

BANCORPSOUTH INC
Form 10-Q
August 07, 2012

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 June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 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

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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 August 1, 2012, the registrant had outstanding 94,436,377 shares of common stock, par value \$2.50 per share.

BANCORPSOUTH, INC.
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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2012 (Unaudited)	December 31, 2011 (1)	June 30, 2011 (Unaudited)
	(Dollars in thousands, except per share amounts)		
ASSETS			
Cash and due from banks	\$224,084	\$195,681	\$166,761
Interest bearing deposits with other banks	603,458	303,663	304,344
Available-for-sale securities, at fair value	2,462,831	2,513,518	2,560,824
Loans and leases	8,771,642	8,911,258	9,255,879
Less: Unearned income	39,247	40,947	41,326
Allowance for credit losses	175,847	195,118	197,627
Net loans	8,556,548	8,675,193	9,016,926
Loans held for sale	108,134	83,458	70,519
Premises and equipment, net	320,419	323,383	328,075
Accrued interest receivable	47,358	51,266	55,525
Goodwill	271,297	271,297	271,297
Bank-owned life insurance	202,620	200,085	197,028
Other real estate owned	143,615	173,805	151,204
Other assets	207,454	204,502	244,547
TOTAL ASSETS	\$13,147,818	\$12,995,851	\$13,367,050
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	\$2,312,044	\$2,269,799	\$2,096,655
Interest bearing	4,782,243	4,706,825	4,939,553
Savings	1,083,255	991,702	944,993
Other time	2,778,795	2,986,863	3,327,262
Total deposits	10,956,337	10,955,189	11,308,463
Federal funds purchased and securities sold under agreement to repurchase	361,990	373,933	426,097
Short-term Federal Home Loan Bank and other short-term borrowings	1,500	1,500	703
Accrued interest payable	7,161	8,644	11,348
Junior subordinated debt securities	160,312	160,312	160,312
Long-term Federal Home Loan Bank borrowings	33,500	33,500	35,000
Other liabilities	208,707	199,861	178,424
TOTAL LIABILITIES	11,729,507	11,732,939	12,120,347
SHAREHOLDERS' EQUITY			

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Common stock, \$2.50 par value per share Authorized - 500,000,000 shares; Issued - 94,436,377, 83,483,796 and 83,488,962 shares, respectively	236,091	208,709	208,722
Capital surplus	310,388	227,567	226,362
Accumulated other comprehensive income (loss)	1,334	(2,261)	6,289
Retained earnings	870,498	828,897	805,330
TOTAL SHAREHOLDERS' EQUITY	1,418,311	1,262,912	1,246,703
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$13,147,818	\$12,995,851	\$13,367,050

(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 Six months ended
June 30, June 30,
2012 2011 2012 2011
(In thousands, except for per share amounts)

INTEREST REVENUE:

Loans and leases	\$ 107,737	\$ 116,892	\$ 216,749	\$ 234,250
Deposits with other banks	382	124	783	246
Federal funds sold and securities purchased under agreement to resell	1	35	1	166
Held-to-maturity securities:				
Taxable	-	5,066	-	13,080
Tax-exempt	-	2,291	-	5,638
Available-for-sale securities:				
Taxable	10,188	10,451	21,350	19,036
Tax-exempt	4,210	1,871	8,466	2,695
Loans held for sale	686	505	1,230	952
Total interest revenue	123,204	137,235	248,579	276,063

INTEREST EXPENSE:

Deposits:				
Interest bearing demand	4,185	6,039	8,634	12,585
Savings	691	810	1,405	1,636
Other time	10,275	16,285	21,566	33,768
Federal funds purchased and securities sold under agreement to repurchase	66	135	129	287
Federal Home Loan Bank borrowings	366	1,194	733	2,717
Junior subordinated debt	2,879	2,860	5,758	5,719
Other	1	-	3	2
Total interest expense	18,463	27,323	38,228	56,714
Net interest revenue	104,741	109,912	210,351	219,349
Provision for credit losses	6,000	32,240	16,000	85,719
Net interest revenue, after provision for credit losses	98,741	77,672	194,351	133,630

NONINTEREST REVENUE:

Mortgage lending	11,040	2,003	26,182	9,584
Credit card, debit card and merchant fees	7,787	11,263	15,310	21,609
Service charges	13,697	16,556	28,813	31,924
Trust income	3,139	2,850	5,421	5,984
Security gains, net	177	10,045	251	10,062
Insurance commissions	22,964	22,941	46,117	45,490
Other	7,664	9,486	16,734	18,802

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Total noninterest revenue	66,468	75,144	138,828	143,455
NONINTEREST EXPENSE:				
Salaries and employee benefits	77,661	70,142	152,592	140,517
Occupancy, net of rental income	10,487	10,232	20,553	20,903
Equipment	5,124	5,595	10,457	11,253
Deposit insurance assessments	3,994	6,436	9,377	11,861
Prepayment penalty on FHLB borrowings	-	9,778	-	9,778
Other	39,240	34,886	79,207	72,767
Total noninterest expense	136,506	137,069	272,186	267,079
Income before income taxes	28,703	15,747	60,993	10,006
Income tax expense (benefit)	8,079	2,921	17,503	(2,326)
Net income	\$20,624	\$12,826	\$43,490	\$12,332
Earnings per share: Basic	\$0.22	\$0.15	\$0.47	\$0.15
Diluted	\$0.22	\$0.15	\$0.47	\$0.15
Dividends declared per common share	\$0.01	\$0.01	\$0.02	\$0.12

See accompanying notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	2012	June 30, 2011	2012	June 30, 2011
	(In thousands)			
Net income	\$20,624	\$12,826	\$43,490	\$12,332
Other comprehensive income, net of tax				
Unrealized gains on securities	5,076	22,477	2,123	19,960
Pension and other postretirement benefits	394	391	1,472	782
Other comprehensive income	5,470	22,868	3,595	20,742
Comprehensive income	\$26,094	\$35,694	\$47,085	\$33,074

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2012	2011
	(In thousands)	
Operating Activities:		
Net income	\$43,490	\$12,332
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	16,000	85,719
Depreciation and amortization	13,540	14,789
Deferred taxes	-	(267)
Amortization of intangibles	1,504	1,687
Amortization of debt securities premium and discount, net	6,562	13,936
Share-based compensation expense	1,524	1,285
Security gains, net	(251)	(10,062)
Net deferred loan origination expense	(4,085)	(4,384)
Excess tax benefit from exercise of stock options	-	(8)
Decrease in interest receivable	3,908	5,500
Decrease in interest payable	(1,483)	(2,988)
Realized gain on mortgages sold	(27,693)	(14,225)
Proceeds from mortgages sold	441,930	483,065
Origination of mortgages held for sale	(444,051)	(448,082)
Increase in bank-owned life insurance	(2,535)	(2,964)
Decrease (increase) in prepaid pension asset	2,587	(186)
Decrease in prepaid deposit insurance assessments	8,985	11,040
Other, net	(2,071)	(1,035)
Net cash provided by operating activities	57,861	145,152
Investing activities:		
Proceeds from calls and maturities of held-to-maturity securities	-	135,781
Proceeds from calls and maturities of available-for-sale securities	266,829	131,124
Proceeds from sales of available-for-sale securities	4,727	180,057
Purchases of held-to-maturity securities	-	(151,105)
Purchases of available-for-sale securities	(223,716)	(119,089)
Net decrease in short-term investments	-	150,000
Net decrease in loans and leases	136,920	20,141
Purchases of premises and equipment	(11,362)	(10,520)
Proceeds from sale of premises and equipment	968	1,693
Contingency earn-out payment	-	(1,200)
Other, net	(16)	(31)
Net cash provided by investing activities	174,350	336,851
Financing activities:		
Net increase (decrease) in deposits	1,147	(181,558)
Net decrease in short-term debt and other liabilities	(11,950)	(16,526)
Repayment of long-term debt	-	(75,000)
Issuance of common stock	108,678	110
Excess tax benefit from exercise of stock options	-	8

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Payment of cash dividends	(1,888)	(10,018)
Net cash provided by (used in) financing activities	95,987	(282,984)
Increase in cash and cash equivalents	328,198	199,019
Cash and cash equivalents at beginning of period	499,344	272,086
Cash and cash equivalents at end of period	\$827,542	\$471,105

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, 2011. 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 six-month period ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year. Certain 2011 amounts have been reclassified to conform with the 2012 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 real estate. A summary of gross loans and leases by segment and class as of the dates indicated follows:

	2012	June 30, 2011	December 31, 2011
	(In thousands)		
Commercial and industrial	\$ 1,507,382	\$ 1,540,048	\$ 1,484,967
Real estate			
Consumer mortgages	1,904,420	1,971,499	1,945,190
Home equity	496,245	531,787	514,362
Agricultural	251,975	255,310	239,487
Commercial and industrial-owner occupied	1,288,887	1,366,734	1,301,575
Construction, acquisition and development	835,022	1,060,675	908,362
Commercial real estate	1,748,748	1,764,648	1,754,022
Credit cards	101,085	101,955	106,281
All other	637,878	663,223	657,012
Total	\$ 8,771,642	\$ 9,255,879	\$ 8,911,258

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The following table shows the Company's loans and leases, net of unearned income, as of June 30, 2012 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	\$57,950	\$191,231	\$340,454	\$56,176	\$17,036	\$83,517	\$248,738	\$502,576	\$1,497,678
Real estate									
Consumer mortgages	104,590	266,625	748,850	44,442	83,380	161,013	448,735	46,785	1,904,420
Home equity	59,969	38,511	168,552	24,417	66,302	74,942	61,547	2,005	496,245
Agricultural	6,632	81,867	68,990	3,439	9,497	14,043	62,527	4,980	251,975
Commercial and industrial-owner occupied	116,744	159,231	454,193	81,542	90,680	89,351	250,432	46,714	1,288,887
Construction, acquisition and development	95,278	60,747	251,977	44,756	91,437	88,684	174,818	27,325	835,022
Commercial real estate	190,195	346,586	360,704	204,377	115,061	101,883	377,008	52,934	1,748,748
Credit cards	-	-	-	-	-	-	-	101,085	101,085
All other	30,890	86,350	190,620	6,852	56,187	49,481	95,729	92,226	608,335
Total	\$662,248	\$1,231,148	\$2,584,340	\$466,001	\$529,580	\$662,914	\$1,719,534	\$876,630	\$8,732,395

* Excludes the Greater Memphis Area.

The Company's loan concentrations which exceed 10% of total loans are reflected in the preceding tables. A substantial portion of construction, acquisition and development loans are secured by real estate in markets in which the Company is located. The Company's general loan policy prohibits the use of interest reserves on loans originated after March 2010. Certain of the construction, acquisition and development 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 market 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 June 30, 2012 and December 31, 2011:

June 30, 2012

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	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	\$5,516	\$782	\$5,697	\$11,995	\$1,485,683	\$1,497,678	\$-
Real estate							
Consumer mortgages	12,472	3,849	15,421	31,742	1,872,678	1,904,420	1,141
Home equity	1,268	547	157	1,972	494,273	496,245	-
Agricultural	1,162	952	4,209	6,323	245,652	251,975	-
Commercial and industrial-owner occupied	2,888	1,609	7,209	11,706	1,277,181	1,288,887	-
Construction, acquisition and development	7,449	1,012	17,319	25,780	809,242	835,022	-
Commercial real estate	1,549	3,305	8,592	13,446	1,735,302	1,748,748	-
Credit cards	420	286	564	1,270	99,815	101,085	324
All other	2,597	289	440	3,326	605,009	608,335	167
Total	\$35,321	\$12,631	\$59,608	\$107,560	\$8,624,835	\$8,732,395	\$1,632

December 31, 2011

	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	\$5,571	\$4,209	\$4,193	\$13,973	\$1,459,755	\$1,473,728	\$12
Real estate							
Consumer mortgages	15,740	6,485	14,569	36,794	1,908,396	1,945,190	2,974
Home equity	1,837	265	594	2,696	511,666	514,362	-
Agricultural	666	54	719	1,439	238,048	239,487	-
Commercial and industrial-owner occupied	2,199	844	12,977	16,020	1,285,555	1,301,575	-
Construction, acquisition and development	4,826	4,955	33,584	43,365	864,997	908,362	-
Commercial real estate	3,778	2,702	9,397	15,877	1,738,145	1,754,022	-
Credit cards	595	303	697	1,595	104,686	106,281	299
All other	2,124	390	1,579	4,093	623,211	627,304	149
Total	\$37,336	\$20,207	\$78,309	\$135,852	\$8,734,459	\$8,870,311	\$3,434

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 loans show sufficient cash flow, capital and collateral to repay the loan as agreed. Borrowers for 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.

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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 June 30, 2012 and December 31, 2011:

	June 30, 2012						Total
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	
Commercial and industrial	\$1,426,787	\$12,480	\$46,512	\$959	\$34	\$10,906	\$1,497,678
Real estate							
Consumer mortgage	1,720,260	29,254	132,775	4,748	302	17,081	1,904,420
Home equity	472,291	3,476	17,759	908	243	1,568	496,245
Agricultural	225,886	2,989	15,687	20	-	7,393	251,975
Commercial and industrial-owner occupied	1,158,082	25,740	83,048	276	28	21,713	1,288,887
Construction, acquisition and development	607,942	26,947	99,471	589	20	100,053	835,022
Commercial real estate	1,515,262	48,217	144,301	71	199	40,698	1,748,748
Credit Cards	101,085	-	-	-	-	-	101,085
All other	572,073	18,060	16,425	803	9	965	608,335
Total	\$7,799,668	\$167,163	\$555,978	\$8,374	\$835	\$200,377	\$8,732,395

	December 31, 2011						Total
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	
Commercial and industrial	\$1,415,731	\$4,947	\$43,549	\$1,263	\$405	\$7,833	\$1,473,728
Real estate							
Consumer mortgage	1,742,593	17,914	148,267	4,434	189	31,793	1,945,190
Home equity	492,235	2,775	17,050	1,134	493	675	514,362
Agricultural	213,280	3,795	19,296	20	-	3,096	239,487
Commercial and industrial-owner occupied	1,167,220	18,280	90,778	496	-	24,801	1,301,575
Construction, acquisition and development	619,497	23,429	136,412	845	-	128,179	908,362
Commercial real estate	1,501,196	37,409	179,295	-	-	36,122	1,754,022
Credit Cards	105,867	41	175	188	10	-	106,281
All other	587,970	16,104	20,263	470	73	2,424	627,304

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Total	\$7,845,589	\$124,694	\$655,085	\$8,850	\$1,170	\$234,923	\$8,870,311
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The following tables provide details regarding impaired loans and leases, net of unearned income, by segment and class at June 30, 2012 and December 31, 2011:

	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	June 30, 2012 Average Recorded Investment		Interest Income Recognized	
				Three months ended June 30, 2012	Six months ended June 30, 2012	Three months ended June 30, 2012	Six months ended June 30, 2012
(In thousands)							
With no related allowance:							
Commercial and industrial	\$2,527	\$2,882	\$-	\$2,366	\$2,916	\$2	\$11
Real estate							
Consumer mortgage	9,206	11,260	-	12,784	12,981	17	39
Home equity	868	1,011	-	869	790	2	2
Agricultural	6,192	7,606	-	4,548	3,075	3	7
Commercial and industrial-owner occupied							
Construction, acquisition and development	56,319	75,149	-	60,735	60,576	73	160
Commercial	22,330	33,569	-	18,708	17,415	27	65
All other	706	1,019	-	711	750	1	3
Total	\$111,176	\$150,193	\$-	\$111,860	\$108,792	\$151	\$338
With an allowance:							
Commercial and industrial	\$8,379	\$8,877	\$5,575	\$8,078	\$5,931	\$10	\$19
Real estate							
Consumer mortgage	7,875	8,657	2,002	12,623	15,046	30	72
Home equity	700	700	168	703	481	3	3
Agricultural	1,201	1,207	378	1,264	1,373	3	3
Commercial and industrial-owner occupied							
Construction, acquisition and development	43,734	58,264	10,641	47,429	54,153	101	226
Commercial	18,368	20,749	3,924	14,718	16,567	60	96
All other	259	330	232	265	296	1	2

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Total	\$89,201	\$109,510	\$23,939	\$97,465	\$108,207	\$224	\$455
Total:							
Commercial and industrial	\$10,906	\$11,759	\$5,575	\$10,444	\$8,847	\$12	\$30
Real estate							
Consumer mortgage	17,081	19,917	2,002	25,407	28,027	47	111
Home equity	1,568	1,711	168	1,572	1,271	5	5
Agricultural	7,393	8,813	378	5,812	4,448	6	10
Commercial and industrial-owner occupied	21,713	28,423	1,019	23,524	24,649	42	85
Construction, acquisition and development	100,053	133,413	10,641	108,164	114,729	174	386
Commercial	40,698	54,318	3,924	33,426	33,982	87	161
All other	965	1,349	232	976	1,046	2	5
Total	\$200,377	\$259,703	\$23,939	\$209,325	\$216,999	\$375	\$793

December 31, 2011

	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses (In thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial and industrial	\$4,874	\$6,854	\$-	\$3,879	\$78
Real estate					
Consumer mortgage	16,883	19,538	-	19,628	397
Home equity	627	771	-	541	1
Agricultural	1,549	2,676	-	2,502	20
Commercial and industrial-owner occupied	6,973	9,191	-	11,598	185
Construction, acquisition and development	69,843	89,782	-	107,596	941
Commercial real estate	15,184	24,198	-	20,702	311
All other	1,284	1,668	-	1,169	67
Total	\$117,217	\$154,678	\$-	\$167,615	\$2,000
With an allowance:					
Commercial and industrial	\$2,959	\$3,301	\$4,071	\$3,558	\$49
Real estate					
Consumer mortgage	14,910	16,224	4,386	14,960	323
Home equity	48	276	48	504	3
Agricultural	1,547	1,547	380	3,164	18
Commercial and industrial-owner occupied	17,828	21,085	3,601	10,329	146
Construction, acquisition and development	58,336	67,426	21,581	80,957	1,651
Commercial real estate	20,938	21,422	5,324	27,210	851
All other	1,140	1,140	317	1,307	8
Total	\$117,706	\$132,421	\$39,708	\$141,989	\$3,049
Total:					
Commercial and industrial	\$7,833	\$10,155	\$4,071	\$7,437	\$127
Real estate					
Consumer mortgage	31,793	35,762	4,386	34,588	720
Home equity	675	1,047	48	1,045	4
Agricultural	3,096	4,223	380	5,666	38
Commercial and industrial-owner occupied	24,801	30,276	3,601	21,927	331
Construction, acquisition and development	128,179	157,208	21,581	188,553	2,592
Commercial real estate	36,122	45,620	5,324	47,912	1,162
All other	2,424	2,808	317	2,476	75
Total	\$234,923	\$287,099	\$39,708	\$309,604	\$5,049

The following tables provide details regarding impaired real estate construction, acquisition and development loans and leases, net of unearned income, by collateral type at June 30, 2012 and December 31, 2011:

	Unpaid			June 30, 2012 Average Recorded Investment		Interest Income Recognized	
	Recorded Investment in Impaired Loans	Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Three months ended June 30, 2012	Six months ended June 30, 2012	Three months ended June 30, 2012	Six months ended June 30, 2012
(In thousands)							
With no related allowance:							
Multi-family construction	\$-	\$-	\$-	\$-	\$-	\$-	\$-
One-to-four family construction	8,577	12,623	-	8,616	7,660	7	21
Recreation and all other loans	359	532	-	362	365	1	3
Commercial construction	3,035	3,629	-	3,163	2,342	9	17
Commercial acquisition and development	14,324	19,560	-	12,666	12,756	14	33
Residential acquisition and development	30,024	38,805	-	35,928	37,453	42	86
Total	\$56,319	\$75,149	\$-	\$60,735	\$60,576	\$73	\$160
With an allowance:							
Multi-family construction	\$-	\$-	\$-	\$-	\$-	\$-	\$-
One-to-four family construction	6,002	7,545	1,219	3,440	4,495	6	14
Recreation and all other loans	-	-	-	-	-	-	-
Commercial construction	1,131	1,434	980	930	1,662	4	5
Commercial acquisition and development	6,076	6,387	1,122	11,804	11,075	21	40
Residential acquisition and development	30,525	42,898	7,320	31,255	36,921	70	167

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Total	\$43,734	\$58,264	\$10,641	\$47,429	\$54,153	\$101	\$226
Total:							
Multi-family construction	\$-	\$-	\$-	\$-	\$-	\$-	\$-
One-to-four family construction	14,579	20,168	1,219	12,056	12,155	13	35
Recreation and all other loans	359	532	-	362	365	1	3
Commercial construction	4,166	5,063	980	4,093	4,004	13	22
Commercial acquisition and development	20,400	25,947	1,122	24,470	23,831	35	73
Residential acquisition and development	60,549	81,703	7,320	67,183	74,374	112	253
Total	\$100,053	\$133,413	\$10,641	\$108,164	\$114,729	\$174	\$386

December 31, 2011

	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses (In thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Multi-family construction	\$1,067	\$2,259	\$-	\$5,474	\$18
One-to-four family construction	7,931	9,313	-	9,269	94
Recreation and all other loans	372	545	-	491	9
Commercial construction	633	917	-	9,663	83
Commercial acquisition and development	17,130	19,855	-	20,640	99
Residential acquisition and development	42,710	56,893	-	62,059	638
Total	\$69,843	\$89,782	\$-	\$107,596	\$941

With an allowance:

Multi-family construction	\$-	\$-	\$-	\$571	\$-
One-to-four family construction	5,313	6,083	1,589	5,334	108
Recreation and all other loans	-	-	-	271	2
Commercial construction	4,387	5,128	886	7,289	126
Commercial acquisition and development	5,091	7,728	1,418	12,965	429
Residential acquisition and development	43,545	48,487	17,688	54,527	986
Total	\$58,336	\$67,426	\$21,581	\$80,957	\$1,651

Total:

Multi-family construction	\$1,067	\$2,259	\$-	\$6,045	\$18
One-to-four family construction	13,244	15,396	1,589	14,603	202
Recreation and all other loans	372	545	-	762	11
Commercial construction	5,020	6,045	886	16,952	209
Commercial acquisition and development	22,221	27,583	1,418	33,605	528
Residential acquisition and development	86,255	105,380	17,688	116,586	1,624
Total	\$128,179	\$157,208	\$21,581	\$188,553	\$2,592

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 June 30, 2012 and December 31, 2011 was \$200.4 million and \$234.9 million, respectively. At June 30, 2012 and December 31, 2011, \$89.2 million and \$117.7 million, respectively, of those impaired loans had a valuation allowance of \$23.9 million and \$39.7 million, respectively. The remaining balance of impaired loans of \$111.2 million and \$117.2 million at June 30, 2012 and December 31, 2011, respectively, were charged down to 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 \$59.3 million and \$58.0 million at June 30, 2012 and December 31, 2011, respectively. The average recorded investment in impaired loans was \$209.3 million and \$217.0 million for the three months and six months ended June 30, 2012, respectively, and \$309.6 million for the year ended December 31, 2011.

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:

	2012	June 30, 2011	December 31, 2011
	(In thousands)		
Non-accrual loans and leases	\$240,246	\$331,076	\$276,798
Loans and leases 90 days or more past due, still accruing	1,632	3,980	3,434
Restructured loans and leases still accruing	25,071	44,786	42,018
Total non-performing loans and leases	\$266,949	\$379,842	\$322,250

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 such loan or lease is both well-secured and in the process of collection. At June 30, 2012, the Company's geographic NPL distribution was concentrated primarily in its Alabama, Texas, Louisiana and Tennessee markets, including the greater Memphis, Tennessee area, a portion of which is in northwest Mississippi and Arkansas. The following table presents the Company's nonaccrual loans and leases by segment and class as of the dates indicated:

	2012	June 30, 2011	December 31, 2011
	(In thousands)		
Commercial and industrial	\$13,156	\$9,337	\$12,260
Real estate			
Consumer mortgages	35,660	34,174	47,878
Home equity	2,995	1,232	2,036
Agricultural	8,390	8,526	4,179
Commercial and industrial-owner occupied	26,957	26,387	33,112
Construction, acquisition and development	104,283	200,434	133,110
Commercial real estate	44,359	48,571	40,616
Credit cards	364	546	594
All other	4,082	1,869	3,013
Total	\$240,246	\$331,076	\$276,798

In the normal course of business, management will sometimes grant concessions, which 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. Other conditions that warrant a loan being considered a TDR include reductions in interest rates to below market rates due to bankruptcy plans or by the bank in an attempt to assist the borrower in working through liquidity problems. 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. TDRs recorded as nonaccrual loans may be returned to accrual status in years after the restructure if there has been at least a six-month period of sustained repayment performance by the borrower under the restructured loan terms and the interest rate at the time of restructure was at or above market for a comparable loan. During the second quarter and first six months of 2012, 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 June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Commercial and industrial Real estate	2	\$ 658	\$ 656
Consumer mortgages	8	2,750	2,162
Agricultural	1	446	457
Commercial and industrial-owner occupied	9	3,837	3,254
Construction, acquisition and development	21	13,421	13,343
Commercial real estate	2	3,744	3,740
Total	43	\$ 24,856	\$ 23,612

	Six months ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Commercial and industrial Real estate	7	\$ 1,668	\$ 1,330
Consumer mortgages	21	6,016	5,373
Agricultural	2	853	861
Commercial and industrial-owner occupied	17	5,965	5,371
Construction, acquisition and development	32	20,701	20,299
Commercial	8	6,924	6,912
All other	5	639	637
Total	92	\$ 42,766	\$ 40,783

	Year ended December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
Commercial and industrial Real estate	7	\$ 3,142	\$ 2,374
Consumer mortgages	35	6,901	6,424
Agricultural	4	2,650	1,479
Commercial and industrial-owner occupied	29	13,330	11,740
Construction, acquisition and development	30	23,863	19,228
Commercial real estate	24	16,121	15,046
All other	7	2,957	2,406

Total	136	\$ 68,964	\$ 58,697
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The following tables summarize TDRs within the previous 12 months for which there was a payment default during the period indicated (i.e., 30 days or more past due at any given time during the period indicated):

	Three months ended June 30, 2012	
	Number of Contracts	Recorded Investment (Dollars in thousands)
Real estate		
Consumer mortgages	4	\$850
Commercial and industrial-owner occupied	2	248
Construction, acquisition and development	10	4,248
Commercial real estate	1	1,011
Total	17	\$6,357
	Six months ended June 30, 2012	
	Number of Contracts	Recorded Investment (Dollars in thousands)
Commercial and industrial	1	\$129
Real estate		
Consumer mortgages	10	1,368
Agricultural	1	170
Commercial and industrial-owner occupied	5	1,610
Construction, acquisition and development	10	4,248
Commercial	3	2,525
Total	30	\$10,050
	Year ended December 31, 2011	
	Number of Contracts	Recorded Investment (Dollars in thousands)
Commercial and industrial	4	\$1,506
Real estate		
Consumer mortgages	4	1,563
Agricultural	3	1,382
Commercial and industrial-owner occupied	6	1,683
Construction, acquisition and development	13	3,622
Commercial real estate	3	2,946
All other	1	302
Total	34	\$13,004

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:

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	Balance, Beginning of Period	Six months ended June 30, 2012			Balance, End of Period
		Charge-offs	Recoveries (In thousands)	Provision	
Commercial and industrial	\$20,724	\$(5,854)	\$2,582	\$8,363	\$25,815
Real estate					
Consumer mortgage	36,529	(7,034)	761	4,175	34,431
Home equity	8,630	(1,387)	393	(300)	7,336
Agricultural	3,921	(482)	63	(243)	3,259
Commercial and industrial-owner occupied	21,929	(6,600)	1,865	165	17,359
Construction, acquisition and development	45,562	(20,954)	4,110	4,037	32,755
Commercial real estate	39,444	(6,069)	4,887	(1,096)	37,166
Credit Cards	4,021	(1,150)	239	49	3,159
All other	14,358	(1,196)	555	850	14,567
Total	\$195,118	\$(50,726)	\$15,455	\$16,000	\$175,847

	Balance, Beginning of Period	Year ended December 31, 2011			Balance, End of Period
		Charge-offs	Recoveries (In thousands)	Provision	
Commercial and industrial	\$22,479	\$(17,337)	\$1,567	\$14,015	\$20,724
Real estate					
Consumer mortgage	35,540	(10,186)	1,111	10,064	36,529
Home equity	7,305	(5,852)	185	6,992	8,630
Agricultural	4,997	(3,420)	123	2,221	3,921
Commercial and industrial-owner occupied	20,403	(10,302)	393	11,435	21,929
Construction, acquisition and development	59,048	(67,362)	3,951	49,925	45,562
Commercial real estate	33,439	(17,436)	1,045	22,396	39,444
Credit Cards	4,126	(3,072)	803	2,164	4,021
All other	9,576	(7,088)	1,001	10,869	14,358
Total	\$196,913	\$(142,055)	\$10,179	\$130,081	\$195,118

	Balance, Beginning of Period	Six months ended June 30, 2011			Balance, End of Period
		Charge-offs	Recoveries (In thousands)	Provision	
Commercial and industrial	\$22,479	\$(14,365)	\$773	\$13,953	\$22,840
Real estate					
Consumer mortgage	35,540	(4,889)	363	6,031	37,045
Home equity	7,305	(2,473)	91	2,697	7,620
Agricultural	4,997	(965)	47	630	4,709
Commercial and industrial-owner occupied	20,403	(4,944)	194	8,991	24,644
Construction, acquisition and development	59,048	(49,126)	2,057	41,941	53,920
Commercial real estate	33,439	(6,111)	405	7,560	35,293
Credit Cards	4,126	(1,606)	494	473	3,487
All other	9,576	(5,524)	574	3,443	8,069
Total	\$196,913	\$(90,003)	\$4,998	\$85,719	\$197,627

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	June 30, 2012		Total Allowance
		Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	
Commercial and industrial	\$10,906	\$5,575	\$20,240	\$25,815
Real estate				
Consumer mortgage	17,081	2,002	32,429	34,431
Home equity	1,568	168	7,168	7,336
Agricultural	7,393	378	2,881	3,259
Commercial and industrial-owner occupied	21,713	1,019	16,340	17,359
Construction, acquisition and development	100,053	10,641	22,114	32,755
Commercial real estate	40,698	3,924	33,242	37,166
Credit Cards	-	-	3,159	3,159
All other	965	232	14,335	14,567
Total	\$200,377	\$23,939	\$151,908	\$175,847

	Recorded Balance of Impaired Loans	December 31, 2011		Total
		Allowance for Impaired Loans and Leases (In thousands)	Allowance for All Other Loans and Leases	
Commercial and industrial	\$7,833	\$4,071	\$16,653	\$20,724
Real estate				
Consumer mortgage	31,793	4,386	32,143	36,529
Home equity	675	48	8,582	8,630
Agricultural	3,096	380	3,541	3,921
Commercial and industrial-owner occupied	24,801	3,601	18,328	21,929
Construction, acquisition and development	128,179	21,581	23,981	45,562
Commercial real estate	36,122	5,324	34,120	39,444
Credit Cards	-	-	4,021	4,021
All other	2,424	317	14,041	14,358
Total	\$234,923	\$39,708	\$155,410	\$195,118

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:

	Six months ended		Year ended
	2012	June 30, 2011	December 31, 2011
	(In thousands)		
Balance at beginning of period	\$173,805	\$133,412	\$133,412
Additions to foreclosed properties			
New foreclosed properties	17,670	59,663	125,234
Reductions in foreclosed properties			
Sales	(37,936)	(34,663)	(64,488)
Writedowns	(9,924)	(7,208)	(20,353)
Balance at end of period	\$143,615	\$151,204	\$173,805

The following tables present the other real estate owned by geographical location, segment and class as of the dates indicated:

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	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	\$564	\$212	\$-	\$-	\$814	\$-	\$-	\$-	\$1,590
Real estate									
Consumer mortgages	2,457	469	2,612	-	2,334	1,402	188	2,470	11,932
Home equity	-	-	220	-	-	-	-	-	220
Agricultural	894	-	-	-	1,154	2,352	-	-	4,400
Commercial and industrial-owner occupied	554	448	2,337	76	1,814	163	149	246	5,787
Construction, acquisition and development	18,459	2,042	19,152	1,395	45,532	15,775	2,215	737	105,307
Commercial real estate	784	1,677	2,281	304	7,425	-	231	-	12,702
All other	47	60	243	116	1,177	-	2	32	1,677
Total	\$23,759	\$4,908	\$26,845	\$1,891	\$60,250	\$19,692	\$2,785	\$3,485	\$143,615

* Excludes the Greater Memphis Area.

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December 31, 2011

	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	\$436	\$ 17	\$ -	\$-	\$940	\$ -	\$ -	\$-	\$1,393
Real estate									
Consumer mortgages	3,816	448	3,400	-	5,199	4,160	733	2,889	20,645
Home equity	-	-	51	-	600	-	-	-	651
Agricultural	899	-	275	-	4,542	-	-	-	5,716
Commercial and industrial-owner occupied	1,022	303	1,972	76	2,371	426	174	-	6,344
Construction, acquisition and development	19,318	2,241	18,850	1,974	69,822	6,918	2,763	-	121,886
Commercial real estate	1,121	1,605	3,604	-	7,672	753	232	-	14,987
All other	276	83	220	193	1,358	-	53	-	2,183
Total	\$26,888	\$ 4,697	\$ 28,372	\$ 2,243	\$92,504	\$ 12,257	\$ 3,955	\$2,889	\$173,805

* Excludes the Greater Memphis Area.

June 30, 2011

	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	\$439	\$ 18	\$ -	\$-	\$946	\$ -	\$ -	\$-	\$1,403
Real estate									
Consumer mortgages	3,985	327	3,391	762	6,078	2,642	1,120	1,649	19,954
Home equity	-	58	291	-	-	368	-	-	717
Agricultural	950	87	2,081	-	1,551	-	-	-	4,669
Commercial and industrial-owner occupied	930	109	1,740	79	3,515	446	228	292	7,339
Construction, acquisition and	9,334	2,231	26,052	2,952	49,562	14,931	2,669	621	108,352

development									
Commercial									
real estate	2,757	1,725	1,112	451	1,215	203	584	-	8,047
All other	172	44	312	195	-	-	-	-	723
Total	\$18,567	\$4,599	\$34,979	\$4,439	\$62,867	\$18,590	\$4,601	\$2,562	\$151,204

* Excludes the Greater Memphis Area.

The Company incurred total foreclosed property expenses of \$10.2 million and \$3.8 million for the three months ended June 30, 2012 and 2011, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were \$7.6 million and \$2.1 million for the three months ended June 30, 2012 and 2011, respectively. The Company incurred total foreclosed property expenses of \$18.6 and \$10.8 million for the six months ended June 30, 2012 and 2011, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were \$13.4 and \$7.6 million for the six months ended June 30, 2012 and 2011, 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. A comparison of amortized cost and estimated fair values of available-for-sale securities as of June 30, 2012 and December 31, 2011 follows:

	Amortized Cost	June 30, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government agencies	\$1,456,274	\$24,822	\$36	\$1,481,060
Government agency issued residential mortgage-backed securities	352,093	8,525	129	360,489
Government agency issued commercial mortgage-backed securities	31,538	4,357	-	35,895
Obligations of states and political subdivisions	546,972	30,806	149	577,629
Other	7,039	719	-	7,758
Total	\$2,393,916	\$69,229	\$314	\$2,462,831

	Amortized Cost	December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government agencies	\$1,471,920	\$29,347	\$24	\$1,501,243
Government agency issued residential mortgage-backed securities	394,894	9,786	70	404,610
Government agency issued commercial mortgage-backed securities	31,161	3,438	-	34,599
Obligations of states and political subdivisions	541,138	22,705	323	563,520
Other	8,938	608	-	9,546
Total	\$2,448,051	\$65,884	\$417	\$2,513,518

Gross gains of approximately \$271,000 and gross losses of approximately \$20,000 were recognized on available-for-sale securities during the first six months of 2012, while gross gains of \$10.3 million and gross losses of approximately \$260,000 were recognized during the first six months of 2011.

The amortized cost and estimated fair value of available-for-sale securities at June 30, 2012 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.

	Amortized Cost	June 30, 2012		Weighted Average Yield
		Estimated Fair Value		
Maturing in one year or less	\$360,188	\$364,523	2.38	%
Maturing after one year through five years	1,496,505	1,525,453	1.80	

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Maturing after five years through ten years	87,604	92,402	4.44
Maturing after ten years	449,619	480,453	5.64
Total	\$2,393,916	\$2,462,831	

The following tables summarize information pertaining to temporarily impaired available-for-sale securities with continuous unrealized loss positions at June 30, 2012 and December 31, 2011:

	June 30, 2012					
	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		
(In thousands)						
U.S. Government agencies	\$65,845	\$36	\$-	\$-	\$65,845	\$36
Government agency issued residential mortgage-backed securities	20,519	33	3,364	96	23,883	129
Government agency issued commercial mortgage-backed securities	-	-	-	-	-	-
Obligations of states and political subdivisions	8,982	87	311	62	9,293	149
Other	-	-	-	-	-	-
Total	\$95,346	\$156	\$3,675	\$158	\$99,021	\$314

	December 31, 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		
(In thousands)						
U.S. Government agencies	\$34,850	\$24	\$-	\$-	\$34,850	\$24
Government agency issued residential mortgage-backed securities	-	-	3,751	70	3,751	70
Government agency issued commercial mortgage-backed securities	-	-	-	-	-	-
Obligations of states and political subdivisions	20,820	144	9,214	179	30,034	323
Other	-	-	-	-	-	-
Total	\$55,670	\$168	\$12,965	\$249	\$68,635	\$417

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 was recorded during the first six months of 2012.

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 to purchase 2.8 million and 3.0 million shares of Company common stock with a weighted average exercise price of \$20.51 and \$20.70 per share for the three months and six months ended June 30, 2012, respectively, were excluded from diluted shares. Weighted-average antidilutive stock options to purchase 3.0 million shares of Company common stock for both the three months and six months ended June 30, 2011, respectively, with a weighted average exercise price of \$21.03 and \$21.01 per share for the three months and six months ended June 30, 2011, respectively, were excluded from diluted shares. There were no antidilutive other equity awards for the three

months and six months ended June 30, 2012 and 2011. The basic and diluted earnings per share computations for the first six months of 2012 reflect the Company's issuance of 10,952,381 shares of common stock on January 24, 2012 in connection with an underwritten public offering. 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 June 30,							
	2012	Shares		Per Share	2011	Shares		Per Share
	Income	(Denominator)	Amount	Income	(Denominator)	Amount		
	(Numerator)			(Numerator)				
	(In thousands, except per share amounts)							
Basic EPS								
Income available to commonshareholders	\$20,624	94,436	\$0.22	\$12,826	83,454	\$0.15		
Effect of dilutive share-based awards	-	105		-	60			
Diluted EPS								
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	\$20,624	94,541	\$0.22	\$12,826	83,514	\$0.15		
	Six months ended June 30,							
	2012	Shares		Per Share	2011	Shares		Per Share
	Income	(Denominator)	Amount	Income	(Denominator)	Amount		
	(Numerator)			(Numerator)				
	(In thousands, except per share amounts)							
Basic EPS								
Income available to common shareholders	\$43,490	93,082	\$0.47	\$12,332	83,451	\$0.15		
Effect of dilutive share-based awards	-	74		-	59			
Diluted EPS								
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	\$43,490	93,156	\$0.47	\$12,332	83,510	\$0.15		

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 June 30,					
	2012		2011			
	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	\$8,404	\$(3,219)	\$5,185	\$46,461	\$(17,781)	\$28,680
Less: Reclassification adjustment for net gains realized in net income	(177)	68	(109)	(10,045)	3,842	(6,203)
Recognized employee benefit plan						
net periodic benefit cost	1,192	(798)	394	633	(242)	391
Other comprehensive income	\$9,419	\$(3,949)	\$5,470	\$37,049	\$(14,181)	\$22,868
Net income			20,624			12,826
Comprehensive income			\$26,094			\$35,694

	Six months ended June 30,					
	2012		2011			
	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	\$3,698	\$(1,420)	\$2,278	\$42,417	\$(16,244)	\$26,173
Less: Reclassification adjustment for net gains realized in net income	(251)	96	(155)	(10,062)	3,849	(6,213)
Recognized employee benefit plan						
net periodic benefit cost	2,384	(912)	1,472	1,266	(484)	782
Other comprehensive income	\$5,831	\$(2,236)	\$3,595	\$33,621	\$(12,879)	\$20,742
Net income			43,490			12,332
Comprehensive income			\$47,085			\$33,074

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill by operating segment for the six months ended June 30, 2012 were as follows:

	Community Banking	Insurance Agencies (In thousands)	Total
Balance as of December 31, 2011	\$217,618	\$53,679	\$271,297
Goodwill recorded during the period	-	-	-
Balance as of June 30, 2012	\$217,618	\$53,679	\$271,297

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. No events occurred during the second quarter or first six months of 2012 that indicated the necessity of an earlier goodwill impairment assessment.

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. As 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 June 30, 2012		As of December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)				
Amortized intangible assets:				
Core deposit intangibles	\$27,801	\$ 21,204	\$27,801	\$ 20,728
Customer relationship intangibles	32,749	\$ 24,944	32,749	23,935
Non-solicitation intangibles	75	57	75	38
Total	\$60,625	\$ 46,205	\$60,625	\$ 44,701
Unamortized intangible assets:				
Trade names	\$688	\$ -	\$688	\$ -

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
(In thousands)				
Aggregate amortization expense for:				
Core deposit intangibles	\$242	\$248	\$476	\$515
Customer relationship intangibles	511	575	1,009	1,153
Non-solicitation intangibles	9	9	19	19
Total	\$762	\$832	\$1,504	\$1,687

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ending December 31, 2012 and the succeeding four years:

	Core Deposit Intangibles	Customer Relationship Intangibles	Non- Solicitation Intangibles	Total
(In thousands)				
Estimated Amortization Expense:				
For year ending December 31, 2012	\$946	\$ 1,957	\$37	\$2,940
For year ending December 31, 2013	582	1,668	-	2,250
For year ending December 31, 2014	526	1,418	-	1,944
For year ending December 31, 2015	487	1,128	-	1,615
For year ending December 31, 2016	451	823	-	1,274

NOTE 9 – PENSION BENEFITS

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

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	Three months ended		Six months ended	
	2012	June 30, 2011	2012	June 30, 2011
	(In thousands)			
Service cost	\$2,592	\$2,082	\$5,184	\$4,164
Interest cost	2,072	2,028	4,144	4,056
Expected return on assets	(2,012)	(3,713)	(5,682)	(7,426)
Amortization of unrecognized transition amount	5	5	10	10
Recognized prior service cost	(192)	50	(384)	100
Recognized net loss	1,379	578	2,758	1,156
Net periodic benefit costs	\$3,844	\$1,030	\$6,030	\$2,060

NOTE 10 – RECENT PRONOUNCEMENTS

In April 2011, the FASB issued an accounting standards update (“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. The adoption of this ASU did not 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. The adoption of this ASU did not have a material impact 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 changed the manner in which the Company’s other comprehensive income is disclosed and did not have an 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. The adoption of this ASU did not have a material impact 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 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 six-month periods ended June 30, 2012 and 2011 were as follows:

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Three months ended June 30, 2012:				
Results of Operations				
Net interest revenue	\$106,649	\$76	\$(1,984)	\$104,741
Provision for credit losses	4,288	-	1,712	6,000
Net interest revenue after provision for credit losses	102,361	76	(3,696)	98,741
Noninterest revenue	29,745	22,905	13,818	66,468
Noninterest expense	84,057	19,463	32,986	136,506
Income (loss) before income taxes	48,049	3,518	(22,864)	28,703
Income tax expense (benefit)	15,721	1,404	(9,046)	8,079
Net income (loss)	\$32,328	\$2,114	\$(13,818)	\$20,624
Selected Financial Information				
Total assets at end of period	\$10,606,406	\$179,106	\$2,362,306	\$13,147,818
Depreciation and amortization	5,911	842	700	7,453
Three months ended June 30, 2011:				
Results of Operations				
Net interest revenue	\$102,880	\$84	\$6,948	\$109,912
Provision for credit losses	32,534	-	(294)	32,240
Net interest revenue after provision for credit losses	70,346	84	7,242	77,672
Noninterest revenue	40,913	22,890	11,341	75,144
Noninterest expense	91,936	19,011	26,122	137,069
Income (loss) before income taxes	19,323	3,963	(7,539)	15,747
Income tax expense (benefit)	4,063	1,576	(2,718)	2,921
Net income (loss)	\$15,260	\$2,387	\$(4,821)	\$12,826
Selected Financial Information				
Total assets at end of period	\$10,483,137	\$171,122	\$2,712,791	\$13,367,050
Depreciation and amortization	6,107	972	1,069	8,148

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Six months ended June 30, 2012				
Results of Operations				
Net interest revenue	\$214,301	\$149	\$(4,099)	\$210,351
Provision for credit losses	14,516	-	1,484	16,000
Net interest revenue after provision for credit losses	199,785	149	(5,583)	194,351
Noninterest revenue	60,930	46,055	31,843	138,828
Noninterest expense	183,116	38,161	50,909	272,186
Income (loss) before income taxes	77,599	8,043	(24,649)	60,993
Income tax expense (benefit)	25,033	3,223	(10,753)	17,503
Net income (loss)	\$52,566	\$4,820	\$(13,896)	\$43,490
Selected Financial Information				
Total assets at end of period	\$10,606,406	\$179,106	\$2,362,306	\$13,147,818
Depreciation and amortization	11,933	1,716	1,396	15,045
Six months ended June 30, 2011:				
Results of Operations				
Net interest revenue	\$205,543	\$179	\$13,627	\$219,349
Provision for credit losses	85,775	-	(56)	85,719
Net interest revenue after provision for credit losses	119,768	179	13,683	133,630
Noninterest revenue	68,905	45,427	29,123	143,455
Noninterest expense	174,654	37,063	55,362	267,079
Income (loss) before income taxes	14,019	8,543	(12,556)	10,006
Income tax expense (benefit)	1,962	3,401	(7,689)	(2,326)
Net income (loss)	\$12,057	\$5,142	\$(4,867)	\$12,332
Selected Financial Information				
Total assets at end of period	\$10,483,137	\$171,122	\$2,712,791	\$13,367,050
Depreciation and amortization	12,381	1,946	2,149	16,476

The increased net income of the Community Banking operating segment for the three months and six months ended June 30, 2012 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:

	June 30, 2011	December 31, 2011
2012		
	(Dollars in thousands)	

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Unpaid principal balance	\$4,600,799	\$4,026,851	\$4,293,552
Weighted-average prepayment speed (CPR)	19.2	15.4	22.7
Discount rate (annual percentage)	10.3	10.3	10.3
Weighted-average coupon interest rate (percentage)	4.7	5.2	4.9
Weighted-average remaining maturity (months)	309.0	315.0	311.0
Weighted-average servicing fee (basis points)	27.6	28.2	28.0

Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSR 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 and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSR 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:

	2012	2011
	(In thousands)	
Fair value as of January 1	\$30,174	\$38,642
Additions:		
Origination of servicing assets	7,601	2,431
Changes in fair value:		
Due to payoffs/paydowns	(3,463)	(1,300)
Due to change in valuation inputs or assumptions used in the valuation model	(140)	2,540
Other changes in fair value	(5)	(7)
Fair value as of June 30	\$34,167	\$42,306

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 \$3.2 million and \$2.9 million and late and other ancillary fees of approximately \$323,000 and \$311,000 for the three months ended June 30, 2012 and 2011, respectively. The Company recorded contractual servicing fees of \$6.3 million and \$5.7 million and late and other ancillary fees of approximately \$685,000 and \$632,000 for the six months ended June 30, 2012 and 2011, 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 June 30, 2012, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$221.7 million with a carrying value and fair value reflecting a loss of \$1.5 million. At June 30, 2011, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$131.1 million with a carrying value and fair value reflecting a loss of approximately \$149,000. At June 30, 2012, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$246.8 million with a carrying value and fair value reflecting a gain of \$5.0 million. At June 30, 2011, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$83.6 million with a carrying value and fair value reflecting a gain of approximately \$990,000.

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 June 30, 2012, the notional amount of customer related derivative financial instruments was \$481.2 million with an average maturity of 59 months, an average interest receive rate of 2.6% and an average interest pay rate of 5.9%.

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. For additional information about the Company's valuation of MSR's, see Note 12, Mortgage Servicing Rights.

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 ranging from 1.6% to 4.5%. 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 less an average of 7% for estimated selling costs. 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 June 30, 2012 and 2011:

	June 30, 2012			Total
	Level 1	Level 2	Level 3	
(In thousands)				
Assets:				
Available-for-sale securities:				
U.S. Government agencies	\$-	\$1,481,060	\$-	\$1,481,060
Government agency issued residential mortgage-backed securities	-	360,489	-	360,489
Government agency issued commercial mortgage-backed securities	-	35,895	-	35,895
Obligations of states and political subdivisions	-	577,629	-	577,629
Other	673	7,085	-	7,758
Mortgage servicing rights	-	-	34,167	34,167
Derivative instruments	-	-	59,389	59,389
Total	\$673	\$2,462,158	\$93,556	\$2,556,387
Liabilities:				
Derivative instruments	\$-	\$-	\$56,567	\$56,567

	June 30, 2011			Total
	Level 1	Level 2	Level 3	
(In thousands)				
Assets:				
Available-for-sale securities:				
U.S. Government agencies	\$-	\$1,599,231	\$-	\$1,599,231
Government agency issued residential mortgage-backed securities	-	430,402	-	430,402
Government agency issued commercial mortgage-backed securities	-	31,627	-	31,627
Obligations of states and political subdivisions	-	486,653	-	486,653
Other	703	12,208	-	12,911
Mortgage servicing rights	-	-	39,455	39,455
Derivative instruments	-	-	40,338	40,338
Total	\$703	\$2,560,121	\$79,793	\$2,640,617
Liabilities:				
Derivative instruments	\$-	\$-	\$39,931	\$39,931

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six-month periods ended June 30, 2012 and 2011:

	Mortgage Servicing Rights	Derivative Instruments (In thousands)	Available- for-sale Securities
Balance at December 31, 2011	\$30,174	\$342	\$-
Year to date net gains included in:			
Net income	3,993	2,480	-
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	-	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at June 30, 2012	\$34,167	\$2,822	\$-
Net unrealized gains included in net income for the quarter relating to assets and liabilities held at June 30, 2012	\$296	\$973	\$-

	Mortgage Servicing Rights	Derivative Instruments (In thousands)	Available- for-sale Securities
Balance at December 31, 2010	\$38,642	\$2,685	\$-
Year to date net gains (losses) included in:			
Net income (loss)	813	(2,278)	-
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	-	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at June 30, 2011	\$39,455	\$407	\$-
Net unrealized gains included in net income for the quarter relating to assets and liabilities held at June 30, 2011	\$3,839	\$53	\$-

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 June 30, 2012 and 2011:

	June 30, 2012				Total Losses
	Level 1	Level 2	Level 3 (In thousands)	Total	
Assets:					
Loans held for sale	\$-	\$108,134	\$-	\$108,134	\$-
Impaired loans	-	-	200,377	200,377	(23,939)
Other real estate owned	-	-	143,615	143,615	(26,411)

	June 30, 2011				Total	Total
	Level 1	Level 2	Level 3	Total		Losses
Assets:	(In thousands)					
Loans held for sale	\$-	\$70,519	\$-	\$70,519	\$-	
Impaired loans	-	-	303,657	303,657	(46,810)
Other real estate owned	-	-	151,204	151,204	(12,860)

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.

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. All of the Company's loans and leases are classified as Level 3.

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. The Company's noninterest bearing demand deposits, interest bearing demand deposits and savings are classified as Level 1. Certificates of deposit are classified as Level 2.

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. The Company's federal funds purchased, repurchase agreements and junior subordinated debt are classified as Level 1. FHLB advances are classified as Level 2.

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 Company's lending commitments are classified as Level 1.

The following table presents carrying and fair value information of financial instruments at June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands)				
Assets:				
Cash and due from banks	\$224,084	\$224,084	\$195,681	\$195,681
Interest bearing deposits with other banks	603,458	603,458	303,663	303,663
Available-for-sale securities	2,462,831	2,462,831	2,513,518	2,513,518
Net loans and leases	8,556,548	8,609,787	8,675,193	8,730,819
Loans held for sale	108,134	108,190	83,458	83,503
Liabilities:				
Noninterest bearing deposits	2,312,044	2,312,044	2,269,799	2,269,799
Savings and interest bearing deposits	5,865,498	5,865,498	5,698,527	5,698,527
Other time deposits	2,778,795	2,818,274	2,986,863	3,029,147
Federal funds purchased and securities sold under agreement to repurchase and other short-term borrowings	363,490	363,095	375,433	375,285
Long-term debt and other borrowings	193,877	204,011	193,880	200,166
Derivative instruments:				
Forward commitments to sell fixed rate mortgage loans	(1,474)	(1,474)	(1,057)	(1,057)
Commitments to fund fixed rate mortgage loans	4,975	4,975	2,140	2,140
Interest rate swap position to receive	54,414	54,414	53,608	53,608
Interest rate swap position to pay	(55,093)	(55,093)	(54,349)	(54,349)

NOTE 15 – OTHER NONINTEREST REVENUE AND EXPENSE

The following table details other noninterest revenue for the three months and six months ended June 30, 2012 and 2011:

	Three months ended		Six months ended	
	2012	June 30, 2011	2012	June 30, 2011
(In thousands)				
Annuity fees	\$635	\$1,094	\$1,277	\$2,390
Brokerage commissions and fees	1,779	1,437	3,217	3,075
Bank-owned life insurance	1,812	2,223	4,425	3,922
Other miscellaneous income	3,438	4,732	7,815	9,415
Total other noninterest income	\$7,664	\$9,486	\$16,734	\$18,802

The following table details other noninterest expense for the three months and six months ended June 30, 2012 and 2011:

	Three months ended		Six months ended	
	2012	June 30, 2011	2012	June 30, 2011
	(In thousands)			
Advertising	\$902	\$1,291	\$1,743	\$2,180
Foreclosed property expense	10,212	3,765	18,621	10,847
Telecommunications	2,023	2,036	4,229	4,179
Public relations	1,355	1,554	2,821	3,068
Data processing	2,444	2,365	5,208	4,666
Computer software	1,786	1,899	3,589	3,747
Amortization of intangibles	742	833	1,505	1,687
Legal	981	1,158	3,197	3,756
Postage and shipping	1,033	1,171	2,288	2,468
Other miscellaneous expense	17,762	18,814	36,006	36,169
Total other noninterest expense	\$39,240	\$34,886	\$79,207	\$72,767

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

The nature of the Company's business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative investigations and proceedings. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, and endeavored to provide reasonable insurance coverage, litigation and regulatory actions present an ongoing risk.

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions and potential transactions with numerous customers or applicants. From time to time, borrowers, customers, former employees and other third parties have brought actions against the Company or its subsidiaries, in some cases claiming substantial damages. Financial services companies are subject to the risk of class action litigation and, from time to time, the Company and its subsidiaries are subject to such actions brought against it. Additionally, the Bank is, and management expects it to be, engaged in a number of foreclosure proceedings and other collection actions as part of its lending and leasing collections activities, which, from time to time, have resulted in counterclaims against the Bank. Various legal proceedings have arisen and may arise in the future out of claims against entities to which the Company is a successor as a result of business combinations. The Company's insurance has deductibles, and will likely not cover all such litigation or other proceedings or the costs of defense. The Company and its subsidiaries may also be subject to enforcement actions by federal or state regulators, including the Securities and Exchange Commission, the Federal Reserve, the FDIC, the Consumer Financial Protection Bureau, the Department of Justice, state attorneys general and the Mississippi Department of Banking and Consumer Finance. When and as the Company determines it has meritorious defenses to the claims asserted, it vigorously defends against such claims. The Company will consider settlement of claims when, in management's judgment and in consultation with counsel, it is in the best interests of the Company to do so.

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of the Company's business) utilizing the latest and most reliable information available. For matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is

probable the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, the Company's insurance will not cover all such litigation, other proceedings or claims, or the costs of defense.

While the final outcome of any legal proceedings is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense accrued as of June 30, 2012 is adequate and that any incremental liability arising from the Company's legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable 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 given fiscal period.

On May 12, 2010, the Company and its Chief Executive Officer, President and Chief Financial Officer were named in a 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. In particular, the allegations relate to the Company's recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal control over financial reporting leading up to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The plaintiff sought class certification, an unspecified amount of damages and awards of costs and attorneys' fees and other equitable relief. On May 24, 2012, the Company reached a settlement with the plaintiff. Pursuant to the terms of the settlement, subject to final court approval, the Company's insurance carriers have funded the settlement payment, other than an immaterial amount of incidental expenses that the Company has covered. On July 11, 2012, the court preliminarily approved the settlement on the terms submitted by the parties and set a final settlement hearing for October 31, 2012. If settled on the terms preliminarily approved by the court, the settlement 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. The plaintiff in 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. 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, its internal control over financial reporting 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 issued subpoenas for documents and testimony, with which the Company has fully complied. 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 an Arkansas customer 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 plaintiff is seeking to recover damages in an unspecified amount and equitable relief. The case was transferred to pending multi-district litigation in the U.S. District Court for the Southern District of Florida. On May 4, 2012, the judge presiding over the multi-district litigation entered an order certifying a class in this case. The Company has filed a petition for leave to appeal the class certification order, which, if granted, would provide the Company with an immediate right to appeal the class certification order. 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.

NOTE 17 – SUBSEQUENT EVENTS

On July 2, 2012, the Company purchased certain assets of The Securance Group, an independent insurance agency with locations in Brewton, Montgomery and Troy, Alabama. Consideration paid to complete this transaction consisted of cash paid to The Securance Group shareholders in the aggregate amount of approximately \$6,750,000. The provisions of the agreement also provide for additional aggregate consideration of up to \$2,000,000 in cash to be paid in three annual installments if certain performance criteria are met. This acquisition was not material to the financial position or results of operations of the Company.

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

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 these terms. These forward-looking statements include, without limitation, those relating to amortization expense for intangible assets, goodwill impairments, loan impairment, utilization of appraisals and inspections for real estate loans, maturity, renewal or extension of construction, acquisition and development loans, net interest revenue, fair value determinations, 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, 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, the Company's reserve for losses from representation and warranty obligations, 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 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, impaired loan charge-offs, troubled debt restructurings, diversification of the Company's revenue stream, liquidity needs and strategies, sources of funding, net interest margin, declaration and payment of dividends, future acquisitions and consideration to be used therefore, the use of proceeds from the Company's underwritten public offering and the impact of certain claims, legal and administrative proceedings and pending litigation. 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 may include, but are not limited to, conditions in the financial markets and economic conditions generally, the ongoing debt crisis and the downgrade of the sovereign credit ratings for various nations, the adequacy of the Company's provision and allowance for credit losses to cover actual credit losses, the credit risk associated with real estate construction, acquisition and development loans, losses resulting from the significant amount of the Company's other real estate owned, limitations on the Company's ability to declare and pay dividends, the impact of legal or administrative proceedings, the availability of capital on favorable terms if and when needed, liquidity risk, governmental regulation, including the Dodd Frank Act, and supervision of the Company's operations, the impact of regulations on service charges on the Company's core deposit accounts, the susceptibility of

the Company's business to local economic conditions, the soundness of other financial institutions, 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, reputational risk, the impact of hurricanes or other adverse weather events, any requirement that the Company write down goodwill or other intangible assets, diversification in the types of financial services the Company offers, competition with other financial services companies, risks in connection with completed or potential acquisitions, the Company's growth strategy, interruptions or breaches in the Company's information system security, the failure of certain third party vendors to perform, dilution caused by

the Company's issuance of any additional shares of its common stock to raise capital or acquire other banks, bank holding companies, financial holding companies and insurance agencies, the effectiveness of the Company's internal controls, 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.

OVERVIEW

BancorpSouth, Inc. (the "Company") is a regional financial holding company headquartered in Tupelo, Mississippi with \$13.1 billion in assets at June 30, 2012. 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 six-month periods ended June 30, 2012 and 2011 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. The information that follows is provided to enhance comparability of financial information between years and to provide a better understanding of the Company's operations.

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 several 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. While this impact has been reflected in the credit quality measures during the past two years, the Company's financial condition at June 30, 2012 indicates decreases in the allowance for credit losses, total NPLs and non-performing assets ("NPAs"), and near-term past dues when compared to December 31, 2011 and June 30, 2011. Management believes that the Company is well positioned with respect to overall credit quality as evidenced by this improvement in credit quality metrics at June 30, 2012 compared to December 31, 2011 and June 30, 2011. 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 will continue to focus on early identification and resolution of any credit issues.

The largest source of the Company's revenue 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 value 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.

In the second quarter and first six months of 2012, the Company's debit card revenue decreased by \$3.7 million and \$6.8 million, respectively, compared to the second quarter and first six months of 2011. Management estimates that debit card revenue could be reduced by approximately \$13.0 million in 2012 compared to 2011, as a result of the impact of the final rule implementing the Durbin Debt Interchange Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Durbin Amendment"). This estimate is based on management's assumptions that revenue associated with consumer signature activity would be 58% of the level prior to the implementation of the Durbin Amendment, revenue associated with business signature activity would be 12% of the level prior to the implementation of the Durbin Amendment and revenue associated with consumer and business PIN activity would be

80% of the level prior to the implementation of the Durbin Amendment.

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 DATA

Three months ended
June 30,
2012 2011 2012 2011
Six months ended
June 30,
2012 2011
(Dollars in thousands, except per share data)

Earnings Summary:

Total interest revenue	\$123,204	\$137,235	\$248,579	\$276,063
Total interest expense	18,463	27,323	38,228	56,714
Net interest income	104,741	109,912	210,351	219,349
Provision for credit losses	6,000	32,240	16,000	85,719
Noninterest income	66,468	75,144	138,828	143,455
Noninterest expense	136,506	137,069	272,186	267,079
Income before income taxes	28,703	15,747	60,993	10,006
Income tax expense (benefit)	8,079	2,921	17,503	(2,326)
Net income	\$20,624	\$12,826	\$43,490	\$12,332

Balance Sheet - Period-end balances:

Total assets	\$13,147,818	\$13,367,050	\$13,147,818	\$13,367,050
Total securities	2,462,831	2,560,824	2,462,831	2,560,824
Loans and leases, net of unearned income	8,732,395	9,214,553	8,732,395	9,214,553
Total deposits	10,956,337	11,308,463	10,956,337	11,308,463
Long-term debt	33,500	35,000	33,500	35,000
Total shareholders' equity	1,418,311	1,246,703	1,418,311	1,246,703

Balance Sheet-Average Balances:

Total assets	\$13,018,231	\$13,365,560	\$13,053,294	\$13,452,183
Total securities	2,520,932	2,707,282	2,514,437	2,722,763
Loans and leases, net of unearned income	8,735,225	9,249,127	8,763,383	9,274,415
Total deposits	10,908,919	11,355,871	10,976,435	11,426,363
Long-term debt	33,500	89,395	33,500	99,641
Total shareholders' equity	1,403,733	1,222,281	1,383,721	1,220,851

Common Share Data:

Basic earnings per share	\$0.22	\$0.15	\$0.47	\$0.15
Diluted earnings per share	0.22	0.15	0.47	0.15
Cash dividends per share	0.01	0.01	0.02	0.12
Book value per share	15.02	14.93	15.02	14.93
Dividend payout ratio	4.55	% 6.67	% 4.26	% 80.00

Financial Ratios (Annualized):

Return on average assets	0.64	% 0.38	% 0.67	% 0.18
Return on average shareholders' equity	5.91	4.21	6.32	2.04
Total shareholders' equity to total assets	10.79	9.33	10.79	9.33
Tangible shareholders' equity to tangible assets	8.80	7.32	8.80	7.32
Net interest margin-fully taxable equivalent	3.65	3.71	3.65	3.70

Credit Quality Ratios (Annualized):

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Net charge-offs to average loans and leases	0.55	%	1.42	%	0.80	%	1.83	%
Provision for credit losses to average loans and leases	0.27		1.39		0.37		1.85	
Allowance for credit losses to net loans and leases	2.01		2.14		2.01		2.14	
Allowance for credit losses to NPLs	65.87		52.03		65.87		52.03	
Allowance for credit losses to NPAs	42.83		37.21		42.83		37.21	
NPLs to net loans and leases	3.06		4.12		3.06		4.12	
NPAs to net loans and leases	4.70		5.76		4.70		5.76	
Capital Adequacy:								
Tier I capital	13.41	%	10.82	%	13.41	%	10.82	%
Total capital	14.66		12.08		14.66		12.08	
Tier I leverage capital	10.07		8.22		10.07		8.22	

In addition to financial ratios based on measures defined by accounting principles generally accepted in the United States (“U.S. GAAP”), the Company utilizes tangible shareholders’ equity and tangible asset measures when evaluating the performance of the Company. Tangible shareholders’ equity is defined by the Company as total shareholders’ equity less goodwill and identifiable intangible assets. Tangible assets are defined by the Company as total assets less goodwill and identifiable intangible assets. Management believes the ratio of tangible shareholders’ equity to tangible assets to be an important measure of financial strength of the Company. The following table

reconciles tangible assets and tangible shareholders' equity as presented above to U.S. GAAP financial measures as reflected in the Company's unaudited consolidated financial statements:

	June 30,			
	2012	2011		
	(Dollars, in thousands)			
Tangible Assets:				
Total assets	\$13,147,818	\$13,367,050		
Less: Goodwill	271,297	271,297		
Other identifiable intangible assets	15,108	18,249		
Total tangible assets	\$12,861,413	\$13,077,504		
Tangible Shareholders' Equity				
Total shareholders' equity	\$1,418,311	\$1,246,703		
Less: Goodwill	271,297	271,297		
Other identifiable intangible assets	15,108	18,249		
Total tangible shareholders' equity	\$1,131,906	\$957,157		
Tangible shareholders' equity to tangible assets	8.80	%	7.32	%

FINANCIAL HIGHLIGHTS

The Company reported net income of \$20.6 million for the second quarter of 2012, compared to net income of \$12.8 million for the same quarter of 2011. For the first six months of 2012, the Company reported net income of \$43.5 million compared to net income of \$12.3 million for the first six months of 2011. The decreased provision for credit losses was the most significant factor contributing to the increase in net income, as the charge in the second quarter and first six months of 2012 was \$6.0 million and \$16.0 million, respectively, compared to a charge of \$32.2 million and \$85.7 million during the second quarter and first six months of 2011, respectively. Net charge-offs decreased to \$11.9 million, or 0.55% of average loans and leases, during the second quarter of 2012, compared to \$32.9 million, or 1.42% of average loans and leases, during the second quarter of 2011. For the six months ended June 30, 2012, net charge-offs decreased to \$35.3 million or 0.80% of average loans and leases, compared to \$85.0 million or 1.83% of average loans and leases for the six months ended June 30, 2011. The decrease in the provision for credit losses reflected the impact of a significant decrease in NPL formation during the first six months of 2012 as NPLs decreased from \$322.3 million at December 30, 2011 to \$266.9 million at June 30, 2012. The impact of the economic environment continues to be evident on real estate construction, acquisition and development loans and more specifically on residential construction, acquisition and development loans. Many of these loans have become collateral-dependent, requiring recognition of an impairment loss to reflect the decline in real estate values. The Company has continued its focus on improving credit quality and reducing NPLs especially in the real estate construction, acquisition and development loan portfolio as evidenced by the decrease in that portfolio's nonaccrual loans of \$28.8 million to \$104.3 million at June 30, 2012 from \$133.1 million at December 31, 2011.

The primary source of revenue for the Company is the net interest revenue earned by the Bank. Net interest revenue is the difference between interest earned on loans, investments and other earning assets and interest paid on deposits and other obligations. Net interest revenue was \$104.7 million for the second quarter of 2012, a decrease of \$5.2 million, or 4.7%, from \$109.9 million for the second quarter of 2011. Net interest revenue was \$210.4 million for the first six months of 2012, a decrease of \$9.0 million, or 4.1%, from \$219.3 million for the first six months of 2011. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. The Company's objective is to manage those

assets and liabilities to maximize net interest revenue, while balancing interest rate, credit, liquidity and capital risks. The Company experienced an increase in lower rate savings deposits and a decrease in higher rate other time deposits, which resulted in a decrease in interest expense of \$8.9 million, or 32.4%, in the second quarter of 2012 compared to the second quarter of 2011 and a decrease in interest expense of \$18.5 million, or 32.6%, in the first six months of 2012 compared to the first six months of 2011. The decrease in

net interest revenue for the second quarter and first six months of 2012 was a result of the decrease in interest expense being more than offset by the decrease in interest revenue that resulted from the declining interest rate environment combined with the low loan demand as interest revenue decreased \$14.0 million, or 10.2%, in the second quarter of 2012 compared to the second quarter of 2011 and decreased \$27.5 million, or 10.0%, in the first six months of 2012 compared to the first six months of 2011. Real estate construction, acquisition and development loans decreased \$73.3 million, or 8.1%, to \$835.0 million at June 30, 2012 from \$908.4 million at December 31, 2011. While loan demand has been weak, the Company has managed to replace some loan runoff with new loan production, primarily in its Texas and Louisiana markets.

The Company attempts to diversify its revenue stream by increasing the amount of revenue received from mortgage lending operations, insurance agency activities, brokerage and securities activities and other activities that generate fee income. Management believes this diversification is important to reduce the impact of fluctuations in net interest revenue on the overall operating results of the Company. Noninterest revenue decreased \$8.7 million, or 11.6%, for the second quarter of 2012 compared to the second quarter of 2011 and decreased \$4.6 million, or 3.2%, for the first six months of 2012 compared to the first six months of 2011. One of the primary contributors to the decrease in noninterest revenue was the decrease in securities gains, which reflected a decrease of \$9.9 million, or 98.2%, for the second quarter of 2012 compared to the second quarter of 2011 and a decrease of \$9.8 million, or 97.5%, for the first six months of 2012 compared to the first six months of 2011. 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 at June 30, 2011, December 31, 2011 and June 30, 2012.

The decrease in noninterest revenue was somewhat offset by the increase in mortgage lending revenue to \$11.0 million for the second quarter of 2012 compared to \$2.0 million for the second quarter of 2011 and to \$26.2 million for the first six months of 2012 compared to \$9.6 million for the first six months of 2011. The increase in mortgage lending revenue was primarily related to the increase in mortgage originations. Mortgage origination volume increased in the second quarter of 2012 to \$444.1 million from \$245.3 million for the second quarter of 2011 and increased in the first six months of 2012 to \$839.2 million compared to \$448.1 million for the first six months of 2011. The increased level of mortgage origination volume resulted in an increase in origination revenue to \$13.1 million in the second quarter of 2012 compared to \$4.1 million in the second quarter of 2011 and an increase to \$22.8 million for the first six months of 2012 compared to \$7.3 million for the first six months of 2011.

Contributing to the decrease in noninterest revenue was the decrease in service charges and credit card, debit card and merchant fees, as these noninterest revenues decreased 22.8% and 17.6% in the aggregate in the second quarter and first six months of 2012, respectively, compared to the second quarter and first six months of 2011. Bank-owned life insurance revenue decreased 18.5% for the second quarter of 2012 compared to the second quarter of 2011 and increased 53.8% for the first six months of 2012 compared to the first six months of 2011 as a result of the Company recording life insurance proceeds of approximately \$872,000 during the first three months of 2012 and approximately \$478,000 during the second quarter of 2011. There were no significant non-recurring noninterest revenue items during the second quarter or first six months of 2012 and 2011.

Total noninterest expense remained relatively stable for the second quarter and first six months of 2012 compared to the second quarter and first six months of 2011. Salaries and employee benefits expense increased to \$77.7 million and \$152.6 million for the second quarter and first six months of 2012, respectively, compared to \$70.1 million and \$140.5 million for the second quarter and first six months of 2011. The increase in salaries and employee benefits was primarily related to increases in employee benefits and incentive compensation during the second quarter and first six months of 2012 compared to the same periods of 2011. Foreclosed property expense increased 171.2% and 71.7% for the second quarter and first six months of 2012, respectively, compared to the second quarter and first six months of 2011. Foreclosed property expense increased for these periods primarily as a result of the Company experiencing losses on the sale and larger writedowns of other real estate owned. During the second quarter of 2011, the Company recorded \$9.8 million in expenses related to the early repayment of FHLB advances. No early repayments were made during the first six months of 2012. The Company continues to focus attention on controlling noninterest expense. The major components of net income are discussed in more detail in the various sections that follow.

RESULTS OF OPERATIONS

Net Interest Revenue

Net interest revenue is the difference between interest revenue earned on assets, such as loans, leases and securities, and interest expense paid on liabilities, such as deposits and borrowings, and continues to provide the Company with its principal source of revenue. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. The Company's long-term objective is to manage interest earning assets and interest bearing liabilities to maximize net interest revenue, while balancing interest rate, credit and liquidity risk. Net interest margin is determined by dividing fully taxable equivalent net interest revenue by average earning assets. For purposes of the following discussion, revenue from tax-exempt loans and investment securities has been adjusted to a fully taxable equivalent ("FTE") basis, using an effective tax rate of 35%. The following tables present average interest earning assets, average interest bearing liabilities, net interest revenue-FTE, net interest margin-FTE and net interest rate spread for the three months and six months ended June 30, 2012 and 2011:

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	Three months ended June 30,							
	2012				2011			
	Average Balance	Interest	Yield/ Rate		Average Balance	Interest	Yield/ Rate	
(Dollars in millions, yields on taxable equivalent basis)								
ASSETS								
Loans and leases (net of unearned income) (1)(2)	\$ 8,735.2	\$ 108.6	5.03 %		\$ 9,249.1	\$ 117.8	5.11 %	
Loans held for sale	77.7	0.7	3.55 %		44.7	0.5	4.53 %	
Held-to-maturity securities:								
Taxable (3)	-	-	-		887.8	5.1	2.32 %	
Non-taxable (4)	-	-	-		209.8	3.5	6.74 %	
Available-for-sale securities:								
Taxable (5)	2,068.7	10.3	2.00 %		1,432.8	10.5	2.94 %	
Non-taxable (6)	452.2	6.5	5.76 %		176.9	2.9	6.53 %	
Federal funds sold, securities purchased under agreement to resell and short-term investments								
Total interest earning assets and revenue	11,908.4	126.4	4.27 %		12,227.7	140.5	4.61 %	
Other assets	1,295.0				1,350.8			
Less: Allowance for credit losses	(185.2)				(213.0)			
Total	\$ 13,018.2				\$ 13,365.5			

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:								
Demand - interest bearing	\$ 4,769.3	\$ 4.1	0.35 %		\$ 4,977.8	\$ 6.0	0.49 %	
Savings	1,074.9	0.7	0.26 %		941.2	0.8	0.35 %	
Other time	2,815.8	10.3	1.47 %		3,418.7	16.3	1.91 %	
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings								
	376.6	0.1	0.09 %		425.7	0.2	0.15 %	
	160.3	2.9	7.22 %		160.3	2.9	7.16 %	

Junior subordinated
debt securities

Long-term FHLB borrowings	33.5	0.4	4.19 %	89.4	1.1	5.27 %
Total interest bearing liabilities and expense	9,230.4	18.5	0.80 %	10,013.1	27.3	1.09 %
Demand deposits -noninterest bearing	2,248.9			2,018.2		
Other liabilities	135.2			112.0		
Total liabilities	11,614.5			12,143.3		
Shareholders' equity	1,403.7			1,222.2		
Total	\$ 13,018.2			\$ 13,365.5		
Net interest revenue-FTE		\$ 107.9			\$ 113.2	
Net interest margin-FTE			3.65 %			3.71 %
Net interest rate spread			3.47 %			3.51 %
Interest bearing liabilities to interest earning assets			77.51 %			81.89 %

(1) Includes taxable equivalent adjustment to interest of \$0.9 million for both the three months ended June 30, 2012 and 2011, using an effective tax rate of 35%.

(2) Includes non-accrual loans.

(3) Includes taxable equivalent adjustment to interest of \$0.1 million for the three months ended June 30, 2011 using an effective tax rate of 35%.

(4) Includes taxable equivalent adjustments to interest of \$1.2 million for the three months ended June 30, 2011 using an effective tax rate of 35%.

(5) Includes taxable equivalent adjustment to interest of \$0.1 million for the three months ended June 30, 2012 using an effective tax rate of 35%.

(6) Includes taxable equivalent adjustment to interest of \$2.3 million and \$1.0 million for the three months ended June 30, 2012 and 2011, respectively, using an effective tax rate of 35%.

Six months ended June 30,
2011

	2012				2011			
	Average Balance	Interest	Yield/ Rate		Average Balance	Interest	Yield/ Rate	
(Dollars in millions, yields on taxable equivalent basis)								
ASSETS								
Loans and leases (net of unearned income) (1)(2)	\$8,763.4	\$218.4	5.01	%	\$9,274.4	\$236.0	5.13	%
Loans held for sale	69.5	1.2	3.56	%	41.9	0.9	4.58	%
Held-to-maturity securities:								
Taxable (3)	-	-	-		1,104.0	13.3	2.42	%
Non-taxable (4)	-	-	-		269.9	8.7	6.48	%
Available-for-sale securities:								
Taxable (5)	2,063.8	21.6	2.10	%	1,224.8	19.1	3.14	%
Non-taxable (6)	450.6	13.0	5.81	%	124.1	4.1	6.74	%
Federal funds sold, securities purchased under agreement to resell and short-term investments	589.3	0.8	0.27	%	271.7	0.4	0.31	%
Total interest earning assets and revenue	11,936.6	255.0	4.30	%	12,310.8	282.5	4.63	%
Other assets	1,310.4				1,356.9			
Less: allowance for credit losses	(193.7)			(215.5)		
Total	\$13,053.3				\$13,452.2			

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

Deposits:								
Demand - interest bearing	\$4,864.7	\$8.6	0.36	%	\$5,064.9	\$12.6	0.50	%
Savings	1,051.3	1.4	0.27	%	919.4	1.6	0.36	%
Other time	2,866.3	21.5	1.51	%	3,485.8	33.8	1.95	%
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings								
	368.1	0.2	0.09	%	429.7	0.3	0.16	%
Junior subordinated debt securities	160.3	5.8	7.22	%	160.3	5.7	7.19	%
Long-term FHLB borrowings	33.5	0.7	4.19	%	99.6	2.7	5.38	%
Total interest bearing liabilities and expense	9,344.2	38.2	0.82	%	10,159.7	56.7	1.13	%
Demand deposits -noninterest bearing	2,194.1				1,956.3			
Other liabilities	131.3				115.3			

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Total liabilities	11,669.6			12,231.3	
Shareholders' equity	1,383.7			1,220.9	
Total	\$ 13,053.3			\$ 13,452.2	
Net interest revenue-FTE		\$216.8			\$225.8
Net interest margin-FTE			3.65	%	3.70
Net interest rate spread			3.47	%	3.50
Interest bearing liabilities to interest earning assets			78.28	%	82.53
					%

(1) Includes taxable equivalent adjustment to interest of \$1.7 million for both the six months ended June 30, 2012 and 2011 using an effective tax rate of 35%.

(2) Includes non-accrual loans.

(3) Includes taxable equivalent adjustments to interest of \$0.2 million for the six months ended June 30, 2011 using an effective tax rate of 35%.

(4) Includes taxable equivalent adjustments to interest of \$3.0 million for the six months ended June 30, 2011 using an effective tax rate of 35%.

(5) Includes taxable equivalent adjustment to interest of \$0.2 million for the six months ended June 30, 2012 using an effective tax rate of 35%.

(6) Includes taxable equivalent adjustment to interest of \$4.5 million and \$1.5 million for the six months ended June 30, 2012 and 2011, respectively, using an effective tax rate of 35%.

Net interest revenue-FTE for the three-month period ended June 30, 2012 decreased \$5.3 million, or 4.7%, compared to the same period in 2011. Net interest revenue-FTE for the six-month period ended June 30, 2012 decreased \$9.0 million, or 4.0%, compared to the same period in 2011. The decrease in net interest revenue-FTE was primarily a result of the increase in short-term investments resulting from excess liquidity coupled with the continued lack of loan growth, as the short-term investments had lower average rates earned than the average rates paid on interest bearing liabilities.

Interest revenue-FTE for the three-month period ended June 30, 2012 decreased \$14.1 million, or 10.0%, compared to the same period in 2011. Interest revenue-FTE for the six-month period ended June 30, 2012 decreased \$27.5 million, or 9.7%, compared to the same period in 2011. The decrease in interest revenue-FTE for these periods was a result of the increase in lower rate securities combined with the declining loan yields, as interest rates continued to be at historically low levels resulting in a decrease in the yield on average interest-earning assets of 34 basis points for the second quarter of 2012 compared to the same period in 2011 and of 33 basis points for the first six months of 2012 compared to the same period in 2011. Average interest-earning assets decreased \$319.3 million, or 2.6%, for the three-month period ended June 30, 2012, compared to the same period in 2011. Average interest-earning assets decreased \$374.2 million, or 3.0%, for the six-month period ended June 30, 2012, compared to the same period in 2011. The decrease in average interest-earning assets for these periods was primarily a result of the larger decrease in net loans and leases and securities than the increase in short-term investment resulting from excess liquidity.

Interest expense for the three-month period ended June 30, 2012 decreased \$8.9 million, or 32.4%, compared to the same period in 2011. Interest expense for the six-month period ended June 30, 2012 decreased \$18.5 million, or 32.6%, compared to the same period in 2011. The decrease in interest expense for these periods was a result of the increase in average lower cost savings deposits combined with the decrease in interest bearing and other time deposit and their corresponding rates, coupled with the decrease in higher rate long-term FHLB borrowings. This activity resulted in an overall decrease in the average rate paid of 29 basis points for the second quarter of 2012 compared to the second quarter of 2011 and 31 basis points for the first six months of 2012 compared to the first six months of 2011. Average interest bearing liabilities decreased \$782.7 million, or 7.8%, for the three-month period ended June 30, 2012 compared to the same period in 2011. Average interest bearing liabilities decreased \$815.5 million, or 8.0%, for the six-month period ended June 30, 2012 compared to the same period in 2011. The decrease in average interest bearing liabilities for these periods was a result of increases in average lower cost savings deposits being more than offset by decreases in average interest bearing demand deposits, other time deposits, short-term borrowings and long-term borrowings.

Net interest margin was 3.65% for the three months ended June 30, 2012, a decrease of six basis points from 3.71% for the three months ended June 30, 2011. Net interest margin was also 3.65% for the six months ended June 30, 2012, a decrease of five basis points from 3.70% for the six months ended June 30, 2011. The slight decrease in the net interest margin for these periods was primarily a result of weak loan demand and an increase in short-term investments having lower yields than those earned on the loan portfolio.

Interest Rate Sensitivity

The interest rate sensitivity gap is the difference between the maturity or repricing opportunities of interest sensitive assets and interest sensitive liabilities for a given period of time. A prime objective of the Company's asset/liability management is to maximize net interest margin while maintaining a reasonable mix of interest sensitive assets and liabilities. The following table presents the Company's interest rate sensitivity at June 30, 2012:

Interest Rate Sensitivity - Maturing or Repricing

	Opportunities			
	0 to 90	91 Days	Over One	Over
	Days	to	Year to	Five Years
		One Year	Five Years	Five Years
	(In thousands)			

Interest earning assets:				
Interest bearing deposits with banks	\$603,458	\$-	\$-	\$-
Available-for-sale and trading securities	111,583	271,442	1,270,545	809,261
Loans and leases, net of unearned income	3,902,067	1,710,612	2,730,619	389,097
Loans held for sale	87,771	359	2,086	17,918
Total interest earning assets	4,704,879	1,982,413	4,003,250	1,216,276
Interest bearing liabilities:				
Interest bearing demand deposits and savings	5,865,498	-	-	-
Other time deposits	576,516	1,090,487	1,111,583	209
Federal funds purchased and securities sold under agreement to repurchase, short-term FHLB borrowings and other short-term borrowings	363,490	-	-	-
Long-term FHLB borrowings and junior subordinated debt securities	-	-	3,500	190,312
Other	-	-	61	-
Total interest bearing liabilities	6,805,504	1,090,487	1,115,144	190,521
Interest rate sensitivity gap	\$(2,100,625)	\$891,926	\$2,888,106	\$1,025,755
Cumulative interest sensitivity gap	\$(2,100,625)	\$(1,208,699)	\$1,679,407	\$2,705,162

In the event interest rates increase after June 30, 2012, based on this interest rate sensitivity gap, the Company could experience decreased net interest revenue in the following one-year period, as the cost of funds could increase at a more rapid rate than interest revenue on interest-earning assets. However, the Company's historical repricing sensitivity on interest bearing demand deposits and savings suggests that these deposits, while having the ability to reprice in conjunction with rising market rates, often exhibit less repricing sensitivity to a change in market rates, thereby somewhat reducing the exposure to rising interest rates. In the event interest rates decline after June 30, 2012, based on this interest rate sensitivity gap, it is possible that the Company could experience slightly increased net interest revenue in the following one-year period. However, any potential benefit to net interest revenue in a falling rate environment is mitigated by implied rate floors on interest bearing demand deposits and savings resulting from the historically low interest rate environment. It should be noted that the balances shown in the table above are at June 30, 2012 and may not be reflective of positions at other times during the year or in subsequent periods. Allocations to specific interest rate sensitivity periods are based on the earlier of maturity or repricing dates. The elevated liability sensitivity in the 0 to 90 day category as compared to other categories was primarily a result of the Company's utilization of shorter term, lower cost deposits to fund earning assets.

As of June 30, 2012, the Bank had \$1.8 billion in variable rate loans with interest rates determined by a floor, or minimum rate. This portion of the loan portfolio had an average interest rate earned of 4.60%, an average maturity of 31 months and a fully-indexed interest rate of 3.72% at June 30, 2012. The fully-indexed interest rate is the interest rate that these loans would be earning without the effect of interest rate floors. While the Bank benefits from interest rate floors in the current interest rate environment, loans currently earning their floored interest rate may not experience an immediate impact on the interest rate earned should key indices rise. Key indices include, but are not limited to, the Bank's prime rate, the Wall Street Journal prime rate and the London Interbank Offering Rate. At June 30, 2012, the Company had \$880.9 million, \$1.1 billion and \$705.3 million in variable rate loans with interest rates tied to the Bank's prime rate, the Wall Street Journal prime rate and the London Interbank Offering Rate,

respectively. The Bank's net interest margin may be negatively impacted by the timing and magnitude of a rise in key indices.

Interest Rate Risk Management

Interest rate risk refers to the potential changes in net interest income and Economic Value of Equity (“EVE”) resulting from adverse movements in interest rates. EVE is defined as the net present value of the balance sheet’s cash flow. EVE is calculated by discounting projected principal and interest cash flows under the current interest rate environment. The present value of asset cash flows less the present value of liability cash flows derives the net present value of the Company’s balance sheet. The Company’s Asset / Liability Committee utilizes financial simulation models to measure interest rate exposure. These models are designed to simulate the cash flow and accrual characteristics of the Company’s balance sheet. In addition, the models incorporate assumptions about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the Company’s balance sheet arising from both strategic plans and customer behavior. Finally, management makes assumptions regarding loan and deposit growth, pricing, and prepayment speeds.

The sensitivity analysis included in the tables below delineates the percentage change in net interest income and EVE derived from instantaneous parallel rate shifts of plus and minus 400, 300, 200 and 100 basis points. The impact of minus 400, 300, 200 and 100 basis point rate shocks as of June 30, 2012 and 2011 was not considered meaningful because of the historically low interest rate environment. However, the risk exposure should be mitigated by any downward rate shifts. Variances were calculated from the base case scenario, which reflected prevailing market rates, and the net interest income forecasts used in the calculations spanned 12 months for each scenario. For the tables below, management assumed all non-maturity deposits had an average life of one day for calculating EVE. In addition, management assumed a beta value of 1, or 100%, for all non-term deposits for purposes of calculating net interest income instantaneous rate shocks. “Beta,” in the context of deposit rates, is defined as the percentage change in interest rate paid given a change in market rates. Calculations using the aforementioned assumptions are designed to delineate maximum risk exposure.

Rate Shock	Net Interest Income % Variance from Base Case Scenario	
	June 30, 2012	June 30, 2011
	+400 basis points	-11.9%
+300 basis points	-9.5%	-12.2%
+200 basis points	-7.1%	-9.0%
+100 basis points	-4.0%	-5.1%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

Rate Shock	Economic Value of Equity % Variance from Base Case Scenario	
	June 30, 2012	June 30, 2011

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+400 basis points	-9.7%	-3.8%
+300 basis points	-7.9%	-2.9%
+200 basis points	-5.9%	-2.2%
+100 basis points	-3.4%	-1.4%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

In addition to instantaneous rate shocks, the Company monitors interest rate exposure through simulations of gradual interest rate changes over a 12-month time horizon. The results of these analyses are included in the following table:

Rate Ramp	Net Interest Income % Variance from Base Case Scenario	
	June	
	June 30, 2012	30, 2011
+200 basis points	-5.9%	-6.8%
-200 basis points	NM	NM

NM=not meaningful

For the tables below, average life assumptions and beta values for non-maturity deposits were estimated based on the historical behavior. Calculations using these assumptions are designed to delineate more precise risk exposure under the various shock scenarios. While the falling rate shocks are not considered meaningful in the historically low interest rate environment, the risk profile would be negatively impacted by downward rate shifts under these assumptions.

Rate Shock	Net Interest Income % Variance from Base Case Scenario	
	June 30, 2012	
	June 30, 2012	June 30, 2011
+400 basis points	12.6%	NA
+300 basis points	13.8%	NA
+200 basis points	12.2%	NA
+100 basis points	5.6%	NA
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

NA=not available

Rate Shock	Economic Value of Equity % Variance from Base Case Scenario	
	June 30, 2012	
	June 30, 2012	June 30, 2011
+400 basis points	11.0%	NA
+300 basis points	9.6%	NA
+200 basis points	7.4%	NA
+100 basis points	3.4%	NA
-100 basis points	NM	NM
-200 basis points	NM	NM

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-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful
 NA=not available

Rate Ramp	Net Interest Income	
	% Variance from Base Case Scenario	
	June 30, 2012	June 30, 2011
+200 basis points	1.6%	NA
-200 basis points	NM	NM

NM=not meaningful
 NA=not available

Provision for Credit Losses and Allowance for Credit Losses

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through underwriting in accordance with its lending policies, loan review procedures and the diversification of its loan and lease portfolio. Although it is not possible to predict credit losses with certainty, management regularly reviews the characteristics of the loan and lease portfolio to determine its overall risk profile and quality.

The provision for credit losses is the periodic cost of providing an allowance or reserve for estimated probable losses on loans and leases. The Bank's Board of Directors has appointed a loan loss reserve valuation committee (the "Loan Loss Committee"), which bases its estimates of credit losses on three primary components: (1) estimates of inherent losses that may exist in various segments of performing loans and leases; (2) specifically identified losses in individually analyzed credits; and (3) qualitative factors that may impact the performance of the loan and lease portfolio. Factors such as financial condition of the borrower and guarantor, recent credit performance, delinquency, liquidity, cash flows, collateral type and value are used to assess credit risk. Expected loss estimates are influenced by the historical losses experienced by the Bank for loans and leases of comparable creditworthiness and structure. Specific loss assessments are performed for loans and leases of significant size and delinquency based upon the collateral protection and expected future cash flows to determine the amount of impairment under FASB ASC 310, Receivables ("FASB ASC 310"). In addition, qualitative factors such as changes in economic and business conditions, concentrations of risk, loan and lease growth, acquisitions and changes in portfolio risk resulting from regulatory changes are considered in determining the adequacy of the level of the allowance for credit losses.

Attention is paid to the quality of the loan and lease portfolio through a formal loan review process. An independent loan review department of the Bank is responsible for reviewing the credit rating and classification of individual credits and assessing trends in the portfolio, adherence to internal credit policies and procedures and other factors that may affect the overall adequacy of the allowance for credit losses. The Loan Loss Committee is responsible for ensuring that the allowance for credit losses provides coverage of both known and inherent losses. The Loan Loss Committee meets at least quarterly to determine the amount of adjustments to the allowance for credit losses. The Loan Loss Committee is composed of senior management from the Bank's loan administration and finance departments. In 2010, the Bank established a real estate risk management group and an Impairment Committee. The real estate risk management group oversees compliance with regulations and U.S. GAAP related to lending activities where real estate is the primary collateral. The Bank's Board of Directors has appointed an impairment committee (the "Impairment Committee"), which is responsible for evaluating loans that have been specifically identified through various channels, including examination of the Bank's watch list, past due listings, findings of the internal loan review department, loan officer assessments and loans to borrowers or industries known to be experiencing problems. For all loans identified, the responsible loan officer in conjunction with his or her credit administrator is required to prepare an impairment analysis to be reviewed by the Impairment Committee. The Impairment Committee deems that a loan is impaired if it is probable that the Company will be unable to collect all the contractual principal and interest on the loan. The Impairment Committee also evaluates the circumstances surrounding the loan in order to determine if the loan officer used the most appropriate method for assessing the impairment of the loan (i.e., present value of expected future cash flows, observable market price or fair value of the underlying collateral). The Impairment Committee meets on a monthly basis.

If concessions are granted to a borrower as a result of its financial difficulties, the loan is classified as a TDR and analyzed for possible impairment as part of the credit approval process. TDRs are reserved in accordance with FASB ASC 310 in the same manner as impaired loans that are not TDRs. Should the borrower's financial condition, collateral protection or performance deteriorate, warranting reassessment of the loan rating or impairment, additional reserves may be required.

Loans of \$200,000 or more that become 60 or more days past due are identified for review by the Impairment Committee, which decides whether an impairment exists and to what extent a specific allowance for credit loss should be made. Loans that do not meet these requirements may also be identified by management for impairment review, particularly if the loan is a small loan that is part of a larger relationship. Loans subject to such review are evaluated as to collateral dependency, current collateral value, guarantor or other financial support and likely disposition. Each

such loan is individually evaluated for impairment. The impairment evaluation of real estate loans generally focuses on the fair value of underlying collateral obtained from appraisals, as the repayment of these loans may be dependent on the liquidation of the collateral. In certain circumstances, other information such as comparable sales data is deemed to be a more reliable indicator of fair value of the underlying collateral than the most recent appraisal. In these instances, such information is used in determining the impairment recorded

for the loan. As the repayment of commercial and industrial loans is generally dependent upon the cash flow of the borrower or guarantor support, the impairment evaluation generally focuses on the discounted future cash flows of the borrower or guarantor support, as well as the projected liquidation of any pledged collateral. The Impairment Committee reviews the results of each evaluation and approves the final impairment amounts, which are then included in the analysis of the adequacy of the allowance for credit losses in accordance with FASB ASC 310. Loans identified for impairment are placed in non-accrual status.

The Company's policy is to obtain an appraisal at the time of loan origination for real estate collateral securing a loan of \$250,000 or more, consistent with regulatory guidelines. The Company's policy is to obtain an updated appraisal when certain events occur, such as the refinancing of the debt, the renewal of the debt or events that indicate potential impairment. A new appraisal is generally ordered for loans greater than \$200,000 that have characteristics of potential impairment such as delinquency or other loan-specific factors identified by management, when a current appraisal (dated within the prior 12 months) is not available or when a current appraisal uses assumptions that are not consistent with the expected disposition of the loan collateral. In order to measure impairment properly at the time that a loan is deemed to be impaired, a staff appraiser may estimate the collateral fair value based upon earlier appraisals, sales contracts, approved foreclosure bids, comparable sales, officer estimates or current market conditions until a new appraisal is received. This estimate can be used to determine the extent of the impairment on the loan. After a loan is deemed to be impaired, it is management's policy to obtain an updated appraisal on at least an annual basis. Management performs a review of the pertinent facts and circumstances of each impaired loan, such as changes in outstanding balances, information received from loan officers and receipt of re-appraisals, on a monthly basis. As of each review date, management considers whether additional impairment should be recorded based on recent activity related to the loan-specific collateral as well as other relevant comparable assets. Any adjustment to reflect further impairments, either as a result of management's periodic review or as a result of an updated appraisal, are made through recording additional loan loss provisions or charge-offs.

At June 30, 2012, impaired loans totaled \$200.4 million, which was net of cumulative charge-offs of \$59.3 million. Additionally, the Company had specific reserves for impaired loans of \$23.9 million included in the allowance for credit losses. Impaired loans at June 30, 2012 were primarily from the Company's commercial and residential real estate construction, acquisition and development portfolios. Impaired loan charge-offs are determined necessary when management does not anticipate any future recovery of collateral values. The loans were evaluated for impairment based on the fair value of the underlying collateral securing the loan. As part of the impairment review process, appraisals are used to determine the property values. The appraised values that are used are generally based on the disposition value of the property, which assumes Bank ownership of the property "as-is" and a 180-360 day marketing period. If a current appraisal or one with an inspection date within the past 12 months using the necessary assumptions is not available, a new third-party appraisal is ordered. In cases where an impairment exists and a current appraisal is not available at the time of review, a staff appraiser may determine an estimated value based upon earlier appraisals, the sales contract, approved foreclosure bids, comparable sales, comparable appraisals, officer estimates or current market conditions until a new appraisal is received. After a new appraisal is received, the value used in the review will be updated and any adjustments to reflect further impairments are made. Appraisals are obtained from state-certified appraisers based on certain assumptions which may include foreclosure status, bank ownership, other real estate owned ("OREO") marketing period of 180 days, costs to sell, construction or development status and the highest and best use of the property. A staff appraiser may make adjustments to appraisals based on sales contracts, comparable sales and other pertinent information if an appraisal does not incorporate the effect of these assumptions.

When a guarantor is relied upon as a source of repayment, it is the Company's policy to analyze the strength of the guaranty. This analysis varies based on circumstances, but may include a review of the guarantor's personal and business financial statements and credit history, a review of the guarantor's tax returns and the preparation of a cash flow analysis of the guarantor. Management will continue to update its analysis on individual guarantors as circumstances change. Because of the continued weakness in the economy, subsequent analyses may result in the identification of the inability of some guarantors to perform under the agreed upon terms.

Any loan or portion thereof which is classified as "loss" by regulatory examiners or which is determined by management to be uncollectible, because of factors such as the borrower's failure to pay interest or principal, the

borrower's financial condition, economic conditions in the borrower's industry or the inadequacy of underlying collateral, is charged off.

The following table provides an analysis of the allowance for credit losses for the periods indicated:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Balance, beginning of period	\$ 181,777	\$ 198,333	\$ 195,118	\$ 196,913
Loans and leases charged off:				
Commercial and industrial	(1,582)	(5,556)	(5,854)	(14,365)
Real estate				
Consumer mortgages	(2,818)	(1,629)	(7,034)	(4,889)
Home equity	(536)	(1,391)	(1,387)	(2,473)
Agricultural	(386)	(373)	(482)	(965)
Commercial and industrial-owner occupied	(2,732)	(3,228)	(6,600)	(4,944)
Construction, acquisition and development	(9,560)	(16,783)	(20,954)	(49,126)
Commercial real estate	(3,260)	(1,597)	(6,069)	(6,111)
Credit cards	(588)	(725)	(1,150)	(1,606)
All other	(438)	(4,971)	(1,196)	(5,524)
Total loans charged off	(21,900)	(36,253)	(50,726)	(90,003)
Recoveries:				
Commercial and industrial	1,040	589	2,582	773
Real estate				
Consumer mortgages	438	220	761	363
Home equity	78	46	393	91
Agricultural	53	45	63	47
Commercial and industrial-owner occupied	1,514	21	1,865	194
Construction, acquisition and development	1,955	1,493	4,110	2,057
Commercial real estate	4,504	392	4,887	405
Credit cards	121	239	239	494
All other	267	262	555	574
Total recoveries	9,970	3,307	15,455	4,998
Net charge-offs	(11,930)	(32,946)	(35,271)	(85,005)
Provision charged to operating expense	6,000	32,240	16,000	85,719
Balance, end of period	\$ 175,847	\$ 197,627	\$ 175,847	\$ 197,627
Average loans for period	\$ 8,735,225	\$ 9,249,127	\$ 8,763,383	\$ 9,274,415
Ratios:				
Net charge-offs to average loans (annualized)	0.55	% 1.42	% 0.80	% 1.83
Provision for credit losses to average loans and leases, net of unearned income (annualized)	0.27	% 1.39	% 0.37	% 1.85
Allowance for credit losses to loans and leases, net of unearned income	2.01	% 2.14	% 2.01	% 2.14
	368.50	% 149.96	% 249.28	% 116.24

Allowance for credit losses to net charge-offs
(annualized)

Net charge-offs decreased \$21.0 million, or 63.8%, in the second quarter of 2012 compared to the second quarter of 2011 and decreased \$49.7 million, or 58.5%, in the first six months of 2012 compared to the first six months of 2011. Decreases in net charge-offs in the second quarter and first six months of 2012 contributed to a lower provision for credit losses of \$6.0 million and \$16.0 million during the second quarter and first six months of 2012 compared to a provision of \$32.2 million and \$85.7 million in the same periods of 2011. Annualized net charge-offs as a percentage of average loans and leases decreased to 0.55% and 0.80% for the second quarter and

first six months of 2012, respectively, compared to 1.42% and 1.83% for the second quarter and first six months of 2011, respectively. These decreases were primarily a result of decreased losses within the real estate construction, acquisition and development segment of the Company's loan and lease portfolio. The losses experienced in this segment were primarily a result of the weakened financial condition of the corresponding borrowers and guarantors. These borrowers' weakened state hindered their ability to service their loans with the Company, which caused a number of loans to become collateral dependent. Once it is determined a loan's repayment is dependent upon the underlying collateral, the loan is charged down to net realizable value or a specific reserve is allocated to the loan. This process resulted in a decreased level of charge-offs in the first six months of 2012 compared to the first six months of 2011 as updated appraisals came in closer to loan carrying values. Total recoveries increased by \$6.7 million for the three-month period ended June 30, 2012, compared to the same period of 2011 and \$10.5 million for the six-month period ended June 30, 2012, compared to the same period of 2011.

The provision for credit losses decreased to \$6.0 million and \$16.0 million for the second quarter and first six months of 2012, respectively, compared to \$32.2 million and \$85.7 million for the second quarter and first six months of 2011, respectively. The decrease in the provision for credit losses was a result of the decrease in net charge-offs, a decline in the formation of new non-accrual loans, including fewer loans being identified for impairment, continued stabilization in values of previously impaired loans, and a significant decrease in NPLs.

As of June 30, 2012, 83.4% of nonaccrual loans had been charged down to net realizable value or had specific reserves to reflect recent appraised values. This resulted in impaired loans having an aggregate net book value of 68% of their contractual principal balance at June 30, 2012. As of June 30, 2011, 91.7% of nonaccrual loans had been charged down to net realizable value or had specific reserves to reflect recent appraised values. This resulted in impaired loans having an aggregate net book value of 69% of their contractual principal balance at June 30, 2011. Non-accrual loans not impaired are loans that either fall below the impairment threshold or are not determined to be collaterally dependant.

The breakdown of the allowance by loan and lease category is based, in part, on evaluations of specific loan and lease histories and on economic conditions within specific industries or geographical areas. Accordingly, because all of these conditions are subject to change, the allocation is not necessarily indicative of the breakdown of any future allowance or losses. The following table presents (i) the breakdown of the allowance for credit losses by segment and class and (ii) the percentage of each segment and class in the loan and lease portfolio to total loans and leases at the dates indicated:

	2012		June 30, 2011		December 31, 2011			
	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases		
Commercial and industrial	\$25,815	17.2	% \$22,840	16.6	% \$20,724	16.6	%	
Real estate								
Consumer mortgages	34,431	21.7	% 37,045	21.3	% 36,529	21.8	%	
Home equity	7,336	5.7	% 7,620	5.8	% 8,630	5.8	%	
Agricultural	3,259	2.9	% 4,709	2.8	% 3,921	2.7	%	
Commercial and industrial-owner occupied	17,359	14.7	% 24,644	14.8	% 21,929	14.6	%	
Construction, acquisition and development	32,755	9.5	% 53,920	11.5	% 45,562	10.2	%	
Commercial real estate	37,166	19.9	% 35,293	19.1	% 39,444	19.7	%	
Credit cards	3,159	1.2	% 3,487	1.1	% 4,021	1.2	%	
All other	14,567	7.2	% 8,069	7.0	% 14,358	7.4	%	

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Total	\$175,847	100.0	%	\$197,627	100.0	%	\$195,118	100.0	%
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Noninterest Revenue

The components of noninterest revenue for the three months and six months ended June 30, 2012 and 2011 and the corresponding percentage changes are shown in the following tables:

	Three months ended June 30,		% Change	
	2012	2011		
	(Dollars in thousands)			
Mortgage lending	\$11,040	\$2,003	451.2	%
Credit card, debit card and merchant fees	7,787	11,263	(30.9))
Service charges	13,697	16,556	(17.3))
Trust income	3,139	2,850	10.1	
Securities gains, net	177	10,045	(98.2))
Insurance commissions	22,964	22,941	0.1	
Annuity fees	635	1,094	(42.0))
Brokerage commissions and fees	1,779	1,437	23.8	
Bank-owned life insurance	1,812	2,223	(18.5))
Other miscellaneous income	3,438	4,732	(27.3))
Total noninterest revenue	\$66,468	\$75,144	(11.5))%

	Six months ended June 30,		% Change	
	2012	2011		
	(Dollars in thousands)			
Mortgage lending	\$26,182	\$9,584	173.2	%
Credit card, debit card and merchant fees	15,310	21,609	(29.1))
Service charges	28,813	31,924	(9.7))
Trust income	5,421	5,984	(9.4))
Securities gains, net	251	10,062	(97.5))
Insurance commissions	46,117	45,490	1.4	
Annuity fees	1,277	2,390	(46.6))
Brokerage commissions and fees	3,217	3,075	4.6	
Bank owned life insurance	4,425	3,922	12.8	