	384,800	\$ 9.71	4.1	\$ -
Exercisable at December 31, 2010	347,231	\$ 9.92	3.8	\$ -

There was no intrinsic value of stock options exercised during the year ended December 31, 2010 since there were no options exercised during that period. There was no intrinsic value of stock options exercised during the year ended December 31, 2009 since the average price of the stock was less than the average exercise price. The total intrinsic value of options exercised during the year ended December 31, 2008 was \$10,000. The weighted average grant-date fair value of options granted during the years ended December 31, 2009 and 2008 was \$0.09 and \$3.71, respectively. There were no options granted during 2010.

As of December 31, 2010, there was \$19,000 of total unrecognized compensation cost related to non-vested share-based compensation granted under the Arrangement. The cost is expected to be recognized over a weighted-average period of 1.5 years. The total fair value of shares vested during the years ended December 31, 2010 and 2009 was \$17,000 for

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both periods. Compensation cost recognized for the years ended December 31, 2010 and 2009 totaled \$16,000 and \$19,000, respectively.

(18) STOCK WARRANTS

Non-detachable Warrants Issued with Initial Common Stock Offering

As part of the original offering of common stock during its organizational phase, any shares purchased received non-detachable warrants which provided the stockholder the ability to purchase one additional share of common stock for every two shares of common stock purchased. The purchase price for the additional shares was equal to the greater of \$10 or 110% of the book value of the stock at the date of exercise. For each recipient, one half of the non-detachable warrants received were required to be exercised within three years from January 20, 2004 (the date of issuance) and the other half within five years of the date of issuance. The “three-year non-detachable warrants” and the “five-year non-detachable warrants” have expired (if unexercised). There were 79,574 and 17,032 non-detachable warrants exercised in 2009 (final year) and 2008, respectively. A total of 430,357 non-detachable warrants were forfeited during January 2009. No non-detachable warrants were forfeited in 2008. There were no non-detachable warrants outstanding as of December 31, 2010 and 2009, respectively. Total non-detachable warrants outstanding as of December 31, 2008 totaled 509,931.

Detachable Warrants Issued with Series 2009A Preferred Stock

As part of the original offering of Series 2009A Preferred Stock, for every five shares of Series 2009A Preferred Stock purchased, a stockholder receives one detachable warrant which provides the stockholder the ability to purchase one share of common stock. The purchase price for the common stock shares from these warrants is equal to 75% of the fully converted book value of the Bank’s common stock as of the previous quarter-end date. For each recipient, the warrants received are required to be exercised by March 31, 2016. At that time the warrants will expire. During 2010, there were 121,901 warrants issued and 1,380 warrants exercised. During 2009, there were 83,038 warrants granted. There were 203,559 and 83,038 warrants outstanding as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and December 31, 2009, each detachable warrant had a fair value of \$0.06 per share and \$0.07 per share, respectively.

(19) ADDITIONAL RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank utilizes legal and landscaping services which are provided by companies with board member relationships. During 2010, 2009 and 2008, the fees paid to these companies were not significant.

(20) RETIREMENT PLAN

The Bank has in effect a 401(k) profit sharing plan that covers eligible employees. To participate in the plan an employee must have reached the age of 18. The provisions of the plan provide for both employee and employer contributions; however, the employer match was suspended beginning in April 2009 as part of the bank’s expense reduction initiative, and the suspension of the employer match continued through the year ended December 31, 2010. No amount was contributed by the Bank to this plan during the year ended December 31, 2010. For the years ended December 31, 2009 and 2008, the Bank contributed \$32,000 and \$133,000, respectively, to this plan.

(21) EARNINGS PER COMMON SHARE

ASC 260, *Earnings Per Share*, establishes uniform standards for computing and presenting earnings per share. The computation of basic earnings per share is based on the weighted average number of common shares outstanding during

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the period. For the Bank the computation of diluted earnings per share begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options and warrants.

The following is a summary of the components comprising basic and diluted earnings (loss) per common share (EPS):

<i>(In Thousands, Except Share and Per Share Amounts)</i>	2010	2009	2008
Basic EPS Computation:			
Numerator - Earnings (loss) for the year	\$ 711	\$ (10,227)	\$ (3,709)
Denominator - Weighted average number of common shares outstanding	3,842,567	3,838,538	3,745,423
Basic earnings (loss) per common share	\$ 0.19	\$ (2.66)	\$ (0.99)
Diluted EPS Computation:			
Numerator - Earnings (loss) for the year	\$ 711	\$ (10,227)	\$ (3,709)
Denominator:			
Weighted average number of common shares outstanding	3,842,567	3,838,538	3,745,423
Dilutive effect of preferred stock	1,713,096	-	-
Dilutive effect of stock options	-	-	-
Dilutive effect of warrants.....	-	-	-
	5,555,663	3,838,538	3,745,423
Diluted earnings (loss) per common share	\$ 0.13	\$ (2.66)	\$ (0.99)

The effects of stock option exercises and warrant purchases in the diluted earnings per share calculation were considered to be zero for 2010 since the impact of the exercise of these derivative securities would be accretive and, thus, anti-dilutive due to average exercise prices exceeding the market values in the cases of both the stock options and the warrants. The effect of preferred stock, stock options and warrants was excluded from the 2009 and 2008 computations since the Bank had losses from continuing operations and the exercise of preferred stock, stock options and warrants would have been antidilutive.

(22) FAIR VALUE

The Bank applies ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC 820, fair value measurements are not adjusted for transaction costs. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Basis of Fair Value Measurement:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2—Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

Level 3—Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The fair values of securities available for sale are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of loans held for sale is based upon binding contracts and quotes from third party investors (Level 2 inputs).

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Bank. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value as of December 31, 2010
(In thousands)				
Assets at December 31, 2010				
Securities available-for-sale.....	\$ 5,480	\$ 47,610	-	\$ 53,090

The table below presents a reconciliation and income statement classification of gains and losses for all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	(In Thousands)
Balance, December 31, 2009.....	\$ -
Total unrealized gains (losses) included in:	
Net Income.....	-
Other Comprehensive Income.....	-
Purchases, sales, issuances and settlements, net....	-
Transfers in and (out) of level three.....	-
Balance, December 31, 2010.....	\$ -

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Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following represent financial assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2010. The valuation methodology used to measure the fair value of these loans is described earlier in the Note.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value as of December 31, 2010
(In thousands)				
Assets at December 31, 2010				
Impaired loans, net.....	\$ -	\$ -	\$ 14,967	\$ 14,967
Loans held for sale.....	\$ -	\$ 2,401	\$ -	\$ 2,401

Loans held for sale, which are carried at the lower of cost or fair value, did not have an impairment charge for 2010.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$16,831,000 with a valuation allowance of \$1,864,000.

Non-financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following represent nonfinancial assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2010. The valuation methodology used to measure the fair value of these loans is described earlier in the Note.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value as of December 31, 2010
(In thousands)				
Assets at December 31, 2010				
Foreclosed assets.....	\$ -	\$ -	\$ 2,200	\$ 2,200

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to foreclosed assets. The value is based primarily on third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business. Such discounts are typically significant and result in a Level 3 classification of inputs for determining fair value. Foreclosed assets are reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. Foreclosed assets had a carrying amount of \$2,200,000 at December 31, 2010, which is made up of an outstanding balance of \$2,276,000 with a valuation allowance of \$76,000. Changes in the valuation allowance on foreclosed assets outstanding at December 31, 2010 resulted in write-downs of \$56,000 during 2010.

Cash and short-term investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

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Securities

The carrying amounts for short-term securities approximate fair value because they mature in 90 days or less and do not present unanticipated credit concerns. The fair value of longer-term securities and mortgage-backed securities, except certain state and municipal securities, is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

Accounting standards specify that fair values should be calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. Accordingly, these considerations have not been incorporated into the fair value estimates.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, mortgage and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of the various categories of 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 and for the same remaining average estimated maturities.

The estimated maturity for mortgages is modified from the contractual terms to give consideration to management's experience with prepayments. Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented below would be indicative of the value negotiated in an actual sale.

The value of the loan portfolio is also discounted in consideration of the credit quality of the loan portfolio as would be the case between willing buyers and sellers. Particular emphasis has been given to loans on the Bank's internal watch list. Valuation of these loans is based upon borrower performance, collateral values (including external appraisals), etc.

Loans Held for Sale

These instruments are carried in the consolidated balance sheet at the lower of cost or market value. The fair values of these instruments are based on subsequent liquidation values of the instruments which did not result in any significant gains or losses.

Deposit Liabilities

The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. Under accounting standards the fair value estimates for deposits do not include the benefit that results from the low cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Federal Funds Purchased and Sold

The carrying amounts approximate fair values as Federal funds are overnight borrowings or investments.

Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Advances from Federal Home Loan Bank

Short-Term Advances

The carrying amounts of short-term advances approximate fair value as they mature within 90 days.

Long-Term Advances

The fair values of the Bank's long-term advances are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written

Loan commitments are made to customers generally for a period not to exceed one year and at the prevailing interest rates in effect at the time the loan is closed. Commitments to extend credit related to construction loans are made for a period not to exceed one year with interest rates at the current market rate at the date of closing. In addition, standby letters of credit are issued for periods extending from one to two years with rates to be determined at the date the letter of credit is funded. Fees are only charged for the construction loans and the standby letters of credit and the amounts unearned at December 31, 2010, are insignificant. Accordingly, these commitments have no carrying value and management estimates the commitments to have no significant fair value.

The carrying values and estimated fair values of the Bank's financial instruments at December 31, 2010 and 2009 are as follows:

<i>(In Thousands)</i>	2010		2009	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets:				
Cash and short-term investments	\$ 11,119	\$ 11,119	\$ 21,937	\$ 21,937
Securities	53,090	53,090	22,010	22,010
Restricted equity securities	1,429	1,429	1,317	1,317
Loans held for sale	2,401	2,401	560	560
Loans	156,784		196,196	
Less: allowance for loan losses	(4,447)		(8,080)	
Loans, net of allowance	152,337	152,570	188,116	187,229
Financial liabilities:				
Deposits	204,890	205,381	224,236	224,612
Advances from Federal Home Loan Bank	941	1,011	1,600	1,687
Federal funds purchased	-	-	-	-
Securities sold under agreement to repurchase	4,059	4,059	2,577	2,577
Unrecognized financial instruments:				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. 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 estimating 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. Other significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets and liabilities and property, plant 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.

(23) QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly results of operations for the four quarters ended December 31, 2010 and 2009 are as follows:

(In Thousands, except per share data)

	2010				2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 2,740	\$ 2,788	\$ 2,941	\$ 2,964	\$ 3,064	\$ 3,248	\$ 3,375	\$ 3,450
Net interest income	2,208	2,148	2,220	2,145	2,163	2,287	2,362	2,324
Provision for loan losses	330	300	200	300	2,215	6,425	610	2,670
Earnings (loss) before income taxes	94	63	194	360	(2,374)	(5,911)	488	(2,430)
Net earnings (loss)	94	63	194	360	(2,374)	(5,911)	488	(2,430)
Basic earnings (loss) per common share	0.03	0.02	0.05	0.09	(0.62)	(1.54)	0.13	(0.64)
Diluted earnings (loss) per common share	0.02	0.01	0.03	0.07	(0.62)	(1.54)	0.13	(0.64)

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SUPPLEMENTARY DATA

The following information is provided to supplement the information in the Management's Discussion and Analysis:

I. Distribution of Assets, Liabilities and Stockholders' Equity:
Interest Rate and Interest Differential

The Schedule which follows indicates the average balances for each major balance sheet item, an analysis of net interest income and the change in interest income and interest expense attributable to changes in volume and changes in rates.

The difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities is net interest income, which is the Bank's gross margin. Analysis of net interest income is more meaningful when income from tax-exempt earning assets is adjusted to a tax equivalent basis. Accordingly, the following schedule includes a tax equivalent adjustment of tax-exempt earning assets, assuming a weighted average Federal income tax rate of 34%.

In this Schedule "change due to volume" is the change in volume multiplied by the interest rate for the prior year. "Change due to rate" is the change in interest rate multiplied by the volume for the prior year. Changes in interest income and expense not due solely to volume or rate changes have been allocated to the "change due to volume" and "change due to rate" in proportion to the relationship of the absolute dollar amounts of the change in each category.

Loan fees of \$175,000, \$197,000 and \$277,000 for 2010, 2009, and 2008, respectively, are included in loan income and represent an adjustment on the yield on these loans.

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In Thousands, Except Interest Rates

	Average Balances For the Year			Average Balances For the Year			2010/2009 Change		
	Ended 12/31/10	Interest Rate	Income/Expense	Ended 12/31/09	Interest Rate	Income/Expense	Due to Volume	Due to Rate	Total
Loans, net of unearned interest	\$ 177,475	5.70%	\$ 10,123	\$ 217,549	5.45%	\$ 11,856	\$ (2,258)	\$ 525	\$(1,733)
Loans held for sale	1,159	3.11	36	754	3.45	26	13	(3)	(10)
Investment securities - taxable	41,607	2.83	1,177	26,107	4.47	1,166	536	(525)	11
Restricted equity securities	1,366	5.12	70	1,517	5.34	81	(8)	(3)	(11)
Federal funds sold	-	0.00	-	727	0.28	2	(1)	(1)	(2)
Interest-bearing deposits	12,497	0.22	27	4,598	0.13	6	10	11	21
Total earning assets	<u>234,104</u>	4.88	<u>11,433</u>	<u>251,252</u>	5.23	<u>13,137</u>	<u>(1,708)</u>	<u>4</u>	<u>(1,704)</u>
Cash and due from banks	1,298			2,472					
Allowance for loan losses	(6,576)			(6,850)					
Bank premises and equipment	9,387			9,884					
Other assets	<u>4,991</u>			<u>3,522</u>					
Total assets	<u>\$ 243,204</u>			<u>\$ 260,280</u>					

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In Thousands, Except Interest Rates

	Average Balances For the Year Ended 12/31/10			Average Balances For the Year Ended 12/31/09			2010/2009 Change		
	Interest Rate	Income/Expense		Interest Rate	Income/Expense		Due to Volume	Due to Rate	Total
Deposits:									
Negotiable order of withdrawal accounts	\$ 27,686	0.33%	\$ 92	\$ 24,312	0.41%	\$ 100	\$ 13	\$ (21)	\$ (8)
Money market demand accounts	40,499	0.73	294	42,090	0.82	344	(13)	(37)	(50)
Individual retirement accounts	6,211	2.22	138	6,053	3.12	189	5	(56)	(51)
Other savings deposits	2,064	0.10	2	1,970	0.10	2	-	-	-
Certificates of deposit \$100,000 and over	51,383	1.82	936	60,184	2.69	1,618	(212)	(470)	(682)
Certificates of deposit under \$100,000	58,071	2.04	1,184	61,947	2.61	1,616	(96)	(336)	(432)
Total interest-bearing deposits	185,914	1.42	2,646	196,556	1.97	3,869	(303)	(920)	(1,223)
FHLB advances	1,168	4.54	53	6,444	1.68	108	(21)	50	29
Securities sold under repurchase agreements and Federal funds purchased	2,523	0.52	13	2,719	0.88	24	17	(112)	(95)
Total interest-bearing deposits and borrowed funds	189,605	1.43	2,712	205,719	1.94	4,001	(307)	(982)	(1,289)
Demand deposits	28,632			27,608					
Other liabilities	2,143			1,313					
Stockholders' equity	22,824			25,640					
Total liabilities and stockholders' equity	\$ 243,204			\$ 260,280					
Net interest income			\$ 8,721			\$ 9,136			\$ (415)
Net yield on earning assets		3.73%			3.64%				
Net interest spread		3.45%			3.29%				

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In Thousands, Except Interest Rates

	Average Balances For the Year Ended 12/31/09			Average Balances For the Year Ended 12/31/08			2009/2008 Change		
	Interest Rate	Income/Expense		Interest Rate	Income/Expense		Due to Volume	Due to Rate	Total
Loans, net of unearned interest	\$ 217,549	5.45%	\$ 11,856	\$ 206,133	6.15%	\$ 12,675	\$ 676	\$ (1,495)	\$ (819)
Loans held for sale	754	3.45	26	580	4.14	24	6	(4)	2
Investment securities - taxable	26,107	4.47	1,166	30,525	5.38	1,641	(219)	(256)	(475)
Restricted equity securities	1,517	5.34	81	1,553	5.60	87	(2)	(4)	(6)
Federal funds sold	727	0.28	2	315	2.54	8	5	(11)	(6)
Interest bearing deposits	4,598	0.13	6	273	0.37	1	55	(50)	5
Total earning assets	251,252	5.23	13,137	239,379	6.03	14,436	521	(1,820)	(1,299)
Cash and due from banks	2,472			4,360					
Allowance for loan losses	(6,850)			(2,340)					
Bank premises and equipment	9,884			10,438					
Other assets	3,522			2,364					
Total assets	\$ 260,280			\$ 254,201					

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In Thousands, Except Interest Rates

	Average Balances For the Year Ended 12/31/09			Average Balances For the Year Ended 12/31/08			2009/2008 Change		
	Interest Rate	Income/Expense		Interest Rate	Income/Expense		Due to Volume	Due to Rate	Total
Deposits:									
Negotiable order of withdrawal accounts	\$ 24,312	0.41%	\$ 100	\$ 25,425	0.51%	\$ 130	\$ (6)	\$ (24)	\$ (30)
Money market demand accounts	42,090	0.82	344	40,753	1.82	742	23	(421)	(398)
Individual retirement accounts	6,053	3.12	189	5,306	4.00	212	28	(51)	(23)
Other savings deposits	1,970	0.10	2	1,430	0.21	3	1	(2)	(1)
Certificates of deposit \$100,000 and over	60,184	2.69	1,618	57,012	4.13	2,352	125	(859)	(734)
Certificates of deposit under \$100,000	61,947	2.61	1,616	53,808	3.78	2,034	276	(694)	(418)
Total interest-bearing deposits	196,556	1.97	3,869	183,734	2.98	5,473	447	(2,051)	(1,604)
FHLB advances	6,444	1.68	108	9,612	2.62	252	(98)	(130)	(228)
Securities sold under repurchase agreements and Federal funds purchased	2,719	0.88	24	3,199	1.66	53	54	1	55
Total interest-bearing deposits and borrowed funds	205,719	1.94	4,001	196,545	2.94	5,778	403	(2,180)	(1,777)
Demand deposits	27,608			26,007					
Other liabilities	1,313			1,062					
Stockholders' equity	25,640			30,587					
Total liabilities and stockholders' equity	\$ 260,280			\$ 254,201					
Net interest income			\$ 9,136			\$ 8,658			\$ 478
Net yield on earning assets		3.64%			3.62%				
Net interest spread		3.29%			3.09%				

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DECEMBER 31, 2010

II. Investment Portfolio:

A. Securities at December 31, 2010 consist of the following:

	Securities Available-for-Sale			
	<i>(In Thousands)</i>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ 4,759	\$ 19	\$ 78	\$ 4,700
Mortgage-backed securities	48,330	300	240	48,390
	\$ 53,089	\$ 319	\$ 318	\$ 53,090

Securities at December 31, 2009 consist of the following:

	Securities Available-for-Sale			
	<i>(In Thousands)</i>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ 1,000	\$ 7	\$ -	\$ 1,007
Mortgage-backed securities	20,874	161	32	21,003
	\$ 21,874	\$ 168	\$ 32	\$ 22,010

Securities at December 31, 2008 consist of the following:

	Securities Available-for-Sale			
	<i>(In Thousands)</i>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury and other U.S. Government agencies and corporations	\$ 4,500	\$ 39	\$ -	\$ 4,539
Mortgage-backed securities	27,214	991	7	28,198
Corporate bonds	402	7	-	409
	\$ 32,116	\$ 1,037	\$ 7	\$ 33,146

MIDSOUTH BANK

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II. Investment Portfolio, Continued:

B. The following schedule details the estimated maturities and weighted average yields of investment securities of the Bank at December 31, 2010.

<u>Available-For-Sale Securities</u>	<u>Amortized Cost</u>	<u>Estimated Market Value</u>	<u>Weighted Average Yields</u>
<i>(In Thousands, Except Yields)</i>			
Obligations of U.S. Treasury and other U.S. Government agencies and corporations:			
Less than one year	\$ -	\$ -	- %
One to five years	-	-	-
Five to ten years	3,327	3,279	1.95
More than ten years	1,432	1,421	1.48
Total securities of U.S. Treasury and other U.S. Government agencies and corporations	4,759	4,700	1.81
Mortgage-backed securities:			
Less than one year	49	50	2.05
One to five years	40,006	40,125	2.64
Five to ten years	8,275	8,215	3.05
More than ten years	-	-	-
Total mortgage-backed securities	48,330	48,390	2.71
Total available-for-sale securities	\$ 53,089	\$ 53,090	2.63%

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III. Loan Portfolio:

A. Loan Types

The following schedule details the loans of the Bank at December 31, 2010, 2009, 2008, 2007, and 2006:

	<i>In Thousands</i>				
	2010	2009	2008	2007	2006
Commercial, financial and agricultural	\$ 30,283	\$ 36,341	\$ 42,193	\$ 71,004	\$ 51,318
Real estate:					
Commercial	58,152	55,525	60,425	32,330	17,748
Residential	40,901	42,059	43,383	26,055	23,091
Construction and land development	18,193	50,114	64,921	55,451	46,437
Multifamily	2,714	2,496	2,740	1,556	1,562
Consumer and other	6,541	9,661	8,852	6,710	10,223
Total loans	156,784	196,196	222,514	193,106	150,379
Less allowance for loan losses	(4,447)	(8,080)	(5,784)	(2,032)	(1,922)
Net loans	<u>\$ 152,337</u>	<u>\$ 188,116</u>	<u>\$ 216,730</u>	<u>\$ 191,074</u>	<u>\$ 148,457</u>

B. Maturities and Sensitivities of Loans to Changes in Interest Rates

The following schedule details maturities and sensitivity to interest rates changes for commercial loans of the Bank at December 31, 2010:

	<i>(In Thousands)</i>			
	Less Than 1 Year*	1 Year to Less Than 5 Years	After 5 Years	Total
Maturity Distribution:				
Commercial, financial and agricultural	\$ 14,426	\$ 15,693	\$ 164	\$ 30,283
Real estate:				
Commercial	5,441	49,260	3,451	58,152
Construction and land development	9,603	8,388	202	18,193
	<u>\$ 29,470</u>	<u>\$ 73,341</u>	<u>\$ 3,817</u>	<u>\$ 106,628</u>
Interest-Rate Sensitivity:				
Fixed interest rates	\$ 15,431	\$ 66,473	\$ 3,451	\$ 85,355
Floating or adjustable interest rates	14,039	6,868	366	21,273
Total commercial, financial and agricultural loans plus real estate – commercial and real estate – construction and land development loans	<u>\$ 29,470</u>	<u>\$ 73,341</u>	<u>\$ 3,817</u>	<u>\$ 106,628</u>

*Includes demand loans, bankers' acceptances, commercial paper and deposit notes.

MIDSOUTH BANK

FORM 10-K

DECEMBER 31, 2010

III. Loan Portfolio, Continued:

C. Risk Elements

The following schedule details selected information as to non-performing loans of the Bank at December 31, 2010, 2009, 2008, 2007 and 2006.

	<i>In Thousands, Except Percentages</i>				
	2010	2009	2008	2007	2006
Non accrual loans:					
Commercial, financial and agricultural	\$ 2,681	\$ 1,770	\$ -	\$ -	\$ -
Real estate:					
Commercial	2,666	3,618	1,647	-	-
Residential	1,144	382	-	-	-
Construction and land development	3,395	7,228	691	-	-
Multifamily	-	634	-	-	-
Consumer and other	13	17	-	-	2
Total non-accrual	<u>\$ 9,899</u>	<u>\$ 13,649</u>	<u>\$ 2,338</u>	<u>\$ -</u>	<u>\$ 2</u>
Loans 90 days past due:					
Commercial, financial and agricultural	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate:					
Commercial	-	-	-	-	-
Residential	-	-	-	-	-
Construction and land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total loans 90 days past due	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Renegotiated loans:					
Commercial, financial and agricultural	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate:					
Commercial	-	-	-	-	-
Residential	-	-	-	-	-
Construction and land development	-	-	-	-	-
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total renegotiated loans past due	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total non-performing loans	<u>\$ 9,899</u>	<u>\$ 13,649</u>	<u>\$ 2,338</u>	<u>\$ -</u>	<u>\$ 2</u>
Total loans, net of unearned interest	<u>\$ 156,784</u>	<u>\$ 196,196</u>	<u>\$ 222,514</u>	<u>\$ 193,106</u>	<u>\$ 150,379</u>
Percent of total loans outstanding, net of unearned interest	<u>6.31%</u>	<u>6.96%</u>	<u>1.05%</u>	<u>- %</u>	<u>- %</u>
Foreclosed assets	<u>\$ 2,200</u>	<u>\$ 2,142</u>	<u>\$ 1,487</u>	<u>\$ 1,309</u>	<u>\$ -</u>

MIDSOUTH BANK

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DECEMBER 31, 2010

III. Loan Portfolio, Continued:

C. Risk Elements, Continued

The accrual of interest income is discontinued when it is determined that collection of interest is less than probable or the collection of any amount of principal is doubtful. The decision to place a loan on non-accrual status is based on an evaluation of the borrower's financial condition, collateral liquidation value, economic and business conditions and other factors that affect the borrower's ability to pay. At the time a loan is placed on a non-accrual status, the accrued but unpaid interest is also evaluated as to collectibility. If collectibility is doubtful, the unpaid interest is charged off. Thereafter, interest on non-accrual loans is recognized only as received. Non-accrual loans totaled \$9,899,000, \$13,649,000 and \$2,338,000 at December 31, 2010, 2009 and 2008; respectively. The Bank had no loans on non-accrual status at December 31, 2007 and had one non-accrual loan totaling \$2,000 at December 31, 2006.

At December 31, 2010, 2009, 2008, 2007 and 2006, loans totaling \$26,804,000, \$37,389,000, \$24,082,000, \$16,088,000 and \$4,409,000, were included in the Bank's internal classified loan list. Of these loans at December 31, 2010, \$5,099,000 were real estate – residential, \$10,460,000 were real estate – construction and land development, \$6,231,000 were real estate – commercial, \$4,893,000 were commercial, financial and agricultural, and \$121,000 were consumer and other loans. Management estimates collateral valuations relating to these loans to be approximately \$67,614,000 (\$10,281,000 related to real estate – residential, \$23,150,000 related to real estate – construction and land development, \$10,933,000 related to real estate – commercial, \$23,130,000 related to commercial, financial and agricultural, and \$120,000 related to consumer and other loans). Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

At December 31, 2010, there were no loan concentrations that exceed ten percent of total loans other than as included in the preceding table of types of loans. Loan concentrations are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions.

There were no material amounts of other interest-bearing assets (interest-bearing deposits with other banks, municipal bonds, etc.) at December 31, 2010 which would be required to be disclosed as past due, non-accrual, restructured or potential problem loans, if such interest-bearing assets were loans.

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IV. Summary of Loan Loss Experience:

The following schedule details selected information related to the allowance for loan loss account of the Bank at December 31, 2010, 2009, 2008, 2007 and 2006 and the year or period then ended:

	<i>In Thousands, Except Percentages</i>				
	2010	2009	2008	2007	2006
Allowance for loan losses at beginning of year	\$ 8,080	\$ 5,784	\$ 2,032	\$ 1,922	\$ 1,317
Less: Net loan charge-offs:					
Charge-offs:					
Commercial, financial and agricultural	581	3,097	319	41	-
Real estate:					
Commercial	912	812	-	-	-
Residential	439	126	-	-	-
Construction and land development	2,697	4,834	434	139	-
Multifamily	139	745	-	-	-
Consumer and other	260	21	14	170	7
	<u>5,028</u>	<u>9,635</u>	<u>767</u>	<u>350</u>	<u>7</u>
Recoveries:					
Commercial, financial and agricultural	83	9	-	4	-
Real estate:					
Commercial	26	-	-	-	-
Residential	3	-	-	-	-
Construction and land development	37	-	-	63	-
Multifamily	28	-	-	-	-
Consumer and other	88	2	5	3	1
	<u>265</u>	<u>11</u>	<u>5</u>	<u>70</u>	<u>1</u>
Net loan charge-offs	<u>4,763</u>	<u>9,624</u>	<u>762</u>	<u>280</u>	<u>6</u>
Adjustment for allowance for off-balance sheet items	-	-	-	(10)	-
Provision for loan losses charged to expense	<u>1,130</u>	<u>11,920</u>	<u>4,514</u>	<u>400</u>	<u>611</u>
Allowance for loan losses at end of year	<u>\$ 4,447</u>	<u>\$ 8,080</u>	<u>\$ 5,784</u>	<u>\$ 2,032</u>	<u>\$ 1,922</u>
Total loans at end of year	<u>\$ 156,784</u>	<u>\$ 196,196</u>	<u>\$ 222,514</u>	<u>\$ 193,106</u>	<u>\$ 150,379</u>
Average total loans outstanding	<u>\$ 177,475</u>	<u>\$ 217,549</u>	<u>\$ 206,133</u>	<u>\$ 172,265</u>	<u>\$ 128,589</u>
Net charge-offs as a percentage of average total loans outstanding during the year	<u>2.68%</u>	<u>4.42%</u>	<u>0.37%</u>	<u>0.16%</u>	<u>-%</u>
Ending allowance for loan losses as a percentage of total loans outstanding at end of year	<u>2.84%</u>	<u>4.12%</u>	<u>2.60%</u>	<u>1.05%</u>	<u>1.28%</u>

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IV. Summary of Loan Loss Experience, Continued:

The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The provision for loan losses charged to operating expense is based on past loan loss experience and other factors which, in management's judgment, deserve current recognition in estimating loan losses. Such other factors considered by management include growth and composition of the loan portfolio, review of specific loan problems, the relationship of the allowance for loan losses to outstanding loans, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions that may affect the borrower's ability to pay.

Management conducts a continuous review of all loans that are delinquent, previously charged down or loans which are determined to be potentially uncollectible. Loan classifications are reviewed periodically by a person independent of the lending function. The Board of Directors at least quarterly reviews the adequacy of the allowance for loan losses.

The Bank maintains its allowance for loan losses at an amount considered by management to be adequate to provide for the possibility of loan losses in the loan portfolio. As required by the Bank's regulators, management maintained a minimum of 1.25% of loans in the allowance for loan losses for the first three years of operation. This requirement expired January 20, 2007.

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IV. Summary of Loan Loss Experience, Continued:

The following detail provides a breakdown of the allocation of the allowance for loan losses as of December 31, 2010, 2009, 2008, 2007 and 2006.

	<u><i>In Thousands</i></u>	<u>Percent of Loans in Each Category To Total Loans</u>
2010*		
Commercial, financial and agricultural	\$ 576	19.3%
Real estate:		
Commercial	1,069	37.1
Residential	711	26.1
Construction and land development	2,020	11.6
Multifamily	-	1.7
Consumer and other	71	4.2
	<u>\$ 4,447</u>	<u>100.0%</u>
2009*		
Commercial, financial and agricultural	\$ 1,645	18.5%
Real estate:		
Commercial	1,325	28.3
Residential	443	21.4
Construction and land development	3,993	25.6
Multifamily	497	1.3
Consumer and other	177	4.9
	<u>\$ 8,080</u>	<u>100.0%</u>
2008		
Commercial, financial and agricultural	\$ 3,086	58.6%
Real estate – construction	2,143	19.1
Real estate – mortgage	452	20.7
Consumer	103	1.6
	<u>\$ 5,784</u>	<u>100.0%</u>
2007		
Commercial, financial and agricultural	\$ 1,122	55.2%
Real estate – construction	583	28.7
Real estate – mortgage	290	14.3
Consumer	37	1.8
	<u>\$ 2,032</u>	<u>100.0%</u>
2006		
Commercial, financial and agricultural	\$ 969	50.4%
Real estate – construction	594	30.9
Real estate – mortgage	313	16.3
Consumer	46	2.4
	<u>\$ 1,922</u>	<u>100.0%</u>

*For the periods ended December 31, 2010 and 2009, loan portfolio segments were broken down into more detailed categories to conform to the format used by the Bank in the calculation of the allowance for loan losses.

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V. Deposits:

The average amounts for deposits for 2010, 2009, and 2008 are detailed in the following schedule.

	2010		2009		2008	
	Average Balance <i>In</i> <i>Thousands</i>	Average Rate	Average Balance <i>In</i> <i>Thousands</i>	Average Rate	Average Balance <i>In</i> <i>Thousands</i>	Average Rate
Non-interest-bearing deposits	\$ 28,632	- %	\$ 27,608	- %	\$ 26,007	- %
Negotiable order of withdrawal accounts	27,686	0.33	24,312	0.41	25,425	0.51
Money market demand accounts	40,499	0.73	42,090	0.82	40,753	1.82
Individual retirement accounts	6,211	2.22	6,053	3.12	5,306	4.00
Other savings	2,064	0.10	1,970	0.10	1,430	0.21
Certificates of deposit \$100,000 and over	51,383	1.82	60,184	2.69	57,012	4.13
Certificates of deposit under \$100,000	58,071	2.04	61,947	2.61	53,808	3.78
	<u>\$ 214,546</u>	<u>1.23%</u>	<u>\$ 224,164</u>	<u>1.73%</u>	<u>\$ 209,741</u>	<u>2.61%</u>

The following schedule details the maturities of certificates of deposit and individual retirement accounts of \$100,000 and over at December 31, 2010.

	<i>In Thousands</i>		
	Certificates of Deposit	Individual Retirement Accounts	Total
Less than three months	\$ 12,058	\$ 497	\$ 12,555
Three to six months	6,052	391	6,443
Six to twelve months	11,544	715	12,259
Over one year	4,186	740	4,926
	<u>\$ 33,840</u>	<u>\$ 2,343</u>	<u>\$ 36,183</u>

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VI. Return on Equity and Assets:

The following schedule details selected key ratios of the Bank for the year ended at December 31, 2010, 2009, and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Return on assets (net income divided by average total assets)	0.29%	- %(1)	- %(1)
Return on equity (Net income divided by average equity)	3.12%	- %(1)	- %(1)
Dividend payout ratio (Dividends declared per share divided by net income per share)	- %	- %	- %
Equity to asset ratio (Average equity divided by average total assets)	9.38%	9.85%	12.03%
Leverage capital ratio (Equity divided by fourth quarter average total assets, excluding the net unrealized loss on available-for-sale securities)	9.81%	7.92%	10.20%

The minimum leverage capital ratio required by the regulatory agencies is 4%.

Under guidelines developed by regulatory agencies a credit risk is assigned to various categories of assets and commitments ranging from 0% to 100% based on the risk associated with the asset.

(1) The Bank sustained a loss; therefore, there was no return on assets or equity.

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VI. Return on Equity and Assets, Continued:

The following schedule details the Bank's risk-based capital at December 31, 2010 excluding the net unrealized gain on available-for-sale securities which is shown as an addition in stockholders' equity in the consolidated financial statements:

	<i>In Thousands, Except Percentages</i>
Tier 1 capital:	
Stockholders' equity, excluding the net unrealized gain on available-for-sale securities	\$ 23,402
Tier 2 capital:	
Allowable allowance for loan losses (limited to 1.25% of gross risk-weighted assets)	2,214
	<hr/>
Total risk-based capital	\$ 25,616
	<hr/>
Risk-weighted assets, gross	\$ 177,197
Less: Excess allowance for loan and lease losses	2,243
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Risk-weighted assets, net	\$ 174,954
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Risk-based capital ratios:	
Tier I risk-based capital ratio	13.38%
	<hr/>
Total risk-based capital ratio	14.64%
	<hr/>

The Bank is required to maintain a total capital to risk-weighted asset ratio of 8% and a Tier 1 capital to risk-weighted asset ratio of 4%. At December 31, 2010, the Bank was in compliance with these requirements.

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VI. Return on Equity and Assets, Continued:

The following schedule details the Bank's interest rate sensitivity at December 31, 2010:

<i>(In Thousands, Except Percentages)</i>	<u>Total</u>	Repricing Within			
		1-90 Days	3 months to 12 months	1 to 5 years	Over 5 years
Earning assets:					
Loans, net of unearned interest [†]	\$ 146,885	\$ 42,602	\$ 12,192	\$ 86,572	\$ 5,519
Securities	53,090	2,802	-	-	50,288
Loans held for sale	2,401	2,401	-	-	-
Interest-bearing deposits at other financial institutions	9,850	9,850	-	-	-
Restricted equity securities	1,429	1,429	-	-	-
Total earning assets	213,655	59,084	12,192	86,572	55,807
Interest-bearing liabilities:					
Deposits:					
Negotiable order of withdrawal accounts	28,187	28,187	-	-	-
Money market deposit accounts	44,515	44,515	-	-	-
Other savings	1,849	1,849	-	-	-
IRA's and certificates of deposit, \$100,000 and over	36,183	12,555	18,702	4,926	-
IRA's and certificates of deposit, under \$100,000	65,032	18,242	30,934	15,856	-
Federal funds purchased	-	-	-	-	-
Securities sold under agreement to repurchase	4,059	4,059	-	-	-
Long-term FHLB advances	941	9	27	905	-
Total interest-bearing liabilities	180,766	109,416	49,663	21,687	-
Interest-sensitivity gap	\$ 32,889	\$ (50,332)	\$ (37,471)	\$ 64,885	\$ 55,807
Cumulative gap		\$ (50,332)	\$ (87,803)	\$ (22,918)	\$ 32,889
Interest-sensitivity gap as % of total average assets		(20.69)%	(15.41)%	26.68%	22.94%
Cumulative gap as % of total average assets		(20.69)%	(36.10)%	(9.42)%	13.52%

[†]Loans, net of unearned interest exclude non-accrual loans.

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DECEMBER 31, 2010

VI. Return on Equity and Assets, Continued:

The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. Based upon the nature of the Bank's operations, the Bank is not subject to foreign currency exchange or commodity price risk.

Interest rate (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long term earnings through funds management/interest rate risk management. The Bank's rate sensitivity position has an important impact on earnings. Senior management of the Bank meets monthly to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments.