

BANCORPSOUTH INC
Form 10-Q
November 04, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-12991

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

Mississippi
(State or other jurisdiction of incorporation or organization)

64-0659571
(I.R.S. Employer Identification No.)

One Mississippi Plaza, 201 South Spring
Street Tupelo, Mississippi
(Address of principal executive offices)

38804
(Zip Code)

Registrant's telephone number, including area code: (662) 680-2000

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report)

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

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Indicate by check mark whether the registrant is a large 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. (Check One): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 1, 2011, the registrant had outstanding 83,488,963 shares of common stock, par value \$2.50 per share.

BANCORPSOUTH, INC.
TABLE OF CONTENTS

PART I.	Financial Information	Page
ITEM 1.	Financial Statements	
	Consolidated Balance Sheets September 30, 2011 and 2010 (Unaudited) and December 31, 2010	3
	Consolidated Statements of Operations (Unaudited) Three Months and Nine Months Ended September 30, 2011 and 2010	4
	Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 2011 and 2010	5
	Notes to Consolidated Financial Statements (Unaudited)	6
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	37
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	72
ITEM 4.	Controls and Procedures	72
PART II.	Other Information	
ITEM 1.	Legal Proceedings	73
ITEM 1A.	Risk Factors	73
ITEM 6.	Exhibits	74

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report may not be based on historical facts and are “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. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “might,” “will,” “intend,” “indicated,” “could,” or “would,” or future or conditional verb tenses, and variations or negatives of terms. These forward-looking statements include, without limitation, those relating to amortization expense for intangible assets, loan impairment, utilization of appraisals and inspections for real estate loans, maturity, renewal or extension of construction, acquisition and development loans, net interest revenue, estimates of fair value discount rates, fair values of available-for-sale securities, the amount of the Company’s non-performing loans and leases, credit quality, credit losses, liquidity, off-balance sheet commitments and arrangements, valuation of mortgage servicing rights, allowance and provision for credit losses, the Company’s ability to meet the challenges of the current economic cycle, continued weakness in the economic environment, early identification and resolution of credit issues, utilization of non-GAAP financial measures, the ability of the Company to collect all amounts due according to the contractual terms of loan agreements, goodwill impairment, the Company’s reserve for losses from representation and warranty obligations, the impact of recent accounting pronouncements, the Company’s foreclosure process related to mortgage loans, the impact of the Durbin Debit Interchange Amendment on the Company’s debit card revenue, the impact of the Federal Reserve’s new rules regarding overdraft payments on the Company’s service charge revenue, the resolution of non-performing loans that are collaterally dependent, real estate values, fully-indexed interest rates, interest rate risk, interest rate sensitivity, calculation of economic value of equity, concessions granted to borrowers experiencing financial difficulties, diversification of the Company’s revenue stream, liquidity needs and strategies, sources of funding, net interest margin, payment of dividends, the impact of federal and state regulatory requirements for capital on the Company’s ability to meet its cash obligations, the impact of pending litigation and the implementation and effect of remedial actions to address the material weakness in internal control over financial reporting. We caution you not to place undue reliance on the forward-looking statements contained in this report, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors. These factors include, but are not limited to, conditions in the financial markets and economic conditions generally, the soundness of other financial institutions, the availability of capital on favorable terms if and when needed, liquidity risk, the credit risk associated with real estate construction, estimates of costs and values associated with acquisition

and development loans in the Company's loan portfolio, the adequacy of the Company's allowance for credit losses to cover actual credit losses, governmental regulation and supervision of the Company's operations, the susceptibility of the Company's business to local economic conditions, the impact of recent legislation and regulations on service charges for core deposit accounts, changes in interest rates, the impact of monetary policies and economic factors on the Company's ability to attract deposits or make loans, volatility in capital and credit markets, the impact of hurricanes or other adverse weather events, risks in connection with completed or potential acquisitions, dilution caused by the Company's issuance of securities to raise capital or to acquire other banks, bank holding companies, financial holding companies and insurance agencies, restrictions on the Company's ability to declare and pay dividends, the Company's growth strategy, diversification in the types of financial services the Company offers, competition with other financial services companies, interruptions or breaches in security of the Company's information systems, the failure of certain third party vendors to perform, the Company's ability to improve its internal controls adequately, any requirement that the Company write down goodwill or other intangible assets, other factors generally understood to affect the financial results of financial services companies and other factors detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	December 31, 2010 (1)	September 30, 2010 (Unaudited)
	(Dollars in thousands, except per share amounts)		
ASSETS			
Cash and due from banks	\$ 161,876	\$ 99,916	\$ 128,160
Interest bearing deposits with other banks	338,250	172,170	211,189
Held-to-maturity securities, at amortized cost	-	1,613,019	1,357,888
Available-for-sale securities, at fair value	2,481,555	1,096,062	915,877
Federal funds sold and securities purchased under agreement to resell	-	150,000	325,000
Loans and leases	9,096,928	9,376,351	9,556,962
Less: Unearned income	41,023	43,244	42,033
Allowance for credit losses	199,686	196,913	205,081
Net loans	8,856,219	9,136,194	9,309,848
Loans held for sale	100,687	93,697	125,815
Premises and equipment, net	323,285	332,890	335,618
Accrued interest receivable	53,338	61,025	63,797
Goodwill	271,297	270,097	270,097
Bank owned life insurance	197,945	194,064	192,459
Other real estate owned	162,686	133,412	82,647
Other assets	251,380	262,464	264,621
TOTAL ASSETS	\$ 13,198,518	\$ 13,615,010	\$ 13,583,016
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	\$ 2,198,535	\$ 2,060,145	\$ 1,967,635
Interest bearing	4,736,858	4,931,518	4,623,103
Savings	968,277	863,034	801,153
Other time	3,159,563	3,635,324	3,804,973
Total deposits	11,063,233	11,490,021	11,196,864
Federal funds purchased and securities sold under agreement to repurchase	449,501	440,593	501,175
Short-term Federal Home Loan Bank and other short-term borrowings	1,500	2,727	152,738
Accrued interest payable	10,017	14,336	16,574
Junior subordinated debt securities	160,312	160,312	160,312
Long-term Federal Home Loan Bank borrowings	33,500	110,000	110,000
Other liabilities	213,702	174,777	209,648

TOTAL LIABILITIES	11,931,765	12,392,766	12,347,311
SHAREHOLDERS' EQUITY			
Common stock, \$2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 83,488,963, 83,481,737 and 83,481,737 shares, respectively	208,722	208,704	208,704
Capital surplus	227,006	224,976	224,170
Accumulated other comprehensive income (loss)	14,595	(14,453)	(2,705)
Retained earnings	816,430	803,017	805,536
TOTAL SHAREHOLDERS' EQUITY	1,266,753	1,222,244	1,235,705
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 13,198,518	\$ 13,615,010	\$ 13,583,016

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(In thousands, except for per share amounts)			
INTEREST REVENUE:				
Loans and leases	\$ 114,260	\$ 123,533	\$ 348,510	\$ 375,110
Deposits with other banks	203	79	449	133
Federal funds sold under securities purchased under agreement to resell	-	213	166	438
Held-to-maturity securities:				
Taxable	-	9,010	13,080	27,788
Tax-exempt	-	2,584	5,638	7,457
Available-for-sale securities:				
Taxable	13,172	7,782	32,208	24,197
Tax-exempt	4,130	795	6,825	2,460
Loans held for sale	632	889	1,584	2,122
Total interest revenue	132,397	144,885	408,460	439,705
INTEREST EXPENSE:				
Deposits:				
Interest bearing demand	5,324	8,582	17,909	27,725
Savings	828	881	2,464	2,685
Other time	14,837	21,108	48,605	64,172
Federal funds purchased and securities sold under agreement to repurchase	95	209	382	652
Federal Home Loan Bank borrowings	375	1,543	3,092	4,976
Junior subordinated debt	2,861	2,880	8,580	8,597
Other	2	4	4	9
Total interest expense	24,322	35,207	81,036	108,816
Net interest revenue	108,075	109,678	327,424	330,889
Provision for credit losses	25,112	54,850	110,831	160,723
Net interest revenue, after provision for credit losses	82,963	54,828	216,593	170,166
NONINTEREST REVENUE:				
Mortgage lending	(1,443)	8,898	8,141	11,619
Credit card, debit card and merchant fees	12,981	9,569	34,590	27,712
Service charges	17,334	18,621	49,258	53,836
Trust income	2,854	2,783	8,838	8,077
Security gains, net	2,047	2,327	12,109	3,039
Insurance commissions	22,012	20,825	67,502	64,159
Other	6,270	6,729	25,072	21,728
Total noninterest revenue	62,055	69,752	205,510	190,170
NONINTEREST EXPENSE:				
Salaries and employee benefits	71,851	68,232	212,368	205,708
Occupancy, net of rental income	11,144	11,038	32,047	32,340

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Equipment	5,346	5,523	16,599	17,139
Deposit insurance assessments	3,781	4,752	15,642	13,364
Prepayment penalty on FHLB borrowings	-	-	9,778	-
Other	38,576	33,542	111,343	95,035
Total noninterest expense	130,698	123,087	397,777	363,586
Income (loss) before income taxes	14,320	1,493	24,326	(3,250)
Income tax (benefit) expense	2,386	(9,767)	60	(10,346)
Net income	\$11,934	\$11,260	\$24,266	\$7,096
Earnings per share: Basic	\$0.14	\$0.13	\$0.29	\$0.09
Diluted	\$0.14	\$0.13	\$0.29	\$0.08
Dividends declared per common share	\$0.01	\$0.22	\$0.13	\$0.66

See accompanying notes to consolidated financial statements.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2011	2010
	(In thousands)	
Operating Activities:		
Net income	\$24,266	\$7,096
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	110,831	160,723
Depreciation and amortization	21,950	22,270
Deferred taxes	(388)	(6,874)
Amortization of intangibles	2,510	2,960
Amortization of debt securities premium and discount, net	16,279	3,612
Share-based compensation expense	1,925	1,100
Security gains, net	(12,109)	(3,039)
Net deferred loan origination expense	(6,419)	(6,777)
Excess tax benefit from exercise of stock options	(12)	(67)
Decrease in interest receivable	7,687	4,854
Decrease in interest payable	(4,319)	(3,014)
Realized gain on mortgages sold	(24,548)	(23,869)
Proceeds from mortgages sold	839,577	968,938
Origination of mortgages held for sale	(822,905)	(988,299)
Increase in bank-owned life insurance	(3,881)	(4,689)
Increase in prepaid pension asset	(373)	(763)
Decrease in prepaid deposit insurance assessments	14,613	11,920
Other, net	17,595	8,272
Net cash provided by operating activities	182,279	154,354
Investing activities:		
Proceeds from calls and maturities of held-to-maturity securities	135,781	354,134
Proceeds from calls and maturities of available-for-sale securities	255,577	141,285
Proceeds from sales of available-for-sale securities	273,807	136,769
Purchases of held-to-maturity securities	(151,105)	(679,442)
Purchases of available-for-sale securities	(245,791)	(226,126)
Net decrease (increase) in short-term investments	150,000	(250,000)
Net decrease in loans and leases	146,289	111,917
Purchases of premises and equipment	(13,028)	(14,826)
Proceeds from sale of premises and equipment	1,820	458
Contingency earn-out payment	(1,200)	-
Other, net	(42)	(53)
Net cash provided by (used in) investing activities	552,108	(425,884)
Financing activities:		
Net (decrease) increase in deposits	(426,788)	519,162
Net increase (decrease) in short-term debt and other liabilities	6,172	(92,203)
Repayment of long-term debt	(75,000)	(33)
Issuance of common stock	110	534
Excess tax benefit from exercise of stock options	12	67
Payment of cash dividends	(10,853)	(55,093)

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Net cash (used in) provided by financing activities	(506,347)	372,434
Increase in cash and cash equivalents	228,040	100,904
Cash and cash equivalents at beginning of period	272,086	238,445
Cash and cash equivalents at end of period	\$ 500,126	\$ 339,349

See accompanying notes to consolidated financial statements.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal, recurring nature. The results of operations for the three-month and nine-month periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. Certain 2010 amounts have been reclassified to conform with the 2011 presentation.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, BancorpSouth Bank (the “Bank”) and Gumtree Wholesale Insurance Brokers, Inc., and the Bank’s wholly-owned subsidiaries, Century Credit Life Insurance Company, Personal Finance Corporation of Tennessee, BancorpSouth Insurance Services, Inc., BancorpSouth Investment Services, Inc., BancorpSouth Municipal Development Corporation and BancorpSouth Bank Securities Corporation.

NOTE 2 – LOANS AND LEASES

The Company’s loan and lease portfolio is disaggregated into the following segments: commercial and industrial; real estate; credit card; and all other loans and leases. The real estate segment is further disaggregated into the following classes: consumer mortgage; home equity; agricultural; commercial and industrial-owner occupied; construction, acquisition and development; and commercial. Certain loans within the prior period real estate consumer mortgage portfolio have been reclassified into the real estate construction acquisition and development portfolio in order to conform to current period presentation. This reclassification was determined necessary based on an analysis of the underlying uses of the collateral of the portfolios. The reclassification did not impact the overall amount of nonperforming loans nor did it impact the allowance for credit losses. A summary of gross loans and leases by segment and class as of the dates indicated follows:

	September 30, 2011	September 30, 2010	December 31, 2010
	(In thousands)		
Commercial and industrial	\$1,515,932	\$1,453,365	\$1,505,471
Real estate			
Consumer mortgages	1,966,124	1,972,483	1,951,563
Home equity	523,030	552,095	543,272
Agricultural	249,715	262,083	252,292
Commercial and industrial-owner occupied	1,329,644	1,375,466	1,331,473
Construction, acquisition and development	976,694	1,335,836	1,174,743
Commercial	1,772,003	1,810,626	1,816,951
Credit cards	103,232	102,672	106,345
All other	660,554	692,336	694,241

Total	\$9,096,928	\$9,556,962	\$9,376,351
-------	-------------	-------------	-------------

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

The following table shows the Company's loans and leases, net of unearned income, as of September 30, 2011 by segment, class and geographical location:

	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	\$57,232	\$217,374	\$316,622	\$56,125	\$24,346	\$87,484	\$271,249	\$472,959	\$1,503,3
Real estate									
Consumer mortgages	112,812	276,618	771,982	60,469	86,473	162,699	421,824	73,247	1,966,1
Home equity	60,795	42,713	177,310	27,855	72,339	77,632	62,598	1,788	523,030
Agricultural	6,563	72,995	74,385	4,883	11,760	13,871	59,692	5,566	249,715
Commercial and industrial-owner occupied	118,204	169,721	461,948	69,369	108,567	98,464	243,305	60,066	1,329,6
Construction, acquisition and development	124,744	78,979	259,405	71,312	109,470	115,452	206,783	10,549	976,694
Commercial	198,358	349,499	354,536	233,105	121,314	107,041	361,443	46,707	1,772,0
Credit cards	-	-	-	-	-	-	-	103,232	103,232
All other	14,398	43,002	78,744	623	42,252	25,797	30,369	396,887	632,072
Total	\$693,106	\$1,250,901	\$2,494,932	\$523,741	\$576,521	\$688,440	\$1,657,263	\$1,171,001	\$9,055,9

* excludes the Greater Memphis Area

The Company's loan concentrations which exceed 10% of total loans are reflected in the preceding table. A substantial portion of construction, acquisition and development loans are secured by real estate in markets in which the Company is located. Prior to March of 2010, some of these loans were structured with interest reserves to fund interest costs during the construction and development period. The Company's general loan policy was changed in March of 2010 to prohibit the use of interest reserves on loans made after that time. Additionally, certain of these loans were structured with interest-only terms. A portion of the consumer mortgage and commercial real estate portfolios originated through the permanent financing of construction, acquisition and development loans. The prolonged economic downturn has negatively impacted many borrowers' and guarantors' ability to make payments under the terms of the loans as their liquidity has been depleted. Accordingly, the ultimate collectability of a substantial portion of these loans and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in real estate values in the corresponding areas. Continued economic distress could negatively impact additional borrowers' and guarantors' ability to repay their debt which would make more of the Company's loans collateral dependent.

The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by segment and class at September 30, 2011 and December 31, 2010:

September 30, 2011					90+ Days
30-59 Days	60-89 Days	90+ Days	Total	Total	

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

	Past Due	Past Due	Past Due	Past Due	Current	Outstanding	Past Due still Accruing
	(In thousands)						
Commercial and industrial	\$8,595	\$4,103	\$4,084	\$16,782	\$1,486,609	\$1,503,391	\$1,846
Real estate							
Consumer mortgages	17,129	6,629	18,284	42,042	1,924,082	1,966,124	4,136
Home equity	1,902	427	1,086	3,415	519,615	523,030	134
Agricultural	3,058	983	2,302	6,343	243,372	249,715	131
Commercial and industrial-owner occupied	7,893	1,331	9,144	18,368	1,311,276	1,329,644	42
Construction, acquisition and development	13,935	5,151	55,383	74,469	902,225	976,694	290
Commercial	13,745	2,848	4,208	20,801	1,751,202	1,772,003	106
Credit cards	629	398	507	1,534	101,698	103,232	257
All other	1,991	900	805	3,696	628,376	632,072	412
Total	\$68,877	\$22,770	\$95,803	\$187,450	\$8,868,455	\$9,055,905	\$7,354

7

December 31, 2010

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current	Total Outstanding	90+ Days Past Due still Accruing
Commercial and industrial	\$13,037	\$848	\$12,000	\$25,885	\$1,465,298	\$1,491,183	\$675
Real estate							
Consumer mortgages	16,937	4,481	20,640	42,058	1,909,505	1,951,563	6,521
Home equity	1,258	800	755	2,813	540,459	543,272	173
Agricultural	1,140	3,450	3,527	8,117	244,175	252,292	123
Commercial and industrial-owner occupied	9,260	1,290	7,323	17,873	1,313,600	1,331,473	20
Construction, acquisition and development	22,436	9,837	94,264	126,537	1,048,206	1,174,743	197
Commercial	4,409	4,712	10,507	19,628	1,797,323	1,816,951	-
Credit cards	793	373	780	1,946	104,399	106,345	330
All other	2,058	1,117	847	4,022	661,263	665,285	461
Total	\$71,328	\$26,908	\$150,643	\$248,879	\$9,084,228	\$9,333,107	\$8,500

The Company utilizes an internal loan classification system to grade loans according to certain credit quality indicators. These credit quality indicators include, but are not limited to, recent credit performance, delinquency, liquidity, cash flows, debt coverage ratios, collateral type and loan-to-value ratio. The Company's internal loan classification system is compatible with classifications used by the Federal Deposit Insurance Corporation, as well as other regulatory agencies. Loans may be classified as follows:

Pass: Loans which are performing as agreed with few or no signs of weakness. These loan show sufficient cash flow, capital and collateral to repay the loan as agreed. These loans include well capitalized public corporations.

Special Mention: Loans where potential weaknesses have developed which could cause a more serious problem if not corrected.

Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration.

Doubtful: Loans having all the characteristics of Substandard and which have deteriorated to a point where collection and liquidation in full is highly questionable.

Loss: Loans that are considered uncollectible or with limited possible recovery.

Impaired: Loans for which it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement and for which a specific impairment reserve has been considered.

The following tables provide details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at September 30, 2011 and December 31, 2010:

September 30, 2011

	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	\$1,448,253	\$2,657	\$44,873	\$1,049	\$558	\$6,001	\$1,503,391
Real estate							
Consumer mortgage	1,781,174	11,819	137,284	5,057	83	30,707	1,966,124
Home equity	503,067	309	16,058	1,002	1,068	1,526	523,030
Agricultural	224,247	2,436	18,815	-	-	4,217	249,715
Commercial and industrial-owner occupied	1,206,806	17,006	82,588	865	-	22,379	1,329,644
Construction, acquisition and development	653,635	18,221	134,932	1,782	123	168,001	976,694
Commercial	1,537,944	26,151	162,076	-	-	45,832	1,772,003
Credit Cards	102,873	11	158	190	-	-	103,232
All other	610,381	108	19,857	483	17	1,226	632,072
Total	\$8,068,380	\$78,718	\$616,641	\$10,428	\$1,849	\$279,889	\$9,055,905

December 31, 2010

	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	\$1,429,443	\$5,764	\$51,562	\$1,577	\$701	\$2,136	\$1,491,183
Real estate							
Consumer mortgage	1,813,740	1,867	104,504	3,106	123	28,223	1,951,563
Home equity	527,047	1,231	13,169	613	361	851	543,272
Agricultural	226,054	309	21,614	-	20	4,295	252,292
Commercial and industrial-owner occupied	1,250,265	1,422	62,783	900	30	16,073	1,331,473
Construction, acquisition and development	845,725	1,882	138,929	2,243	1,046	184,918	1,174,743
Commercial	1,688,228	5,565	86,358	98	495	36,207	1,816,951
Credit Cards	106,181	11	146	7	-	-	106,345
All other	641,292	35	22,735	477	44	702	665,285
Total	\$8,527,975	\$18,086	\$501,800	\$9,021	\$2,820	\$273,405	\$9,333,107

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

The following tables provide details regarding impaired loans and leases, net of unearned income, by segment and class at September 30, 2011 and December 31, 2010:

	September 30, 2011						
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment Three months ended September 30, 2011	Nine months ended September 30, 2011	Interest Income Recognized	
						Three months ended September 30, 2011	Nine months ended September 30, 2011
(In thousands)							
With no related allowance:							
Commercial and industrial	\$3,621	\$5,155	\$-	\$3,778	\$4,040	\$38	\$74
Real estate							
Consumer mortgage	16,160	18,768	-	16,116	20,937	98	357
Home equity	630	773	-	571	512	-	-
Agricultural	2,788	4,290	-	2,502	2,869	0	18
Commercial and industrial-owner occupied							
Construction, acquisition and development	102,324	138,053	-	107,175	115,296	394	855
Commercial	23,696	30,688	-	18,852	21,533	121	281
All other	776	1,089	-	768	1,246	6	65
Total	\$166,309	\$220,981	\$-	\$163,345	\$177,578	\$716	\$1,819
With an allowance:							
Commercial and industrial	\$2,380	\$2,447	\$757	\$1,812	\$3,374	\$20	\$25
Real estate							
Consumer mortgage	14,547	15,434	4,050	10,091	15,025	33	282
Home equity	896	896	228	665	469	2	3
Agricultural	1,429	1,449	463	3,674	3,732	0	18
Commercial and industrial-owner occupied							
Construction, acquisition and development	65,677	69,151	24,911	73,955	86,241	529	1,494
Commercial	22,136	24,827	6,393	26,552	29,049	354	753
All other	450	450	100	1,038	1,476	3	8

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Total	\$113,580	\$121,857	\$38,657	\$125,511	\$149,773	\$992	\$2,692
Total:							
Commercial and industrial	\$6,001	\$7,602	\$757	\$5,590	\$7,414	\$58	\$99
Real estate							
Consumer mortgage							
Home equity	30,707	34,202	4,050	26,207	35,962	131	639
Agricultural	1,526	1,669	228	1,236	981	2	3
Commercial and industrial-owner occupied							
Construction, acquisition and development	4,217	5,739	463	6,176	6,601	-	36
Commercial	22,379	29,368	1,755	21,307	21,552	110	278
All other	168,001	207,204	24,911	181,130	201,537	923	2,349
Total	45,832	55,515	6,393	45,404	50,582	475	1,034
All other							
Total	1,226	1,539	100	1,806	2,722	9	73
Total	\$279,889	\$342,838	\$38,657	\$288,856	\$327,351	\$1,708	\$4,511

	December 31, 2010		
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
	in	Balance of	for
	Impaired	Impaired	Credit
	Loans	Loans	Losses
	(In thousands)		
With no related allowance:			
Commercial and industrial	\$ 1,457	\$ 2,600	\$ -
Real estate			
Consumer mortgage	11,228	14,273	-
Home equity	290	629	-
Agricultural	1,439	1,981	-
Commercial and industrial-owner occupied	10,920	12,371	-
Construction, acquisition and development	80,204	120,938	-
Commercial	15,795	20,478	-
All other	702	931	-
Total	\$ 122,035	\$ 174,201	\$ -
With an allowance:			
Commercial and industrial	\$ 679	\$ 977	\$ 125
Real estate			
Consumer mortgage	16,995	16,644	4,226
Home equity	561	561	41
Agricultural	2,856	3,132	544
Commercial and industrial-owner occupied	5,153	5,298	1,361
Construction, acquisition and development	104,714	123,538	29,195
Commercial	20,412	21,026	5,227
All other	-	-	-
Total	\$ 151,370	\$ 171,176	\$ 40,719
Total:			
Commercial and industrial	\$ 2,136	\$ 3,577	\$ 125
Real estate			
Consumer mortgage	28,223	30,917	4,226
Home equity	851	1,190	41
Agricultural	4,295	5,113	544
Commercial and industrial-owner occupied	16,073	17,669	1,361
Construction, acquisition and development	184,918	244,476	29,195
Commercial	36,207	41,504	5,227
All other	702	931	-
Total	\$ 273,405	\$ 345,377	\$ 40,719

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

The following tables provide details regarding impaired construction, acquisition and development loans and leases, net of unearned income, by collateral type at September 30, 2011 and December 31, 2010:

	September 30, 2011						
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Investment Three months ended September 30, 2011	Recorded Investment Nine months ended September 30, 2011	Interest Income Recognized Three months ended September 30, 2011	Interest Income Recognized Nine months ended September 30, 2011
(In thousands)							
With no related allowance:							
Multi-family construction	\$-	\$-	\$-	\$3,101	\$7,197	\$18	\$18
One-to-four family construction	10,861	12,864	-	11,611	8,998	47	80
Recreation and all other loans	712	1,169	-	752	513	3	7
Commercial construction	1,925	3,621	-	6,223	12,418	27	82
Commercial acquisition and development	26,276	35,395	-	21,732	20,683	35	84
Residential acquisition and development	62,550	85,004	-	63,756	65,487	264	584
Total	\$102,324	\$138,053	\$-	\$107,175	\$115,296	\$394	\$855
With an allowance:							
Multi-family construction	\$-	\$-	\$-	\$-	\$764	\$-	\$-
One-to-four family construction	5,952	6,417	1,733	6,356	5,423	54	98
Recreation and all other loans	-	-	-	-	306	-	2
Commercial construction	5,796	6,036	1,426	7,147	7,862	19	89
Commercial acquisition and development	5,587	5,837	1,711	13,035	15,045	89	420
Residential acquisition and development	48,342	50,861	20,041	47,417	56,841	367	885

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Total	\$65,677	\$69,151	\$24,911	\$73,955	\$86,241	\$529	\$1,494
Total:							
Multi-family construction	\$-	\$-	\$-	\$3,101	\$7,961	\$18	\$18
One-to-four family construction	16,813	19,281	1,733	17,967	14,421	101	178
Recreation and all other loans	712	1,169	-	752	819	3	9
Commercial construction	7,721	9,657	1,426	13,370	20,280	46	171
Commercial acquisition and development	31,863	41,232	1,711	34,767	35,728	124	504
Residential acquisition and development	110,892	135,865	20,041	111,173	122,328	631	1,469
Total	\$168,001	\$207,204	\$24,911	\$181,130	\$201,537	\$923	\$2,349

	December 31, 2010		
	Recorded	Unpaid	Related
	Investment	Principal	Allowance
	in	Balance of	for
	Impaired	Impaired	Credit
	Loans	Loans	Losses
	(In thousands)		
With no related allowance:			
Multi-family construction	\$8,293	\$9,975	\$-
One-to-four family construction	6,511	11,749	-
Recreation and all other loans	392	580	-
Commercial construction	11,171	13,062	-
Commercial acquisition and development	7,897	12,501	-
Residential acquisition and development	45,940	73,071	-
Total	\$80,204	\$120,938	\$-
With an allowance:			
Multi-family construction	\$1,904	\$6,978	\$4
One-to-four family construction	11,939	14,846	932
Recreation and all other loans	498	498	148
Commercial construction	12,459	12,612	5,246
Commercial acquisition and development	21,575	21,575	8,424
Residential acquisition and development	56,339	67,029	14,441
Total	\$104,714	\$123,538	\$29,195
Total:			
Multi-family construction	\$10,197	\$16,953	\$4
One-to-four family construction	18,450	26,595	932
Recreation and all other loans	890	1,078	148
Commercial construction	23,630	25,674	5,246
Commercial acquisition and development	29,472	34,076	8,424
Residential acquisition and development	102,279	140,100	14,441
Total	\$184,918	\$244,476	\$29,195

Loans considered impaired under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 310, Receivables (“FASB ASC 310”) are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company’s recorded investment in loans considered impaired at September 30, 2011 and December 31, 2010 was \$279.9 million and \$273.4 million, respectively. At September 30, 2011 and December 31, 2010, \$113.6 million and \$151.4 million, respectively, of those impaired loans had a valuation allowance of \$38.7 million and \$40.7 million, respectively. The remaining balance of impaired loans of \$166.3 million and \$122.0 million at September 30, 2011 and December 31, 2010, respectively, were carried at fair value, less estimated selling costs which approximated net realizable value. Therefore, such loans did not have an associated valuation allowance. Impaired loans that were characterized as troubled debt restructurings (“TDRs”) totaled \$59.0 million and \$63.7 million at September 30, 2011 and December 31, 2010, respectively.

Non-performing loans and leases (“NPLs”) consist of non-accrual loans and leases, loans and leases 90 days or more past due and still accruing, and loans and leases that have been restructured because of the borrower’s weakened financial condition. The following table presents information concerning NPLs as of the dates indicated:

	September 30, 2011	September 30, 2010	December 31, 2010
	(In thousands)		
Non-accrual loans and leases	\$314,479	\$347,181	\$347,499
Loans and leases 90 days or more past due, still accruing	7,354	9,910	8,500
Restructured loans and leases still accruing	40,966	52,325	38,376
Total non-performing loans and leases	\$362,799	\$409,416	\$394,375

The Bank's policy for all loan classifications provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless the loan or lease is both well-secured and in the process of collection. At September 30, 2011, the Company's geographic NPL distribution was concentrated primarily in its Alabama and Tennessee markets, including the greater Memphis, Tennessee area, a portion of which is in northwest Mississippi. The following table presents the Company's nonaccrual loans and leases by segment and class as of the dates indicated:

	September 30, 2011	September 30, 2010	December 31, 2010
	(In thousands)		
Commercial and industrial	\$11,122	\$12,339	\$13,075
Real estate			
Consumer mortgages	44,100	25,561	34,021
Home equity	2,634	1,361	811
Agricultural	6,254	4,986	7,589
Commercial and industrial-owner occupied	26,977	15,004	20,338
Construction, acquisition and development	171,566	231,987	211,547
Commercial	49,500	51,590	57,766
Credit cards	551	724	720
All other	1,775	3,629	1,632
Total	\$314,479	\$347,181	\$347,499

In the normal course of business, management will sometime grant concessions, which normally would not otherwise be considered, to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. TDR loans may be returned to accrual status if there has been at least a six-month period of sustained repayment performance by the borrower. During the third quarter and first nine months of 2011, the most common concessions that were granted involved rescheduling payments of principal and interest over a longer amortization period, granting a period of reduced principal payment or interest only payment for a limited time period, or the rescheduling of payments in accordance with a bankruptcy plan.

The following tables summarize the financial effect of TDRs for the periods indicated:

	Three months ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Commercial and industrial	1	\$ 771	\$ 759
Real estate			
Consumer mortgages	4	2,222	2,222
Agricultural	1	240	240
Commercial and industrial-owner occupied	3	2,113	2,097
Total	9	\$ 5,346	\$ 5,318

	Nine months ended September 30, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Commercial and industrial	4	\$ 2,517	\$ 2,343
Real estate			
Consumer mortgages	19	4,543	4,467
Agricultural	4	2,650	1,483
Commercial and industrial-owner occupied	16	7,773	7,496
Construction, acquisition and development	33	17,411	12,272
Commercial	13	7,158	6,565
All other	6	2,929	2,389
Total	95	\$ 44,981	\$ 37,015

The following tables summarize TDRs modified within the third quarter and first nine months of 2011 for which there was a payment default (i.e., 30 days or more past due at any given time during the first nine months of 2011):

	Three months ended September 30, 2011	
	Number of Contracts	Recorded Investment (Dollars in thousands)
Real estate		
Consumer mortgages	1	\$80
Agricultural	1	240
Total	2	\$320

	Nine months ended September 30, 2011	
	Number of Contracts	Recorded Investment (Dollars in thousands)
Commercial and industrial	2	\$1,466
Real estate		
Consumer mortgages	2	184
Agricultural	3	1,381
Commercial and industrial-owner occupied	5	1,286
Construction, acquisition and development	18	4,997
Commercial	2	2,535
Total	32	\$11,849

NOTE 3 – ALLOWANCE FOR CREDIT LOSSES

The following tables summarize the changes in the allowance for credit losses by segment and class for the periods indicated:

	Nine months ended September 30, 2011				
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	\$22,479	\$(15,660)	\$1,121	\$12,084	\$20,024
Real estate					
Consumer mortgage	35,540	(7,233)	848	10,346	39,501
Home equity	7,305	(4,185)	142	6,626	9,888
Agricultural	4,997	(3,310)	47	2,658	4,392
Commercial and industrial-owner occupied	20,403	(9,166)	293	9,940	21,470
Construction, acquisition and development	59,048	(56,823)	2,980	43,033	48,238
Commercial	33,439	(10,578)	705	15,997	39,563
Credit Cards	4,126	(2,366)	635	1,525	3,920
All other	9,576	(6,294)	786	8,622	12,690
Total	\$196,913	\$(115,615)	\$7,557	\$110,831	\$199,686

	Year ended December 31, 2010				Balance, End of Period
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	
	(In thousands)				
Commercial and industrial	\$21,154	\$(11,879)	\$1,330	\$11,874	\$22,479
Real estate					
Consumer mortgage	37,048	(16,280)	1,448	13,324	35,540
Home equity	7,218	(5,215)	179	5,123	7,305
Agricultural	4,192	(1,201)	12	1,994	4,997
Commercial and industrial-owner occupied	22,989	(9,200)	399	6,215	20,403
Construction, acquisition and development	46,193	(122,596)	1,706	133,745	59,048
Commercial	26,694	(14,084)	845	19,984	33,439
Credit Cards	3,481	(4,559)	829	4,375	4,126
All other	7,074	(6,008)	1,128	7,382	9,576
Total	\$176,043	\$(191,022)	\$7,876	\$204,016	\$196,913

	Nine months ended September 30, 2010				Balance, End of Period
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	
	(In thousands)				
Commercial and industrial	\$21,154	\$(10,097)	\$623	\$10,514	\$22,194
Real estate					
Consumer mortgage	37,048	(10,989)	1,025	7,421	34,505
Home equity	7,218	(4,077)	118	3,876	7,135
Agricultural	4,192	(713)	8	1,201	4,688
Commercial and industrial-owner occupied	22,989	(7,541)	205	7,076	22,729
Construction, acquisition and development	46,193	(87,607)	930	103,817	63,333
Commercial	26,694	(7,758)	137	14,252	33,325
Credit Cards	3,481	(3,569)	686	2,709	3,307
All other	7,074	(3,915)	849	9,857	13,865
Total	\$176,043	\$(136,266)	\$4,581	\$160,723	\$205,081

The following tables provide the allowance for credit losses by segment, class and impairment status as of the dates indicated:

	Recorded Balance of Impaired Loans	September 30, 2011		Total Allowance
		Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	
Commercial and industrial	\$6,001	\$757	\$19,267	\$20,024
Real estate				
Consumer mortgage	30,707	4,050	35,451	39,501
Home equity	1,526	228	9,660	9,888
Agricultural	4,217	463	3,929	4,392
Commercial and industrial-owner occupied	22,379	1,755	19,715	21,470
Construction, acquisition and development	168,001	24,911	23,327	48,238
Commercial	45,832	6,393	33,170	39,563
Credit Cards	-	-	3,920	3,920
All other	1,226	100	12,590	12,690
Total	\$279,889	\$38,657	\$161,029	\$199,686

	Recorded Balance of Impaired Loans	December 31, 2010		Total Allowance
		Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	
Commercial and industrial	\$2,136	\$125	\$22,354	\$22,479
Real estate				
Consumer mortgage	28,223	4,226	31,314	35,540
Home equity	851	41	7,264	7,305
Agricultural	4,295	544	4,453	4,997
Commercial and industrial-owner occupied	16,073	1,361	19,042	20,403
Construction, acquisition and development	184,918	29,195	29,853	59,048
Commercial	36,207	5,227	28,212	33,439
Credit Cards	-	-	4,126	4,126
All other	702	-	9,576	9,576
Total	\$273,405	\$40,719	\$156,194	\$196,913

Management evaluates impaired loans individually in determining the adequacy of the allowance for impaired loans.

NOTE 4 – OTHER REAL ESTATE OWNED

The following table presents the activity in other real estate owned for the periods indicated:

	Nine months ended		Year ended
	September 30, 2011	September 30, 2010	December 31, 2010
	(In thousands)		
Balance at beginning of period	\$ 133,412	\$ 59,265	\$ 59,265
Additions to foreclosed properties			
New foreclosed properties	88,726	67,113	129,796
Reductions in foreclosed properties			
Sales	(47,799)	(36,688)	(45,217)
Writedowns	(11,653)	(7,043)	(10,432)
Balance at end of period	\$ 162,686	\$ 82,647	\$ 133,412

The following table presents the other real estate owned by geographical location, segment and class at September 30, 2011:

	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial Real estate	\$ 439	\$ 17	\$ -	\$ -	\$ 946	\$ -	\$ -	\$ -	\$ 1,402
Consumer mortgages	5,368	475	3,533	-	5,259	2,090	821	1,976	19,522
Home equity	-	63	155	-	-	368	100	-	686
Agricultural	951	-	968	-	4,233	-	78	-	6,230
Commercial and industrial-owner occupied	1,093	109	2,216	77	3,225	525	378	-	7,623
Construction, acquisition and development	11,355	2,384	18,890	2,706	70,189	6,072	2,998	-	114,594
Commercial	2,939	1,631	1,266	451	2,601	848	234	-	9,970
All other	68	87	276	195	1,980	-	53	-	2,659
Total	\$ 22,213	\$ 4,766	\$ 27,304	\$ 3,429	\$ 88,433	\$ 9,903	\$ 4,662	\$ 1,976	\$ 162,686

* excludes the Greater Memphis Area

The Company incurred total foreclosed property expenses of \$6.1 million and \$4.9 million for the three months ended September 30, 2011 and 2010, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were \$4.5 million and \$4.1 million for the three

months ended September 30, 2011 and 2010, respectively. The Company incurred total foreclosed property expenses of \$17.0 million and \$12.3 million for the nine months ended September 30, 2011 and 2010, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were \$12.0 million and \$10.0 million for the nine months ended September 30, 2011 and 2010, respectively.

NOTE 5 – SECURITIES

During the second quarter of 2011, the Company determined that it no longer had the intent to hold until maturity all securities that were previously classified as held-to-maturity. As a result of this determination, all securities were classified as available-for-sale and recorded at fair value as of June 30, 2011. The Company reclassified held-to-maturity securities with amortized cost of \$1.6 billion and fair value of \$1.7 billion to available-for-sale resulting in an increase in other comprehensive income of \$19.7 million during the second quarter of 2011.

The Company did not have any securities classified as held-to-maturity at September 30, 2011. Amortized cost and estimated fair values of held-to-maturity securities as of December 31, 2010 follow:

	Amortized Cost	December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
U.S. Government agencies	\$1,246,649	\$27,082	\$4,320	\$1,269,411
Obligations of states and political subdivisions	366,370	4,286	7,376	363,280
Total	\$1,613,019	\$31,368	\$11,696	\$1,632,691

Gross gains of approximately \$37,000 and no gross losses were recognized on held-to-maturity securities during 2011 prior to the reclassification of held-to-maturity securities to available-for-sale securities. Gross gains of approximately \$52,000 and no gross losses were recognized during the first nine months of 2010. These gains and losses were a result of held-to-maturity securities being called prior to maturity.

A comparison of amortized cost and estimated fair values of available-for-sale securities as of September 30, 2011 and December 31, 2010 follows:

	Amortized Cost	September 30, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
U.S. Government agencies	\$1,461,622	\$35,834	\$-	\$1,497,456
Government agency issued residential mortgage-backed securities	412,826	8,100	237	420,689
Government agency issued commercial mortgage-backed securities	31,313	3,243	81	34,475
Obligations of states and political subdivisions	500,280	19,753	602	519,431
Other	8,930	574	-	9,504
Total	\$2,414,971	\$67,504	\$920	\$2,481,555

	Amortized Cost	December 31, 2010		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
U.S. Government agencies	\$416,005	\$17,153	\$-	\$433,158
Government agency issued residential mortgage-backed securities	498,874	5,954	1,599	503,229
Government agency issued commercial mortgage-backed securities	29,582	676	264	29,994

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Obligations of states and political subdivisions	110,946	965	1,746	110,165
Other	18,943	573	-	19,516
Total	\$1,074,350	\$25,321	\$3,609	\$1,096,062

Gross gains of \$12.4 million and gross losses of approximately \$327,000 were recognized on available-for-sale securities during the first nine months of 2011, while gross gains of \$4.5 million and gross losses of \$1.5 million were recognized during the first nine months of 2010.

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2011 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers

may have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities are considered as maturing after ten years.

	September 30, 2011		
	Amortized	Estimated	Weighted
	Cost	Fair Value	Average Yield
	(Dollars in thousands)		
Maturing in one year or less	\$300,046	\$305,378	4.42 %
Maturing after one year through five years	1,583,632	1,620,065	2.13
Maturing after five years through ten years	108,732	113,051	4.48
Maturing after ten years	422,561	443,061	5.76
Total	\$2,414,971	\$2,481,555	

The following tables summarize information pertaining to temporarily impaired available-for-sale securities with continuous unrealized loss positions at September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Continuous Unrealized Loss Position				Total	
	Less Than 12 Months		12 Months or Longer		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Available-for-sale securities:						
U.S. Government agencies	\$-	\$-	\$-	\$-	\$-	\$-
Government agency issued residential mortgage-backed securities	54,343	(237)	-	-	54,343	(237)
Government agency issued commercial mortgage-backed securities	-	-	3,947	(81)	3,947	(81)
Obligations of states and political subdivisions	20,750	(453)	3,563	(149)	24,313	(602)
Other	-	-	-	-	-	-
Total	\$75,093	\$(690)	\$7,510	\$(230)	\$82,603	\$(920)

December 31, 2010

Continuous Unrealized Loss Position

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Held-to-maturity securities:						
U.S. Government agencies	\$-	\$-	\$-	\$-	\$-	\$-
Obligations of states and political subdivisions						
	20,322	(332)	9,327	(338)	29,649	(670)
Total	\$20,322	\$(332)	\$9,327	\$(338)	\$29,649	\$(670)
Available-for-sale securities:						
U.S. Government agencies	\$48,881	\$(207)	\$-	\$-	\$48,881	\$(207)
Government agency issued residential mortgage-backed securities	6,320	(122)	-	-	6,320	(122)
Government agency issued commercial mortgage-backed securities	1,384	(19)	2,598	(66)	3,982	(85)
Obligations of states and political subdivisions	36,704	(297)	2,459	(205)	39,163	(502)
Collateralized debt obligations	-	-	5	(1)	5	(1)
Other	-	-	-	-	-	-
Total	\$93,289	\$(645)	\$5,062	\$(272)	\$98,351	\$(917)

Based upon a review of the credit quality of these securities, and considering that the issuers were in compliance with the terms of the securities, management had no intent to sell these securities, and it was more likely than not that the Company would not be required to sell the securities prior to recovery of costs. Therefore, the impairments related to these securities were determined to be temporary. No other-than-temporary impairment has been recorded during 2011.

NOTE 6 – PER SHARE DATA

The computation of basic earnings per share (“EPS”) is based on the weighted average number of shares of common stock outstanding. The computation of diluted earnings per share is based on the weighted average number of shares of common stock outstanding plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method. Weighted-average antidilutive stock options for 2.9 million shares of Company common stock for both the three months and nine months ended September 30, 2011, with a weighted average exercise price of \$21.50 and \$21.45 per share for the three months and nine months ended September 30, 2011, respectively, were excluded from diluted shares. Weighted-average antidilutive stock options for 2.5 million and 2.2 million shares of Company common stock with a weighted average exercise price of \$22.75 and \$23.54 per share for the three months and nine months ended September 30, 2010, respectively, were excluded from diluted shares. Antidilutive other equity awards of approximately 2,000 shares of Company common stock for the nine

months ended September 30, 2011 were also excluded from diluted shares. There were no antidilutive other equity awards for the three months ended September 30, 2011 or the three months and nine months ended September 30, 2010. The following tables provide a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

	Three months ended September 30,					
	2011			2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(In thousands, except per share amounts)						
Basic EPS						
Income available to common						
shareholders	\$11,934	83,489	\$0.14	\$11,260	83,433	\$0.13
Effect of dilutive share-						
based awards	-	-		-	40	

Diluted EPS

Income available to common						
shareholders plus assumed						
exercise of all outstanding						
share-based awards	\$11,934	83,489	\$0.14	\$11,260	83,473	\$0.13

	Nine months ended September 30,					
	2011			2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(In thousands, except per share amounts)						
Basic EPS						
Income available to common						
shareholders	\$24,266	83,486	\$0.29	\$7,096	83,422	\$0.09
Effect of dilutive share-						
based awards	-	26		-	108	

Diluted EPS

Income available to common						
shareholders plus assumed						
exercise of all outstanding						
share-based awards	\$24,266	83,512	\$0.29	\$7,096	83,530	\$0.08

NOTE 7 – COMPREHENSIVE INCOME

The following tables present the components of other comprehensive income and the related tax effects allocated to each component for the periods indicated:

	Three months ended September 30,					
	2011			2010		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Net unrealized gains on available-for-sale securities:						
Unrealized gains arising during holding period	\$14,563	\$(5,578)	\$8,985	\$5,421	\$(2,078)	\$3,343
Less: Reclassification adjustment for net gains realized in net income	(2,047)	783	(1,264)	(2,327)	890	(1,437)
Recognized employee benefit plan net periodic benefit cost	947	(362)	585	645	(247)	398
Other comprehensive income	\$13,463	\$(5,157)	\$8,306	\$3,739	\$(1,435)	\$2,304
Net income			11,934			11,260
Comprehensive income			\$20,240			\$13,564

	Nine months ended September 30,					
	2011			2010		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Net unrealized gains on available-for-sale securities:						
Unrealized gains arising during holding period	\$56,981	\$(21,823)	\$35,158	\$10,351	\$(3,962)	\$6,389
Less: Reclassification adjustment for net gains realized in net income	(12,109)	4,632	(7,477)	(3,039)	1,162	(1,877)
Recognized employee benefit plan net periodic benefit cost	2,213	(846)	1,367	1,931	(739)	1,192
Other comprehensive income	\$47,085	\$(18,037)	\$29,048	\$9,243	\$(3,539)	\$5,704
Net income			24,266			7,096
Comprehensive income			\$53,314			\$12,800

Included with unrealized gains arising during holding period is an increase in other comprehensive income related to the transfer of held-to-maturity securities to the available-for-sale category.

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill by operating segment for the nine months ended September 30, 2011 were as follows:

	Community Banking	Insurance Agencies (In thousands)	Total
Balance as of December 31, 2010	\$217,618	\$52,479	\$270,097
Goodwill recorded during the period	-	1,200	1,200
Balance as of September 30, 2011	\$217,618	\$53,679	\$271,297

The goodwill recorded in the insurance agency segment during the first nine months of 2011 was related to an earn-out payment associated with an insurance agency acquired during the first quarter of 2008.

The Company's policy is to assess goodwill for impairment at the reporting segment level on an annual basis or sooner if an event occurs or circumstances change which indicate that the fair value of a reporting unit is below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting segment in assessing impairment at least annually. The Company's annual assessment date is during the Company's fourth quarter. The Company performed a complete goodwill impairment analysis for all of its reporting segments during the second quarter of 2011 and a rollforward of that analysis during the third quarter of 2011 because volatile market conditions caused the Company's market value to fall below book value. Based on these analyses, no goodwill impairment was recorded during the nine months ended September 30, 2011 because the estimated fair value exceeded its respective carrying value by 2% for the Company's Community Banking reporting segment and by 30% for the Company's Insurance Agencies reporting segment.

In the current environment, forecasting cash flows, credit losses and growth in addition to valuing the Company's assets with any degree of assurance is very difficult and subject to significant changes over very short periods of time. Management will continue to update its analysis as circumstances change. If market conditions continue to be volatile and unpredictable, impairment of goodwill related to the Company's reporting segments may be necessary in future periods.

The following tables present information regarding the components of the Company's identifiable intangible assets for the dates and periods indicated:

	As of September 30, 2011		As of December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)				
Amortized intangible assets:				
Core deposit intangibles	\$27,801	\$ 20,480	\$27,801	\$ 19,716
Customer relationship intangibles	32,749	23,379	32,511	21,661
Non-solicitation intangibles	75	28	-	-
Total	\$60,625	\$ 43,887	\$60,312	\$ 41,377
Unamortized intangible assets:				
Trade names	\$688	\$ -	\$688	\$ -
(In thousands)				
Aggregate amortization expense for:				
	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Core deposit intangibles	\$248	\$324	\$764	\$986
Customer relationship intangibles	565	637	1,718	1,974
Non-solicitation intangibles	9	-	28	-
Total	\$822	\$961	\$2,510	\$2,960

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ending December 31, 2011 and the succeeding four years:

	Core Deposit Intangibles	Customer Relationship Intangibles	Non- Solicitation Intangibles	Total
Estimated Amortization Expense:				
	(In thousands)			
For year ending December 31, 2011	\$1,016	\$2,274	\$38	\$3,328
For year ending December 31, 2012	946	1,974	37	2,957
For year ending December 31, 2013	582	1,686	-	2,268
For year ending December 31, 2014	526	1,435	-	1,961
For year ending December 31, 2015	157	1,158	-	1,315

NOTE 9 – PENSION BENEFITS

The following table presents the components of net periodic benefit costs for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Service cost	\$1,898	\$1,863	\$6,062	\$5,587
Interest cost	2,214	1,919	6,270	5,757
Expected return on assets	(3,745)	(3,508)	(11,171)	(10,524)
Amortization of unrecognized transition amount	4	5	14	13
Recognized prior service cost	52	85	152	255
Recognized net loss	891	555	2,047	1,663
Net periodic benefit costs	\$1,314	\$919	\$3,374	\$2,751

NOTE 10 – RECENT PRONOUNCEMENTS

In January 2010, the FASB issued an accounting standards update (“ASU”) regarding fair value measurements and disclosures. This ASU revises two disclosure requirements concerning fair value measurements and clarifies two others. This ASU requires expanded disclosures related to significant transfers in and out of Level 1 and Level 2 fair value measurement and the reasons for the transfers, as well as the clarifications of existing disclosures and was effective for interim or annual reporting periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for interim or annual reporting periods beginning after December 15, 2010. This ASU impacts disclosures only and is included in Note 14 below. This ASU did not have an impact on the financial position or results of operations of the Company.

In July 2010, the FASB issued a new accounting standard regarding disclosures about the credit quality of financing receivables and the allowance for credit losses. This new accounting standard amends existing accounting literature regarding disclosures about the credit quality of financing receivables and the allowance for credit losses to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. This new accounting standard is effective for fiscal years and interim reporting periods ending on or after December 15, 2010. This new accounting standard regarding disclosures about the credit quality of financing receivables and the allowance for credit losses impacts disclosures only and is included

in Notes 2 and 3 above. The new accounting standard did not have an impact on the financial position or results of operations of the Company.

In April 2011, the FASB issued an ASU regarding a creditor's determination of whether a restructuring should be considered a TDR. This ASU provides additional guidance related to determining whether a creditor has granted a concession, including factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant. The ASU also prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower and adds factors for

creditors to use in determining whether a borrower is experiencing financial difficulties. The ASU ends the deferral of activity-based disclosures about TDRs that are part of the new credit-quality disclosure requirements. The ASU is effective for interim and annual periods beginning on or after June 15, 2011. This ASU did not have a material impact on the financial position or results of operations of the Company.

In April 2011, the FASB issued an ASU regarding reconsideration of effective control for repurchase agreements. This ASU removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by this ASU. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The new ASU is not expected to have a material impact on the financial position and results of operations of the Company.

In May 2011, the FASB issued an ASU regarding amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”). This ASU provides amendments to ensure that fair value has the same meaning in U.S. GAAP and IFRS and that their respective fair value measurements and disclosure requirements are the same. The ASU is effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. Early adoption is not permitted. The Company is currently assessing the impact of this new ASU on the financial position and results of operations of the Company.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income. This ASU amends existing guidance and eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholder’s equity. This ASU requires that comprehensive income be presented in either a single continuous statement or in two separate but consecutive statements. This ASU is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this ASU is expected to change the manner in which the Company’s other comprehensive income is disclosed and will have no impact on the financial position and results of operations of the Company.

In September 2011, the FASB issued an ASU regarding goodwill impairment. This ASU gives companies the option to perform a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This ASU is effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. The Company is currently assessing the impact of the adoption of this ASU on the financial position and results of operations of the Company.

NOTE 11 - SEGMENT REPORTING

The Company is a financial holding company with subsidiaries engaged in the business of banking and activities closely related to banking. The Company determines reportable segments based upon the services offered, the significance of those services to the Company’s financial condition and operating results and management’s regular review of the operating results of those services. The Company’s primary segment is Community Banking, which includes providing a full range of deposit products, commercial loans and consumer loans. The Company has also designated two additional reportable segments -- Insurance Agencies and General Corporate and Other. The Company’s insurance agencies serve as agents in the sale of commercial lines of insurance and full lines of property and casualty, life, health and employee benefits products and services. The General Corporate and Other operating segment includes leasing, mortgage lending, trust services, credit card activities, investment services and other activities not allocated to the Community Banking or Insurance Agencies operating segments.

Results of operations and selected financial information by operating segment for the three-month and nine-month periods ended September 30, 2011 and 2010 were as follows:

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Three months ended September 30, 2011:				
Results of Operations				
Net interest revenue	\$ 101,092	\$ 79	\$ 6,904	\$ 108,075
Provision for credit losses	23,416	-	1,696	25,112
Net interest revenue after provision for credit losses	77,676	79	5,208	82,963
Noninterest revenue	30,940	22,009	9,106	62,055
Noninterest expense	83,028	19,032	28,638	130,698
Income (loss) before income taxes	25,588	3,056	(14,324)	14,320
Income tax expense (benefit)	5,669	1,238	(4,521)	2,386
Net income (loss)	\$ 19,919	\$ 1,818	\$ (9,803)	\$ 11,934
Selected Financial Information				
Total assets at end of period	\$ 10,305,304	\$ 166,572	\$ 2,726,642	\$ 13,198,518
Depreciation and amortization	5,967	947	1,073	7,987
Three months ended September 30, 2010:				
Results of Operations				
Net interest revenue	\$ 102,420	\$ 151	\$ 7,107	\$ 109,678
Provision for credit losses	54,609	-	241	54,850
Net interest revenue after provision for credit losses	47,811	151	6,866	54,828
Noninterest revenue	31,372	20,815	17,565	69,752
Noninterest expense	72,387	17,633	33,067	123,087
Income (loss) before income taxes	6,796	3,333	(8,636)	1,493
Income tax expense (benefit)	3,837	1,334	(14,938)	(9,767)
Net income (loss)	\$ 2,959	\$ 1,999	\$ 6,302	\$ 11,260
Selected Financial Information				
Total assets at end of period	\$ 10,770,259	\$ 157,388	\$ 2,655,369	\$ 13,583,016
Depreciation and amortization	6,164	1,042	1,124	8,330

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Nine months ended September 30, 2011:				
Results of Operations				
Net interest revenue	\$306,635	\$258	\$20,531	\$327,424
Provision for credit losses	109,191	-	1,640	110,831
Net interest revenue after provision for credit losses	197,444	258	18,891	216,593
Noninterest revenue	99,845	67,436	38,229	205,510
Noninterest expense	257,683	56,095	83,999	397,777
Income (loss) before income taxes	39,606	11,599	(26,879)	24,326
Income tax expense (benefit)	13,313	4,639	(17,892)	60
Net income (loss)	\$26,293	\$6,960	\$(8,987)	\$24,266
Selected Financial Information				
Total assets at end of period	\$10,305,304	\$166,572	\$2,726,642	\$13,198,518
Depreciation and amortization	18,348	2,893	3,219	24,460
Nine months ended September 30, 2010:				
Results of Operations				
Net interest revenue	\$308,942	\$444	\$21,503	\$330,889
Provision for credit losses	155,346	-	5,377	160,723
Net interest revenue after provision for credit losses	153,596	444	16,126	170,166
Noninterest revenue	87,347	64,174	38,649	190,170
Noninterest expense	229,144	53,111	81,331	363,586
Income (loss) before income taxes	11,799	11,507	(26,556)	(3,250)
Income tax expense (benefit)	483	4,572	(15,401)	(10,346)
Net income (loss)	\$11,316	\$6,935	\$(11,155)	\$7,096
Selected Financial Information				
Total assets at end of period	\$10,770,259	\$157,388	\$2,655,369	\$13,583,016
Depreciation and amortization	18,637	3,206	3,387	25,230

The increased net income of the Community Banking operating segment for the three months and nine months ended September 30, 2011 was primarily related to the decrease in the provision for credit losses.

NOTE 12 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights (“MSRs”), which are recognized as a separate asset on the date the corresponding mortgage loan is sold, are recorded at fair value as determined at each accounting period end. An estimate of the fair value of the Company’s MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Data and assumptions used in the fair value calculation related to MSRs as of the dates indicated were as follows:

	September 30, 2011	September 30, 2010	December 31, 2010
	(Dollars in thousands)		
Unpaid principal balance	\$4,143,880	\$3,690,125	\$3,870,872

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Weighted-average prepayment speed (CPR)	22.7	23.2	15.6
Discount rate (annual percentage)	10.3	10.3	10.3
Weighted-average coupon interest rate (percentage)	5.1	5.4	5.2
Weighted-average remaining maturity (months)	314.0	318.0	315.0
Weighted-average servicing fee (basis points)	28.1	28.6	28.4

Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSRMs is the impact of fluctuating interest rates on the estimated life of the servicing revenue stream. The use of different estimates or assumptions could also produce different fair values. The Company does not

hedge the change in fair value of MSR's and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSR's in changing interest rate environments.

The Company has only one class of mortgage servicing asset comprised of closed end loans for one-to-four family residences, secured by first liens. The following table presents the activity in this class for the periods indicated:

	2011	2010
	(In thousands)	
Fair value as of January 1	\$38,642	\$35,560
Additions:		
Origination of servicing assets	7,938	9,173
Changes in fair value:		
Due to payoffs/paydowns	(4,435)	(4,900)
Due to change in valuation inputs or assumptions used in the valuation model	(12,975)	(12,924)
Other changes in fair value	(11)	(8)
Fair value as of September 30	\$29,159	\$26,901

All of the changes to the fair value of the MSR's are recorded as part of mortgage lending noninterest revenue on the income statement. As part of mortgage lending noninterest revenue, the Company recorded contractual servicing fees of \$2.9 million and \$2.6 million and late and other ancillary fees of approximately \$334,000 and \$358,000 for the three months ended September 30, 2011 and 2010, respectively. The Company recorded contractual servicing fees of \$8.6 million and \$7.7 million and late and other ancillary fees of approximately \$966,000 and \$1.0 million for the nine months ended September 30, 2011 and 2010, respectively.

NOTE 13 – DERIVATIVE INSTRUMENTS

The derivatives held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. The Company's objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges. At September 30, 2011, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$167.5 million with a carrying value and fair value reflecting a loss of \$2.4 million. At September 30, 2010, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$256.7 million with a carrying value and fair value reflecting a loss of \$1.2 million. At September 30, 2011, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$177.7 million with a carrying value and fair value reflecting a gain of \$3.9 million. At September 30, 2010, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$203.8 million with a carrying value and fair value reflecting a gain of \$3.1 million.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of September 30, 2011, the notional amount of customer related derivative financial instruments was \$496.6 million with an average maturity of 65 months, an average interest receive rate of 2.5% and an average interest pay rate of 6.0%.

NOTE 14 – FAIR VALUE DISCLOSURES

“Fair value” is defined by FASB ASC 820, Fair Value Measurements and Disclosure (“FASB ASC 820”), as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the

inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

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

Determination of Fair Value

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Available-for-sale securities. Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are 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. The Company's available-for-sale securities that are traded on an active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. Available-for-sale securities valued using matrix pricing that has been adjusted to compensate for the present value of expected cash flows, market liquidity, credit quality and volatility are classified as Level 3.

Mortgage servicing rights. The Company records MSR's at fair value on a recurring basis with subsequent remeasurement of MSR's based on change in fair value. An estimate of the fair value of the Company's MSR's is determined by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of the Company's MSR's are classified as Level 3.

Derivative instruments. The Company's derivative instruments consist of commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. Fair value of these derivative instruments is measured on a recurring basis using recent observable market prices. The Company also enters into interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. The fair value of these instruments is either an observable market price or a discounted cash flow valuation using the terms of swap agreements but substituting original interest rates with prevailing interest rates. The Company also considers the associated counterparty credit risk when determining the fair value of these instruments. The Company's interest rate swaps, commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans are classified as Level 3.

Loans held for sale. Loans held for sale are carried at the lower of cost or estimated fair value and are subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of existing commitments or the current market value of similar loans. All of the Company's loans held for sale are classified as Level 2.

Impaired loans. Loans considered impaired under FASB ASC 310 are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company's impaired loans are classified as Level 3.

Other real estate owned. Other real estate owned ("OREO") is carried at the lower of cost or estimated fair value, less estimated selling costs and is subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals and other relevant factors. All of the Company's OREO is classified as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and 2010:

	Level 1	September 30, 2011		Total
		Level 2	Level 3	
(In thousands)				
Assets:				
Available-for-sale securities:				
U.S. Government agencies	\$-	\$1,497,456	\$-	\$1,497,456
Government agency issued residential mortgage-backed securities	-	420,689	-	420,689
Government agency issued commercial mortgage-backed securities	-	34,475	-	34,475
Obligations of states and political subdivisions	-	519,431	-	519,431
Other	528	8,976	-	9,504
Mortgage servicing rights	-	-	29,159	29,159
Derivative instruments	-	-	59,703	59,703
Total	\$528	\$2,481,027	\$88,862	\$2,570,417
Liabilities:				
Derivative instruments	\$-	\$-	\$58,916	\$58,916

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

	Level 1	September 30, 2010		Total
		Level 2	Level 3	
(In thousands)				
Assets:				
Available-for-sale securities:				
U.S. Government agencies	\$-	\$440,442	\$-	\$440,442
Government agency issued residential mortgage-backed securities	-	320,471	-	320,471
Government agency issued commercial mortgage-backed securities	-	25,982	-	25,982
Obligations of states and political subdivisions	-	108,958	-	108,958
Collateralized debt obligations	-	-	576	576
Other	473	18,975	-	19,448
Mortgage servicing rights	-	-	26,901	26,901
Derivative instruments	-	-	58,409	58,409
Total	\$473	\$914,828	\$85,886	\$1,001,187
Liabilities:				
Derivative instruments	\$-	\$-	\$57,159	\$57,159

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine-month periods ended September 30, 2011 and 2010:

	Mortgage Servicing Rights	Derivative Instruments	Available-for-sale Securities
(In thousands)			
Balance at December 31, 2010	\$38,642	\$2,685	\$-
Year to date net gains (losses) included in:			
Net loss	(9,483)	(1,898)	-
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	-	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at September 30, 2011	\$29,159	\$787	\$-
Net unrealized (losses) gains included in net income for the quarter relating to assets and liabilities held at September 30, 2011	\$(10,296)	\$380	\$-

	Mortgage Servicing Rights	Derivative Instruments	Available-for-sale Securities
(In thousands)			
Balance at December 31, 2009	\$35,560	\$844	\$2,125
Year to date net gains (losses) included in:			
Net (loss) income	(8,659)	406	(1,549)
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	-	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at September 30, 2010	\$26,901	\$1,250	\$576
Net unrealized (losses) gains included in net income for the quarter relating to assets and liabilities held at September 30, 2010	\$(4,609)	\$1,398	\$(236)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following tables present the balances of assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2011 and 2010:

	September 30, 2011				Total Losses
	Level 1	Level 2	Level 3	Total	
Assets:	(In thousands)				
Loans held for sale	\$-	\$100,687	\$-	\$100,687	\$-
Impaired loans	-	-	279,889	279,889	(38,657)
Other real estate owned	-	-	162,686	162,686	(16,277)

	September 30, 2010				Total Losses
	Level 1	Level 2	Level 3	Total	
Assets:	(In thousands)				
Loans held for sale	\$-	\$125,815	\$-	\$125,815	\$-
Impaired loans	-	-	242,158	242,158	(43,584)
Other real estate owned	-	-	82,647	82,647	(8,771)

Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments (“FASB ASC 825”), requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company’s financial instruments.

Held-to-maturity securities. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are 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.

Loans and Leases. Fair values are estimated for portfolios of loans and leases with similar financial characteristics. The fair value of loans and leases is calculated by discounting scheduled cash flows through the estimated maturity using rates the Company would currently offer customers based on the credit and interest rate risk inherent in the loan or lease. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market and borrower information. Estimated maturity represents the expected average cash flow period, which in some instances is different than the stated maturity. This entrance price approach results in a calculated fair value that would be different than an exit or estimated actual sales price approach and such differences could be significant.

Deposit Liabilities. Under FASB ASC 825, the fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, interest bearing demand deposits and savings, is equal to the amount payable on demand as of the reporting date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the prevailing rates offered for deposits of similar maturities.

Debt. The carrying amounts for federal funds purchased and repurchase agreements approximate fair value because of their short-term maturity. The fair value of the Company's fixed-term Federal Home Loan Bank ("FHLB") advances is based on the discounted value of contractual cash flows. The discount rate is estimated using the prevailing rates available for advances of similar maturities. The fair value of the Company's junior subordinated debt is based on market prices or dealer quotes.

Lending Commitments. The Company's lending commitments are negotiated at prevailing market rates and are relatively short-term in nature. As a matter of policy, the Company generally makes commitments for fixed-rate

loans for relatively short periods of time. Therefore, the estimated value of the Company's lending commitments approximates the carrying amount and is immaterial to the financial statements.

The following table presents carrying and fair value information at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands)				
Assets:				
Cash and due from banks	\$161,876	\$161,876	\$99,916	\$99,916
Interest bearing deposits with other banks	338,250	338,250	172,170	172,170
Held-to-maturity securities	-	-	1,613,019	1,632,691
Available-for-sale securities	2,481,555	2,481,555	1,096,062	1,096,062
Federal funds sold and securities purchased under agreement to resell	-	-	150,000	150,000
Net loans and leases	8,856,219	8,927,062	9,136,194	9,187,064
Loans held for sale	100,687	100,955	93,697	94,001
Liabilities:				
Noninterest bearing deposits	2,198,535	2,198,535	2,060,145	2,060,145
Savings and interest bearing deposits	5,705,135	5,705,135	5,794,552	5,794,552
Other time deposits	3,159,563	3,205,735	3,635,324	3,677,796
Federal funds purchased and securities sold under agreement to repurchase and other short-term borrowings	451,001	450,636	443,320	443,081
Long-term debt and other borrowings	193,883	200,328	270,392	286,993
Derivative instruments:				
Forward commitments to sell fixed rate mortgage loans	(2,391)	(2,391)	2,499	2,499
Commitments to fund fixed rate mortgage loans	3,948	3,948	639	639
Interest rate swap position to receive	55,755	55,755	38,347	38,347
Interest rate swap position to pay	(56,525)	(56,525)	(38,800)	(38,800)

NOTE 15 – OTHER NONINTEREST REVENUE AND EXPENSE

The following table details other noninterest revenue for the three months and nine months ended September 30, 2011 and 2010:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
(In thousands)				
Annuity fees	\$552	\$537	\$2,942	\$2,016
Brokerage commissions and fees	1,627	1,340	4,702	4,076
Bank-owned life insurance	1,734	1,793	5,656	5,434

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Other miscellaneous income	2,357	3,059	11,772	10,202
Total other noninterest income	\$6,270	\$6,729	\$25,072	\$21,728

The following table details other noninterest expense for the three months and nine months ended September 30, 2011 and 2010:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Advertising	\$ 1,140	\$ 1,742	\$ 3,320	\$ 3,594
Foreclosed property expense	6,116	4,912	16,963	12,263
Telecommunications	2,097	2,624	6,276	7,318
Public relations	1,415	1,423	4,483	4,727
Data processing	2,614	1,576	7,280	4,640
Computer software	1,863	1,793	5,610	5,397
Amortization of intangibles	823	961	2,510	2,960
Legal fees	1,586	1,727	5,267	4,368
Postage and shipping	1,182	1,237	3,650	3,775
Other miscellaneous expense	19,740	15,547	55,984	45,993
Total other noninterest expense	\$ 38,576	\$ 33,542	\$ 111,343	\$ 95,035

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions with numerous customers through offices in nine states. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, litigation presents an ongoing risk.

On May 12, 2010, the Company and its Chief Executive Officer, President and Chief Financial Officer were named in a purported class-action lawsuit filed in the U.S. District Court for the Middle District of Tennessee on behalf of certain purchasers of the Company's common stock. On September 17, 2010, an Executive Vice President of the Company was added as a party to the lawsuit. The amended complaint alleges that the defendants issued materially false and misleading statements regarding the Company's business and financial results. The plaintiff seeks class certification, an unspecified amount of damages and awards of costs and attorneys' fees and such other equitable relief as the Court may deem just and proper. No class has been certified and, at this stage of the lawsuit, management cannot determine the probability of an unfavorable outcome to the Company. There are significant uncertainties involved in any purported class action litigation. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company's business, consolidated financial position or results of operations.

On August 16, 2011, a shareholder filed a putative derivative action purportedly on behalf of the Company in the Circuit Court of Lee County, Mississippi, against certain current and past executive officers and the members of the Board of Directors of the Company. This shareholder derivative lawsuit asserts that the individual defendants violated their fiduciary duties based upon substantially the same facts as alleged in the purported class action lawsuit described above. The plaintiff is seeking to recover damages in an unspecified amount and equitable and/or injunctive relief. The Company and the individual named defendants collectively intend to vigorously defend themselves against the shareholder derivative lawsuit allegations. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company's business, consolidated financial position or results of operations.

In November 2010, the Company was informed that the Atlanta Regional Office of the SEC had issued an Order of Investigation concerning the Company. This investigation is ongoing and is primarily focused on the Company's

recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal controls and its communications with the independent auditors prior to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. In connection with its investigation, the SEC has issued subpoenas for documents and testimony. The Company is cooperating fully with the SEC. No claims have been made by the SEC against the Company or against any individuals affiliated with the

Company. At this time, it is not possible to predict when or how the investigation will be resolved or the cost or potential liabilities associated with this matter.

On May 18, 2010, the Bank was named as a defendant in a purported class action lawsuit filed by two Arkansas customers of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenges the manner in which overdraft fees were charged and the policies related to posting order of debit card and ATM transactions. The suit also makes a claim under Arkansas' consumer protection statute. The case was transferred to pending multi-district litigation in the U.S. District Court for the Southern District of Florida. No class has been certified and, at this stage of the lawsuit, management of the Company cannot determine the probability of an unfavorable outcome to the Company. There are significant uncertainties involved in any purported class action litigation. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company's business, consolidated financial position or results of operations. However, there can be no assurance that an adverse outcome or settlement would not have a material adverse effect on the Company's consolidated results of operations for a given fiscal period.

Otherwise, the Company and its subsidiaries are defendants in various legal proceedings arising out of the normal course of business, including claims against entities to which the Company is a successor as a result of business combinations. In the opinion of management, the ultimate resolution of these legal proceedings should not have a material adverse effect on the Company's business, consolidated financial position or results of operations. It is possible, however, that future developments could result in an unfavorable ultimate outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company's results of operations for a particular quarterly reporting period. Litigation is inherently uncertain, and management of the Company cannot make assurances that the Company will prevail in any of these actions, nor can it reasonably estimate the amount of damages that the Company might incur.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

BancorpSouth, Inc. (the "Company") is a regional financial holding company headquartered in Tupelo, Mississippi with \$13.2 billion in assets at September 30, 2011. BancorpSouth Bank (the "Bank"), the Company's wholly-owned banking subsidiary, has commercial banking operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. The Bank's insurance agency subsidiary also operates an office in Illinois. The Bank and its consumer finance, credit insurance, insurance agency and brokerage subsidiaries provide commercial banking, leasing, mortgage origination and servicing, insurance, brokerage and trust services to corporate customers, local governments, individuals and other financial institutions through an extensive network of branches and offices.

Management's discussion and analysis provides a narrative discussion of the Company's financial condition and results of operations. For a complete understanding of the following discussion, you should refer to the unaudited consolidated financial statements for the three-month and nine-month periods ended September 30, 2011 and 2010 and the notes to such financial statements found under "Part I, Item 1. Financial Statements" of this report. This discussion and analysis is based on reported financial information.

As a financial holding company, the financial condition and operating results of the Company are heavily influenced by economic trends nationally and in the specific markets in which the Company's subsidiaries provide financial services. Generally, during the past few years, the pressures of the national and regional economic cycle have created a difficult operating environment for the financial services industry. The Company is not immune to such pressures and the continuing economic downturn has had a negative impact on the Company and its customers in all of the markets that it serves. The impact was reflected in increases in the Company's non-performing assets ("NPAs") compared to the first nine months of 2010. While NPAs and, more specifically, other real estate owned have increased, management believes that the Company is well positioned with respect to overall credit quality as

evidenced by the improvement in credit quality metrics at September 30, 2011 compared to December 31, 2010 and September 30, 2010. Management believes, however, that continued weakness in the economic environment could adversely affect the strength of the credit quality of the Company's assets overall. Therefore, management is

working to improve and enhance the Company's existing processes in order to focus on early identification and resolution of any credit issues.

Most of the revenue of the Company is derived from the operation of its principal operating subsidiary, the Bank. The financial condition and operating results of the Bank are affected by the level and volatility of interest rates on loans, investment securities, deposits and other borrowed funds, and the impact of economic downturns on loan demand, collateral values and creditworthiness of existing borrowers. The financial services industry is highly competitive and heavily regulated. The Company's success depends on its ability to compete aggressively within its markets while maintaining sufficient asset quality and cost controls to generate net income.

On June 29, 2011, the Federal Reserve released its final rule implementing the Durbin Debit Interchange Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Durbin Amendment"). The final rule set a base interchange rate of \$0.21 cents per transaction, plus an additional five basis points of the transaction cost for fraud charges. The Federal Reserve also approved an interim final rule that allows for an upward adjustment of no more than \$0.01 on the debit interchange fee for implementing certain fraud prevention standards. Additionally, the Federal Reserve adopted requirements that issuers include two unaffiliated networks for routing debit transactions, one that is signature-based and one that is personal identification number based. The effective date for the final and interim final rules of the Durbin Amendment was October 1, 2011. The Company estimates that debit card revenue could be reduced in 2011 by approximately \$3.5 million and could be reduced in 2012 by more than \$15.0 million.

The information that follows is provided to enhance comparability of financial information between periods and to provide a better understanding of the Company's operations.

SELECTED FINANCIAL QUARTERLY DATA

	Three months ended		Nine months ended	
	2011	September 30, 2010	2011	September 30, 2010
(Dollars in thousands, except per share data)				
Earnings Summary:				
Total interest revenue	\$ 132,397	\$ 144,885	\$ 408,460	\$ 439,705
Total interest expense	24,322	35,207	81,036	108,816
Net interest income	108,075	109,678	327,424	330,889
Provision for credit losses	25,112	54,850	110,831	160,723
Noninterest income	62,055	69,752	205,510	190,170
Noninterest expense	130,698	123,087	397,777	363,586
Income (loss) before income taxes	14,320	1,493	24,326	(3,250)
Income tax expense (benefit)	2,386	(9,767)	60	(10,346)
Net income (loss)	\$ 11,934	\$ 11,260	\$ 24,266	\$ 7,096
Balance Sheet - Period-end balances:				
Total assets	\$ 13,198,518	\$ 13,583,016	\$ 13,198,518	\$ 13,583,016
Total securities	2,481,555	2,273,765	2,481,555	2,273,765
Loans and leases, net of unearned income	9,055,905	9,514,929	9,055,905	9,514,929
Total deposits	11,063,233	11,196,864	11,063,233	11,196,864
Long-term debt	33,500	110,000	33,500	110,000
Total shareholders' equity	1,266,753	1,235,705	1,266,753	1,235,705
Balance Sheet-Average Balances:				
Total assets	\$ 13,174,655	\$ 13,304,882	\$ 13,358,657	\$ 13,219,171
Total securities	2,529,482	2,141,353	2,657,629	2,064,376
Loans and leases, net of unearned income	9,138,414	9,601,142	9,228,583	9,689,886
Total deposits	11,141,372	11,177,626	11,330,322	11,044,948
Long-term debt	34,984	110,734	77,852	112,069
Total shareholders' equity	1,251,815	1,229,146	1,231,286	1,246,647
Common Share Data:				
Basic earnings per share	\$0.14	\$0.13	\$0.29	\$0.09
Diluted earnings per share	0.14	0.13	0.29	0.08
Cash dividends per share	0.01	0.22	0.13	0.66
Book value per share	15.17	14.80	15.17	14.80
Dividend payout ratio	7.14	% 169.23	% 44.83	% NM%
Financial Ratios (Annualized):				
Return on average assets	0.36	% 0.34	% 0.24	% 0.07
Return on average shareholders' equity	3.78	3.63	2.63	0.76
Total shareholders' equity to total assets	9.60	9.10	9.60	9.10
Tangible shareholders' equity to tangible assets	7.58	7.11	7.58	7.11
Net interest margin-fully taxable equivalent	3.66	3.64	3.69	3.74
Credit Quality Ratios (Annualized):				
Net charge-offs to average loans and leases	1.01	% 2.10	% 1.56	% 1.81

Provision for credit losses to average loans and leases	1.10	2.29	1.60	2.21
---	------	------	------	------