

BANCORPSOUTH INC
Form 10-Q
May 09, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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 May 1, 2013, the registrant had outstanding 95,181,941 shares of common stock, par value \$2.50 per share.

BANCORPSOUTH, INC.
TABLE OF CONTENTS

PART I

Financial Information

| | | | |
|------|----|---|---|
| Item | 1. | Financial Statements Consolidated Balance Sheets March 31, 2013 and 2012 (Unaudited) and December 31, 2012 Consolidated Statements of Income (Unaudited) Three Months Ended March 31, 2013 and 2012 Consolidated Statements of Comprehensive Income (Unaudited) Three Months Ended March 31, 2013 and 2012 Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2013 and 2012 Notes to Consolidated Financial Statements (Unaudited) | Page 3 4 5 6 7 |
| Item | 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 39 |
| Item | 3. | Quantitative and Qualitative Disclosures About Market Risk | 73 |
| Item | 4. | Controls and Procedures | 73 |

PART II

Other Information

| | | | |
|------|-----|-------------------------|----|
| Item | 1. | Legal Proceedings | 74 |
| Item | 1.A | Risk Factors | 75 |
| Item | 4. | Mine Safety Disclosures | 75 |
| Item | 6. | Exhibits | 75 |

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

| | March 31, 2013 (Unaudited) | December 31, 2012 (1) | March 31, 2012 (Unaudited) |
|--|--|--------------------------------|----------------------------------|
| | (Dollars in thousands, except per share amounts) | | |
| ASSETS | | | |
| Cash and due from banks | \$147,947 | \$223,814 | \$184,441 |
| Interest bearing deposits with other banks | 969,506 | 979,800 | 665,675 |
| Available-for-sale securities, at fair value | 2,607,176 | 2,434,032 | 2,573,535 |
| Loans and leases | 8,614,791 | 8,672,752 | 8,777,538 |
| Less: Unearned income | 33,253 | 35,763 | 39,615 |
| Allowance for credit losses | 162,601 | 164,466 | 181,777 |
| Net loans | 8,418,937 | 8,472,523 | 8,556,146 |
| Loans held for sale | 105,523 | 129,138 | 110,294 |
| Premises and equipment, net | 313,980 | 319,456 | 321,720 |
| Accrued interest receivable | 44,696 | 44,356 | 50,008 |
| Goodwill | 275,173 | 275,173 | 271,297 |
| Bank-owned life insurance | 233,007 | 231,120 | 202,698 |
| Other real estate owned | 96,314 | 103,248 | 167,808 |
| Other assets | 180,876 | 184,538 | 203,950 |
| TOTAL ASSETS | \$13,393,135 | \$13,397,198 | \$13,307,572 |
| LIABILITIES | | | |
| Deposits: | | | |
| Demand: Noninterest bearing | \$2,582,859 | \$2,545,169 | \$2,260,012 |
| Interest bearing | 4,840,330 | 4,799,496 | 4,897,585 |
| Savings | 1,212,736 | 1,145,785 | 1,067,256 |
| Other time | 2,529,001 | 2,597,696 | 2,857,469 |
| Total deposits | 11,164,926 | 11,088,146 | 11,082,322 |
| Federal funds purchased and securities | | | |
| sold under agreement to repurchase | 353,742 | 414,611 | 401,089 |
| Short-term Federal Home Loan Bank and | | | |
| other short-term borrowings | - | - | 1,500 |
| Accrued interest payable | 5,519 | 6,140 | 7,652 |
| Junior subordinated debt securities | 160,312 | 160,312 | 160,312 |
| Long-term Federal Home Loan Bank borrowings | 33,500 | 33,500 | 33,500 |
| Other liabilities | 209,956 | 245,437 | 228,998 |
| TOTAL LIABILITIES | 11,927,955 | 11,948,146 | 11,915,373 |

SHAREHOLDERS' EQUITY

Common stock, \$2.50 par value per share

Authorized - 500,000,000 shares; Issued - 95,174,441,

| | | | |
|---|----------------------|----------------------|----------------------|
| 94,549,867 and 94,436,177 shares, respectively | 237,936 | 236,375 | 236,090 |
| Capital surplus | 311,091 | 311,909 | 309,426 |
| Accumulated other comprehensive loss | (13,120) | (8,646) | (4,136) |
| Retained earnings | 929,273 | 909,414 | 850,819 |
| TOTAL SHAREHOLDERS' EQUITY | 1,465,180 | 1,449,052 | 1,392,199 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 13,393,135 | \$ 13,397,198 | \$ 13,307,572 |

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

| | Three months ended March 31, | |
|--|--|------------|
| | 2013 | 2012 |
| | (In thousands, except for per share amounts) | |
| INTEREST REVENUE: | | |
| Loans and leases | \$ 99,092 | \$ 109,012 |
| Deposits with other banks | 602 | 401 |
| Available-for-sale securities: | | |
| Taxable | 8,700 | 11,162 |
| Tax-exempt | 3,960 | 4,256 |
| Loans held for sale | 673 | 544 |
| Total interest revenue | 113,027 | 125,375 |
| INTEREST EXPENSE: | | |
| Deposits: | | |
| Interest bearing demand | 3,125 | 4,449 |
| Savings | 513 | 714 |
| Other time | 8,041 | 11,291 |
| Federal funds purchased and securities sold under agreement to repurchase | 63 | 63 |
| Federal Home Loan Bank borrowings | 348 | 367 |
| Junior subordinated debt | 2,857 | 2,879 |
| Other | 2 | 2 |
| Total interest expense | 14,949 | 19,765 |
| Net interest revenue | 98,078 | 105,610 |
| Provision for credit losses | 4,000 | 10,000 |
| Net interest revenue, after provision for credit losses | 94,078 | 95,610 |
| NONINTEREST REVENUE: | | |
| Mortgage lending | 12,346 | 15,142 |
| Credit card, debit card and merchant fees | 7,523 | 7,523 |
| Service charges | 12,832 | 15,116 |
| Trust income | 3,210 | 2,282 |
| Security gains, net | 19 | 74 |
| Insurance commissions | 26,641 | 23,153 |
| Other | 8,747 | 9,070 |
| Total noninterest revenue | 71,318 | 72,360 |
| NONINTEREST EXPENSE: | | |
| Salaries and employee benefits | 79,414 | 74,931 |
| Occupancy, net of rental income | 10,237 | 10,066 |
| Equipment | 4,948 | 5,333 |

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| | | |
|-------------------------------------|-----------|-----------|
| Deposit insurance assessments | 2,804 | 5,383 |
| Other | 37,968 | 39,967 |
| Total noninterest expense | 135,371 | 135,680 |
| Income before income taxes | 30,025 | 32,290 |
| Income tax expense | 9,220 | 9,424 |
| Net income | \$ 20,805 | \$ 22,866 |
| Earnings per share: Basic | \$ 0.22 | \$ 0.25 |
| Diluted | \$ 0.22 | \$ 0.25 |
| Dividends declared per common share | \$ 0.01 | \$ 0.01 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---------------------------------|----------|
| | 2013 | 2012 |
| | (In thousands) | |
| Net income | \$20,805 | \$22,866 |
| Other comprehensive loss, net of tax | | |
| Unrealized losses on securities | (5,300) | (2,953) |
| Pension and other postretirement benefits | 826 | 1,078 |
| Other comprehensive loss, net of tax | (4,474) | (1,875) |
| Comprehensive income | \$16,331 | \$20,991 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended March 31, | |
|--|---------------------------------|------------|
| | 2013 | 2012 |
| | (In thousands) | |
| Operating Activities: | | |
| Net income | \$20,805 | \$22,866 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 4,000 | 10,000 |
| Depreciation and amortization | 6,713 | 6,832 |
| Deferred taxes | (3,002) | - |
| Amortization of intangibles | 743 | 763 |
| Amortization of debt securities premium and discount, net | 3,771 | 2,820 |
| Share-based compensation expense | 530 | 562 |
| Security gains, net | (19) | (74) |
| Net deferred loan origination expense | (1,831) | (2,006) |
| Excess tax benefit from exercise of stock options | 12 | - |
| (Increase) decrease in interest receivable | (340) | 1,258 |
| Decrease in interest payable | (621) | (992) |
| Realized gain on mortgages sold | (16,354) | (11,879) |
| Proceeds from mortgages sold | 469,489 | 376,931 |
| Origination of mortgages held for sale | (425,882) | (395,149) |
| Loss on other real estate owned, net | 1,145 | 5,762 |
| Increase in bank-owned life insurance | (1,887) | (2,612) |
| Decrease in prepaid pension asset | 1,441 | 465 |
| Decrease in prepaid deposit insurance assessments | - | 5,187 |
| Other, net | (18,781) | (5,175) |
| Net cash provided by operating activities | 39,932 | 15,559 |
| Investing activities: | | |
| Proceeds from calls and maturities of available-for-sale securities | 144,157 | 131,578 |
| Purchases of available-for-sale securities | (337,126) | (164,618) |
| Net decrease in loans and leases | 45,313 | 100,287 |
| Purchases of premises and equipment | (4,406) | (5,925) |
| Proceeds from sale of premises and equipment | 2,965 | 906 |
| Proceeds from sale of other real estate owned | 7,853 | 10,974 |
| Other, net | - | (8) |
| Net cash (used in) provided by investing activities | (141,244) | 73,194 |
| Financing activities: | | |
| Net increase in deposits | 76,780 | 127,133 |
| Net increase (decrease) in short-term debt and other liabilities | (60,872) | 27,153 |
| Issuance of common stock | 201 | 108,677 |
| Excess tax benefit from exercise of stock options | (12) | - |
| Payment of cash dividends | (946) | (944) |
| Net cash provided by financing activities | 15,151 | 262,019 |

| | | |
|--|-------------|-----------|
| (Decrease) increase in cash and cash equivalents | (86,161) | 350,772 |
| Cash and cash equivalents at beginning of period | 1,203,614 | 499,344 |
| Cash and cash equivalents at end of period | \$1,117,453 | \$850,116 |

See accompanying notes to consolidated financial statements, specifically Note 17.

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, 2012. 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 period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year. Certain 2012 amounts have been reclassified to conform with the 2013 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:

| | March 31, 2013 | March 31, 2012 | December 31, 2012 |
|---|-------------------|-------------------|-------------------------|
| | (In thousands) | | |
| Commercial and industrial | \$1,488,374 | \$1,452,492 | \$1,484,788 |
| Real estate | | | |
| Consumer mortgages | 1,871,312 | 1,937,997 | 1,873,875 |
| Home equity | 482,398 | 501,331 | 486,074 |
| Agricultural | 249,467 | 256,683 | 256,196 |
| Commercial and industrial-owner occupied | 1,334,974 | 1,287,542 | 1,333,103 |
| Construction, acquisition and development | 728,092 | 858,110 | 735,808 |
| Commercial real estate | 1,739,533 | 1,742,001 | 1,748,881 |
| Credit cards | 98,803 | 100,527 | 104,884 |
| All other | 621,838 | 640,855 | 649,143 |
| Total | \$8,614,791 | \$8,777,538 | \$8,672,752 |

The following table shows the Company's loans and leases, net of unearned income, as of March 31, 2013 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 | \$67,205 | \$143,745 | \$306,645 | \$35,560 | \$19,227 | \$76,051 | \$247,124 | \$585,359 | \$1,480,9 |
| Real estate | | | | | | | | | |
| Consumer mortgages | 109,386 | 258,666 | 691,467 | 43,274 | 96,676 | 150,737 | 459,324 | 61,782 | 1,871,3 |
| Home equity | 60,717 | 37,540 | 161,317 | 22,605 | 68,087 | 67,101 | 62,430 | 2,601 | 482,398 |
| Agricultural | 8,644 | 75,359 | 63,641 | 2,374 | 16,795 | 12,748 | 64,950 | 4,956 | 249,467 |
| Commercial and industrial-owner occupied | 135,104 | 149,846 | 456,242 | 62,728 | 97,236 | 87,439 | 265,658 | 80,721 | 1,334,9 |
| Construction, acquisition and development | 98,845 | 67,101 | 204,082 | 36,802 | 75,691 | 92,434 | 144,853 | 8,284 | 728,092 |
| Commercial real estate | 215,684 | 331,108 | 273,564 | 193,049 | 105,225 | 90,739 | 387,550 | 142,614 | 1,739,5 |
| Credit cards | - | - | - | - | - | - | - | 98,803 | 98,803 |
| All other | 31,975 | 79,030 | 160,539 | 2,943 | 57,116 | 41,781 | 93,920 | 128,739 | 596,043 |
| Total | \$727,560 | \$1,142,395 | \$2,317,497 | \$399,335 | \$536,053 | \$619,030 | \$1,725,809 | \$1,113,859 | \$8,581,5 |

* 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 loan policy generally 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 ("OREO") 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 March 31, 2013 and December 31, 2012:

March 31, 2013

| | 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 | \$1,704 | \$145 | \$2,188 | \$4,037 | \$1,476,879 | \$1,480,916 | \$22 |
| Real estate | | | | | | | |
| Consumer mortgages | 12,110 | 2,535 | 15,155 | 29,800 | 1,841,512 | 1,871,312 | 842 |
| Home equity | 2,429 | 1,208 | 377 | 4,014 | 478,384 | 482,398 | - |
| Agricultural | 756 | 170 | 3,284 | 4,210 | 245,257 | 249,467 | - |
| Commercial and industrial-owner occupied | 1,234 | 1,509 | 2,951 | 5,694 | 1,329,280 | 1,334,974 | - |
| Construction, acquisition and development | 2,965 | 4,007 | 12,329 | 19,301 | 708,791 | 728,092 | - |
| Commercial real estate | 1,613 | 58 | 11,764 | 13,435 | 1,726,098 | 1,739,533 | - |
| Credit cards | 420 | 266 | 492 | 1,178 | 97,625 | 98,803 | 261 |
| All other | 1,242 | 333 | 410 | 1,985 | 594,058 | 596,043 | - |
| Total | \$24,473 | \$10,231 | \$48,950 | \$83,654 | \$8,497,884 | \$8,581,538 | \$1,125 |

December 31, 2012

| | 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 | \$3,531 | \$476 | \$4,118 | \$8,125 | \$1,468,486 | \$1,476,611 | \$414 |
| Real estate | | | | | | | |
| Consumer mortgages | 11,308 | 3,643 | 13,821 | 28,772 | 1,845,103 | 1,873,875 | 512 |
| Home equity | 1,337 | 371 | 350 | 2,058 | 484,016 | 486,074 | - |
| Agricultural | 400 | 287 | 3,946 | 4,633 | 251,563 | 256,196 | 10 |
| Commercial and industrial-owner occupied | 2,629 | 3,587 | 2,933 | 9,149 | 1,323,954 | 1,333,103 | 19 |
| Construction, acquisition and development | 2,547 | 2,472 | 14,790 | 19,809 | 715,999 | 735,808 | - |
| Commercial real estate | 4,673 | 56 | 10,469 | 15,198 | 1,733,683 | 1,748,881 | - |
| Credit cards | 536 | 379 | 473 | 1,388 | 103,496 | 104,884 | 228 |
| All other | 2,354 | 253 | 445 | 3,052 | 618,505 | 621,557 | 27 |
| Total | \$29,315 | \$11,524 | \$51,345 | \$92,184 | \$8,544,805 | \$8,636,989 | \$1,210 |

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.

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 March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | | | | | |
|---|----------------|--------------------|-------------|----------------------------|-------|-----------|-------------|
| | Pass | Special Mention | Substandard | Doubtful (In thousands) | Loss | Impaired | Total |
| Commercial and industrial | \$1,430,760 | \$14,297 | \$31,749 | \$546 | \$105 | \$3,459 | \$1,480,916 |
| Real estate | | | | | | | |
| Consumer mortgage | 1,691,053 | 33,895 | 126,589 | 3,207 | 88 | 16,480 | 1,871,312 |
| Home equity | 458,264 | 5,269 | 15,908 | 893 | 27 | 2,037 | 482,398 |
| Agricultural | 218,018 | 9,508 | 17,097 | - | - | 4,844 | 249,467 |
| Commercial and industrial-owner occupied | 1,219,024 | 33,370 | 68,024 | 190 | 148 | 14,218 | 1,334,974 |
| Construction, acquisition and development | 577,477 | 35,525 | 68,648 | 626 | - | 45,816 | 728,092 |
| Commercial real estate | 1,508,593 | 63,186 | 117,806 | 245 | - | 49,703 | 1,739,533 |
| Credit cards | 98,803 | - | - | - | - | - | 98,803 |
| All other | 576,244 | 9,535 | 8,478 | 547 | 5 | 1,234 | 596,043 |
| Total | \$7,778,236 | \$204,585 | \$454,299 | \$6,254 | \$373 | \$137,791 | \$8,581,538 |

| | December 31, 2012 | | | | | | |
|---|-------------------|--------------------|-------------|----------------------------|------|----------|-------------|
| | Pass | Special Mention | Substandard | Doubtful (In thousands) | Loss | Impaired | Total |
| Commercial and industrial | \$1,426,498 | \$14,663 | \$29,876 | \$729 | \$- | \$4,845 | \$1,476,611 |
| Real estate | | | | | | | |
| Consumer mortgage | 1,691,682 | 32,840 | 131,141 | 2,907 | 198 | 15,107 | 1,873,875 |
| Home equity | 461,151 | 4,791 | 17,619 | 1,057 | 76 | 1,380 | 486,074 |
| Agricultural | 227,138 | 5,729 | 17,947 | - | - | 5,382 | 256,196 |
| Commercial and industrial-owner occupied | 1,202,111 | 31,087 | 82,816 | 369 | - | 16,720 | 1,333,103 |
| Construction, acquisition and development | 567,881 | 30,846 | 75,031 | 715 | - | 61,335 | 735,808 |
| Commercial real estate | 1,524,262 | 53,455 | 120,591 | 160 | - | 50,413 | 1,748,881 |
| Credit cards | 104,884 | - | - | - | - | - | 104,884 |

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| | | | | | | | |
|-----------|-------------|-----------|-----------|---------|-------|-----------|-------------|
| All other | 600,807 | 8,397 | 10,196 | 601 | 10 | 1,546 | 621,557 |
| Total | \$7,806,414 | \$181,808 | \$485,217 | \$6,538 | \$284 | \$156,728 | \$8,636,989 |

10

The following tables provide details regarding impaired loans and leases, net of unearned income, by segment and class as of and for the three months ended March 31, 2013 and as of and for the year ended December 31, 2012:

| | March 31, 2013 | | | | |
|---|--|--|--|-----------------------------------|----------------------------------|
| | 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 | \$2,085 | \$3,800 | \$- | \$2,641 | \$- |
| Real estate | | | | | |
| Consumer mortgage | 10,537 | 14,357 | - | 12,331 | 16 |
| Home equity | 1,595 | 1,739 | - | 1,476 | 3 |
| Agricultural | 4,289 | 4,777 | - | 4,568 | 4 |
| Commercial and industrial-owner occupied | 9,586 | 12,513 | - | 12,040 | 33 |
| Construction, acquisition and development | 35,312 | 52,293 | - | 42,612 | 55 |
| Commercial real estate | 41,154 | 56,017 | - | 39,808 | 71 |
| All other | 1,234 | 1,683 | - | 1,247 | 3 |
| Total | \$105,792 | \$147,179 | \$- | \$116,723 | \$185 |
| With an allowance: | | | | | |
| Commercial and industrial | \$1,374 | \$1,374 | \$763 | \$1,465 | \$- |
| Real estate | | | | | |
| Consumer mortgage | 5,943 | 6,601 | 1,962 | 3,104 | 2 |
| Home equity | 442 | 442 | 32 | 291 | - |
| Agricultural | 555 | 555 | 215 | 368 | - |
| Commercial and industrial-owner occupied | 4,632 | 5,553 | 1,361 | 4,593 | 3 |
| Construction, acquisition and development | 10,504 | 12,828 | 5,864 | 9,229 | 25 |
| Commercial real estate | 8,549 | 8,908 | 1,461 | 11,037 | 16 |
| All other | - | - | - | - | - |
| Total | \$31,999 | \$36,261 | \$11,658 | \$30,087 | \$46 |
| Total: | | | | | |
| Commercial and industrial | \$3,459 | \$5,174 | \$763 | \$4,106 | \$- |
| Real estate | | | | | |
| Consumer mortgage | 16,480 | 20,958 | 1,962 | 15,435 | 18 |
| Home equity | 2,037 | 2,181 | 32 | 1,767 | 3 |
| Agricultural | 4,844 | 5,332 | 215 | 4,936 | 4 |
| Commercial and industrial-owner occupied | 14,218 | 18,066 | 1,361 | 16,633 | 36 |
| Construction, acquisition and development | 45,816 | 65,121 | 5,864 | 51,841 | 80 |
| Commercial real estate | 49,703 | 64,925 | 1,461 | 50,845 | 87 |
| All other | 1,234 | 1,683 | - | 1,247 | 3 |
| Total | \$137,791 | \$183,440 | \$11,658 | \$146,810 | \$231 |

| | December 31, 2012 | | | | |
|---|--|--|--|-----------------------------------|----------------------------------|
| | 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 | \$2,557 | \$4,169 | \$- | \$2,779 | \$12 |
| Real estate | | | | | |
| Consumer mortgage | 11,307 | 15,464 | - | 11,762 | 77 |
| Home equity | 934 | 1,078 | - | 858 | 6 |
| Agricultural | 4,435 | 6,292 | - | 3,527 | 8 |
| Commercial and industrial-owner occupied | 13,018 | 16,551 | - | 12,674 | 123 |
| Construction, acquisition and development | 47,982 | 69,331 | - | 54,085 | 324 |
| Commercial real estate | 33,952 | 45,722 | - | 19,824 | 199 |
| All other | 1,544 | 2,165 | - | 848 | 9 |
| Total | \$115,729 | \$160,772 | \$- | \$106,357 | \$758 |
| With an allowance: | | | | | |
| Commercial and industrial | \$2,288 | \$2,288 | \$1,241 | \$5,368 | \$38 |
| Real estate | | | | | |
| Consumer mortgage | 3,800 | 3,914 | 1,103 | 10,323 | 88 |
| Home equity | 446 | 446 | 111 | 569 | 5 |
| Agricultural | 947 | 947 | 92 | 1,468 | 12 |
| Commercial and industrial-owner occupied | 3,702 | 4,737 | 864 | 9,977 | 65 |
| Construction, acquisition and development | 13,353 | 16,257 | 4,350 | 45,582 | 377 |
| Commercial real estate | 16,461 | 16,709 | 2,720 | 16,953 | 204 |
| All other | 2 | 2 | 60 | 324 | 3 |
| Total | \$40,999 | \$45,300 | \$10,541 | \$90,564 | \$792 |
| Total: | | | | | |
| Commercial and industrial | \$4,845 | \$6,457 | \$1,241 | \$8,147 | \$50 |
| Real estate | | | | | |
| Consumer mortgage | 15,107 | 19,378 | 1,103 | 22,085 | 165 |
| Home equity | 1,380 | 1,524 | 111 | 1,427 | 11 |
| Agricultural | 5,382 | 7,239 | 92 | 4,995 | 20 |
| Commercial and industrial-owner occupied | 16,720 | 21,288 | 864 | 22,651 | 188 |
| Construction, acquisition and development | 61,335 | 85,588 | 4,350 | 99,667 | 701 |
| Commercial real estate | 50,413 | 62,431 | 2,720 | 36,777 | 403 |
| All other | 1,546 | 2,167 | 60 | 1,172 | 12 |
| Total | \$156,728 | \$206,072 | \$10,541 | \$196,921 | \$1,550 |

The following tables provide details regarding impaired real estate construction, acquisition and development loans and leases, net of unearned income, by collateral type as of and for the three months ended March 31, 2013 and as of and for the year ended December 31, 2012:

| | March 31, 2013 | | | | |
|---|--|--|--|-----------------------------------|----------------------------------|
| | 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 | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 6,771 | 10,381 | - | 7,152 | 11 |
| Recreation and all other loans | 938 | 1,156 | - | 1,052 | 1 |
| Commercial construction | 3,209 | 3,869 | - | 3,210 | 1 |
| Commercial acquisition and development | 10,256 | 11,635 | - | 11,701 | 16 |
| Residential acquisition and development | 14,138 | 25,252 | - | 19,497 | 26 |
| Total | \$35,312 | \$52,293 | \$- | \$42,612 | \$55 |
| With an allowance: | | | | | |
| Multi-family construction | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 242 | 400 | 94 | 501 | - |
| Recreation and all other loans | - | - | - | - | - |
| Commercial construction | - | - | - | 1,553 | 9 |
| Commercial acquisition and development | 1,615 | 1,615 | 467 | 1,335 | 2 |
| Residential acquisition and development | 8,647 | 10,813 | 5,303 | 5,840 | 14 |
| Total | \$10,504 | \$12,828 | \$5,864 | \$9,229 | \$25 |
| Total: | | | | | |
| Multi-family construction | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 7,013 | 10,781 | 94 | 7,653 | 11 |
| Recreation and all other loans | 938 | 1,156 | - | 1,052 | 1 |
| Commercial construction | 3,209 | 3,869 | - | 4,763 | 10 |
| Commercial acquisition and development | 11,871 | 13,250 | 467 | 13,036 | 18 |
| Residential acquisition and development | 22,785 | 36,065 | 5,303 | 25,337 | 40 |
| Total | \$45,816 | \$65,121 | \$5,864 | \$51,841 | \$80 |

| | December 31, 2012 | | | | |
|---|--|--|--|-----------------------------------|----------------------------------|
| | Recorded Investment in Impaired Loans | Unpaid Principal Balance of Impaired Loans | Related Allowance for Credit Losses | Average Recorded Investment | Interest Income Recognized |
| (In thousands) | | | | | |
| With no related allowance: | | | | | |
| Multi-family construction | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 8,475 | 13,586 | - | 8,070 | 53 |
| Recreation and all other loans | 1,117 | 1,335 | - | 623 | 5 |
| Commercial construction | 5,714 | 6,646 | - | 3,585 | 51 |
| Commercial acquisition and development | 13,753 | 15,786 | - | 12,145 | 63 |
| Residential acquisition and development | 18,923 | 31,978 | - | 29,662 | 152 |
| Total | \$47,982 | \$69,331 | \$- | \$54,085 | \$324 |
| With an allowance: | | | | | |
| Multi-family construction | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 1,130 | 1,475 | 290 | 4,094 | 29 |
| Recreation and all other loans | - | - | - | 69 | - |
| Commercial construction | - | - | 0 | 1,255 | 15 |
| Commercial acquisition and development | 1,711 | 1,960 | 563 | 9,206 | 74 |
| Residential acquisition and development | 10,512 | 12,822 | 3,497 | 30,958 | 259 |
| Total | \$13,353 | \$16,257 | \$4,350 | \$45,582 | \$377 |
| Total: | | | | | |
| Multi-family construction | \$- | \$- | \$- | \$- | \$- |
| One-to-four family construction | 9,605 | 15,061 | 290 | 12,164 | 82 |
| Recreation and all other loans | 1,117 | 1,335 | - | 692 | 5 |
| Commercial construction | 5,714 | 6,646 | - | 4,840 | 66 |
| Commercial acquisition and development | 15,464 | 17,746 | 563 | 21,351 | 137 |
| Residential acquisition and development | 29,435 | 44,800 | 3,497 | 60,620 | 411 |
| Total | \$61,335 | \$85,588 | \$4,350 | \$99,667 | \$701 |

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 March 31, 2013 and December 31, 2012 was \$137.8 million and \$156.7 million, respectively. At March 31, 2013 and December 31, 2012, \$32.0 million and \$41.0 million, respectively, of those impaired loans had a valuation allowance of \$11.7 million and \$10.5 million, respectively. The remaining balance of impaired loans of \$105.8 million and \$115.7 million at March 31, 2013 and December 31, 2012, 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 \$39.5 million and \$47.3 million at March 31, 2013 and December 31, 2012, respectively. The average recorded investment in impaired loans was \$146.8 million and \$196.9 million for the three months ended March 31, 2013 and the year ended December 31, 2012, respectively.

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

| | 2013 | March 31, 2012 (In thousands) | December 31, 2012 |
|---|-----------|-------------------------------------|-------------------------|
| Non-accrual loans and leases | \$188,190 | \$253,227 | \$207,241 |
| Loans and leases 90 days or more past due, still accruing | 1,125 | 1,698 | 1,210 |
| Restructured loans and leases still accruing | 17,702 | 30,311 | 25,099 |
| Total non-performing loans and leases | \$207,017 | \$285,236 | \$233,550 |

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 March 31, 2013, the Company's geographic NPL distribution was concentrated primarily in its Alabama, Mississippi 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:

| | 2013 | March 31, 2012 (In thousands) | December 31, 2012 |
|---|-----------|-------------------------------------|-------------------------|
| Commercial and industrial | \$7,009 | \$11,025 | \$9,311 |
| Real estate | | | |
| Consumer mortgages | 39,012 | 46,562 | 36,133 |
| Home equity | 4,272 | 2,687 | 3,497 |
| Agricultural | 6,667 | 4,254 | 7,587 |
| Commercial and industrial-owner occupied | 20,719 | 32,842 | 20,910 |
| Construction, acquisition and development | 51,728 | 115,649 | 66,635 |
| Commercial real estate | 55,318 | 35,715 | 57,656 |
| Credit cards | 418 | 509 | 415 |
| All other | 3,047 | 3,984 | 5,097 |
| Total | \$188,190 | \$253,227 | \$207,241 |

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 periods after the restructure if there has been at least a six-month period of sustained repayment performance by the borrower in accordance with the terms of the restructured loan and the interest rate at the time of restructure was at or above market for a comparable loan. During the first quarter of 2013, 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:

| | Number of Contracts | Three months ended March 31, 2013 | |
|--|---------------------------|---|--|
| | | Pre-Modification Outstanding Recorded Investment (Dollars in thousands) | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | 1 | \$ 48 | \$ 48 |
| Real estate | | | |
| Home equity | 1 | 15 | - |
| Commercial and industrial-owner occupied | 3 | 573 | 575 |
| Commercial real estate | 1 | 168 | 167 |
| Total | 6 | \$ 804 | \$ 790 |

| | Number of Contracts | Year ended December 31, 2012 | |
|---|---------------------------|---|--|
| | | Pre-Modification Outstanding Recorded Investment (Dollars in thousands) | Post-Modification Outstanding Recorded Investment |
| Commercial and industrial | 8 | \$ 1,686 | \$ 1,348 |
| Real estate | | | |
| Consumer mortgages | 38 | 9,875 | 9,109 |
| Agricultural | 2 | 853 | 861 |
| Commercial and industrial-owner occupied | 30 | 14,367 | 13,741 |
| Construction, acquisition and development | 37 | 21,583 | 21,159 |
| Commercial real estate | 12 | 8,159 | 8,132 |
| All other | 9 | 1,855 | 1,692 |
| Total | 136 | \$ 58,378 | \$ 56,042 |

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 March 31, 2013 | |
|--|--------------------------------------|--|
| | Number of Contracts | Recorded Investment (Dollars in thousands) |
| Commercial and industrial | 3 | \$ 129 |
| Real estate | | |
| Consumer mortgages | 5 | 451 |
| Commercial and industrial-owner occupied | 3 | 265 |

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| | | |
|---|----|---------|
| Construction, acquisition and development | 2 | 1,523 |
| Commercial real estate | 3 | 3,534 |
| All other | 1 | 1 |
| Total | 17 | \$5,903 |

| | Year ended December 31, 2012 | |
|---|---------------------------------|--|
| | Number of Contracts | Recorded Investment (Dollars in thousands) |
| Commercial and industrial | 2 | \$ 179 |
| Real estate | | |
| Consumer mortgages | 18 | 2,096 |
| Agricultural | 1 | 170 |
| Commercial and industrial-owner occupied | 11 | 2,659 |
| Construction, acquisition and development | 21 | 5,503 |
| Commercial real estate | 4 | 2,525 |
| All other | 1 | 7 |
| Total | 58 | \$ 13,139 |

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:

| | Three months ended March 31, 2013 | | | | |
|---|---------------------------------------|-------------|------------|-----------|------------------------------|
| | Balance, Beginning of Period | Charge-offs | Recoveries | Provision | Balance, End of Period |
| | (In thousands) | | | | |
| Commercial and industrial | \$23,286 | \$(1,938) |) \$589 | \$1,118 | \$23,055 |
| Real estate | | | | | |
| Consumer mortgage | 35,966 | (1,614) |) 1,108 | 198 | 35,658 |
| Home equity | 6,005 | (602) |) 260 | 421 | 6,084 |
| Agricultural | 3,301 | (2) |) 13 | 408 | 3,720 |
| Commercial and industrial-owner occupied | 20,178 | (300) |) 254 | 251 | 20,383 |
| Construction, acquisition and development | 21,905 | (1,198) |) 886 | 2,189 | 23,782 |
| Commercial real estate | 40,081 | (3,141) |) 339 | (1,304) | 35,975 |
| Credit cards | 3,611 | (450) |) 148 | 90 | 3,399 |
| All other | 10,133 | (492) |) 275 | 629 | 10,545 |
| Total | \$164,466 | \$(9,737) |) \$3,872 | \$4,000 | \$162,601 |

| | Year ended December 31, 2012 | | | | |
|---|---------------------------------------|-------------|------------|-----------|------------------------------|
| | Balance, Beginning of Period | Charge-offs | Recoveries | Provision | Balance, End of Period |
| | (In thousands) | | | | |
| Commercial and industrial | \$20,724 | \$(12,362) | \$7,096 | \$7,828 | \$23,286 |
| Real estate | | | | | |
| Consumer mortgage | 36,529 | (13,122) | 1,836 | 10,723 | 35,966 |
| Home equity | 8,630 | (2,721) | 496 | (400) | 6,005 |
| Agricultural | 3,921 | (1,240) | 126 | 494 | 3,301 |
| Commercial and industrial-owner occupied | 21,929 | (9,015) | 2,696 | 4,568 | 20,178 |
| Construction, acquisition and development | 45,562 | (33,085) | 8,407 | 1,021 | 21,905 |
| Commercial real estate | 39,444 | (12,728) | 8,538 | 4,827 | 40,081 |
| Credit cards | 4,021 | (2,221) | 527 | 1,284 | 3,611 |
| All other | 14,358 | (2,904) | 1,024 | (2,345) | 10,133 |
| Total | \$195,118 | \$(89,398) | \$30,746 | \$28,000 | \$164,466 |

| | Three months ended March 31, 2012 | | | | |
|---|---------------------------------------|-------------|------------|-----------|------------------------------|
| | Balance, Beginning of Period | Charge-offs | Recoveries | Provision | Balance, End of Period |
| | (In thousands) | | | | |
| Commercial and industrial | \$20,724 | \$(4,272) | \$1,542 | \$2,988 | \$20,982 |
| Real estate | | | | | |
| Consumer mortgage | 36,529 | (4,216) | 323 | 3,912 | 36,548 |
| Home equity | 8,630 | (851) | 315 | 134 | 8,228 |
| Agricultural | 3,921 | (96) | 10 | (449) | 3,386 |
| Commercial and industrial-owner occupied | 21,929 | (3,868) | 351 | 2,230 | 20,642 |
| Construction, acquisition and development | 45,562 | (11,394) | 2,155 | (862) | 35,461 |
| Commercial real estate | 39,444 | (2,809) | 383 | 2,364 | 39,382 |
| Credit cards | 4,021 | (562) | 118 | (436) | 3,141 |
| All other | 14,358 | (758) | 288 | 119 | 14,007 |
| Total | \$195,118 | \$(28,826) | \$5,485 | \$10,000 | \$181,777 |

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

| | | March 31, 2013 | | |
|---|---------------------------------|---------------------------------------|--|-----------|
| | Recorded | Allowance for Impaired Loans | Allowance for All Other Loans | Total |
| | Balance of Impaired Loans | and Leases | and Leases | Allowance |
| | | (In thousands) | | |
| Commercial and industrial | \$3,459 | \$763 | \$22,292 | \$23,055 |
| Real estate | | | | |
| Consumer mortgage | 16,480 | 1,962 | 33,696 | 35,658 |
| Home equity | 2,037 | 32 | 6,052 | 6,084 |
| Agricultural | 4,844 | 215 | 3,505 | 3,720 |
| Commercial and industrial-owner occupied | 14,218 | 1,361 | 19,022 | 20,383 |
| Construction, acquisition and development | 45,816 | 5,864 | 17,918 | 23,782 |
| Commercial real estate | 49,703 | 1,461 | 34,514 | 35,975 |
| Credit cards | - | - | 3,399 | 3,399 |
| All other | 1,234 | - | 10,545 | 10,545 |
| Total | \$137,791 | \$11,658 | \$150,943 | \$162,601 |

| | | December 31, 2012 | | |
|---|---------------------------------|---------------------------------------|--|-----------|
| | Recorded | Allowance for Impaired Loans | Allowance for All Other Loans | Total |
| | Balance of Impaired Loans | and Leases | and Leases | Allowance |
| | | (In thousands) | | |
| Commercial and industrial | \$4,845 | \$1,241 | \$22,045 | \$23,286 |
| Real estate | | | | |
| Consumer mortgage | 15,107 | 1,103 | 34,863 | 35,966 |
| Home equity | 1,380 | 111 | 5,894 | 6,005 |
| Agricultural | 5,382 | 92 | 3,209 | 3,301 |
| Commercial and industrial-owner occupied | 16,720 | 864 | 19,314 | 20,178 |
| Construction, acquisition and development | 61,335 | 4,350 | 17,555 | 21,905 |
| Commercial real estate | 50,413 | 2,720 | 37,361 | 40,081 |
| Credit cards | - | - | 3,611 | 3,611 |
| All other | 1,546 | 60 | 10,073 | 10,133 |
| Total | \$156,728 | \$10,541 | \$153,925 | \$164,466 |

Management evaluates impaired loans individually in determining the adequacy of the allowance for impaired loans. As a result of the Company individually evaluating loans of \$500,000 or more that are 60 or more days past due for impairment, further review of remaining loans collectively, as well as the corresponding potential allowance would be immaterial in the opinion of management.

NOTE 4 – OTHER REAL ESTATE OWNED

The following table presents the activity in OREO for the periods indicated:

19

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| | Three months ended | Year ended |
|-------------------------------------|--------------------|------------|
| | March 31, | December |
| | 2013 | 2012 |
| | (In thousands) | |
| Balance at beginning of period | \$ 103,248 | \$ 173,805 |
| Additions to foreclosed properties | | |
| New foreclosed properties | 2,222 | 32,389 |
| Reductions in foreclosed properties | | |
| Sales | (7,811) | (81,220) |
| Writedowns | (1,345) | (21,726) |
| Balance at end of period | \$ 96,314 | \$ 103,248 |

The following tables present the OREO by geographical location, segment and class as of the dates indicated:

| | March 31, 2013 | | | | | | | |
|---|--|-----------|--------------|----------|----------------------------|------------|---------------------------|-----------|
| | Alabama and Florida Panhandle | Arkansas* | Mississippi* | Missouri | Greater Memphis Area | Tennessee* | Texas and Louisiana | Other |
| | (In thousands) | | | | | | | |
| Commercial and industrial | \$ 241 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 241 |
| Real estate | | | | | | | | |
| Consumer mortgages | 1,114 | 734 | 2,653 | - | 756 | 716 | 625 | 6,598 |
| Home equity | - | - | 44 | - | - | - | - | 44 |
| Agricultural | 870 | - | - | - | 1,106 | 2,204 | 174 | 4,354 |
| Commercial and industrial-owner occupied | 157 | 101 | 1,139 | - | 2,638 | 67 | 148 | 4,250 |
| Construction, acquisition and development | 13,605 | 1,167 | 14,586 | 431 | 35,939 | 8,682 | 1,874 | 76,739 |
| Commercial real estate | 356 | 1,410 | 4 | - | 833 | 144 | 134 | 2,881 |
| All other | 47 | 11 | 64 | 94 | 748 | 13 | 91 | 1,207 |
| Total | \$ 16,390 | \$ 3,423 | \$ 18,490 | \$ 525 | \$ 42,020 | \$ 11,826 | \$ 3,046 | \$ 96,314 |

* Excludes the Greater Memphis Area.

| | December 31, 2012 | | | | | | | |
|---------------------------|--|-----------|--------------|----------|----------------------------|------------|---------------------------|--------|
| | Alabama and Florida Panhandle | Arkansas* | Mississippi* | Missouri | Greater Memphis Area | Tennessee* | Texas and Louisiana | Other |
| | (In thousands) | | | | | | | |
| Commercial and industrial | \$ 395 | \$ - | \$ 106 | \$ - | \$ - | \$ - | \$ - | \$ 501 |
| Real estate | | | | | | | | |
| Consumer mortgages | 1,714 | 173 | 2,220 | - | 961 | 624 | 760 | 10,117 |

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| | | | | | | | | | |
|---|----------|----------|-----------|---------|----------|-----------|---------|---------|-----------|
| Consumer mortgages | | | | | | | | | |
| Home equity | - | - | - | - | - | - | - | - | - |
| Agricultural | 856 | - | 99 | - | 1,089 | 2,169 | 212 | - | 4,425 |
| Commercial and industrial-owner occupied | 155 | 146 | 1,602 | - | 2,630 | 66 | 146 | - | 4,745 |
| Construction, acquisition and development | 13,610 | 1,430 | 15,659 | 734 | 35,717 | 9,535 | 1,844 | 448 | 78,977 |
| Commercial real estate | 478 | 1,420 | 3 | 263 | 819 | 76 | 176 | - | 3,235 |
| All other | 46 | 16 | 227 | 92 | 734 | 12 | 89 | 32 | 1,248 |
| Total | \$17,254 | \$ 3,185 | \$ 19,916 | \$1,089 | \$41,950 | \$ 12,482 | \$3,227 | \$4,145 | \$103,248 |
| * Excludes the Greater Memphis Area. | | | | | | | | | |

| March 31, 2012 | | | | | | | | | |
|---|-------------------------------|-----------|--------------|----------|----------------------|------------|---------------------|---------|-----------|
| | Alabama and Florida Panhandle | Arkansas* | Mississippi* | Missouri | Greater Memphis Area | Tennessee* | Texas and Louisiana | Other | Total |
| (In thousands) | | | | | | | | | |
| Commercial and industrial | \$423 | \$ 16 | \$ - | \$- | \$821 | \$ - | \$- | \$- | \$1,260 |
| Real estate | | | | | | | | | |
| Consumer mortgages | 3,505 | 615 | 2,970 | - | 4,713 | 3,523 | 111 | 3,377 | 18,814 |
| Home equity | - | 26 | 22 | - | 586 | 141 | - | - | 775 |
| Agricultural | 902 | - | 730 | - | 1,164 | 2,371 | - | - | 5,167 |
| Commercial and industrial-owner occupied | 1,564 | 656 | 2,583 | 2,113 | 1,829 | 164 | 174 | 291 | 9,374 |
| Construction, acquisition and development | 16,179 | 1,766 | 25,510 | 1,965 | 46,007 | 19,458 | 2,630 | - | 113,515 |
| Commercial real estate | 3,557 | 1,744 | 3,241 | 307 | 7,318 | - | 233 | 579 | 16,979 |
| All other | 209 | 83 | 990 | 117 | 437 | - | 55 | 33 | 1,924 |
| Total | \$26,339 | \$ 4,906 | \$ 36,046 | \$4,502 | \$62,875 | \$ 25,657 | \$3,203 | \$4,280 | \$167,808 |
| * Excludes the Greater Memphis Area. | | | | | | | | | |

The Company incurred total foreclosed property expenses of \$2.4 million and \$8.4 million for the three months ended March 31, 2013 and 2012, respectively. Realized net gains/losses on dispositions and holding losses

on valuations of these properties, a component of total foreclosed property expenses, were \$1.1 million and \$5.8 million for the three months ended March 31, 2013 and 2012, respectively.

NOTE 5 – SECURITIES

A comparison of amortized cost and estimated fair values of available-for-sale securities as of March 31, 2013 and December 31, 2012 follows:

| | Amortized Cost | March 31, 2013 Gross Unrealized Gains Gross Unrealized Losses (In thousands) | | Estimated Fair Value |
|--|-------------------|--|-------|----------------------------|
| U.S. Government agencies | \$1,498,886 | \$18,841 | \$2 | \$1,517,725 |
| Government agency issued residential mortgage-backed securities | 327,586 | 7,230 | 266 | 334,550 |
| Government agency issued commercial mortgage-backed securities | 192,912 | 3,974 | 427 | 196,459 |
| Obligations of states and political subdivisions | 521,255 | 29,318 | 98 | 550,475 |
| Other | 7,058 | 915 | 6 | 7,967 |
| Total | \$2,547,697 | \$60,278 | \$799 | \$2,607,176 |

| | Amortized Cost | December 31, 2012 Gross Unrealized Gains Gross Unrealized Losses (In thousands) | | Estimated Fair Value |
|--|-------------------|---|-------|----------------------------|
| U.S. Government agencies | \$1,380,979 | \$21,081 | \$64 | \$1,401,996 |
| Government agency issued residential mortgage-backed securities | 358,677 | 8,457 | 259 | 366,875 |
| Government agency issued commercial mortgage-backed securities | 87,314 | 4,266 | 135 | 91,445 |
| Obligations of states and political subdivisions | 531,940 | 34,049 | 116 | 565,873 |
| Other | 7,052 | 791 | - | 7,843 |
| Total | \$2,365,962 | \$68,644 | \$574 | \$2,434,032 |

Gross gains of approximately \$34,000 and gross losses of approximately \$15,000 were recognized on available-for-sale securities during the first three months of 2013, while gross gains of approximately \$94,000 and gross losses of approximately \$20,000 were recognized during the first three months of 2012.

The amortized cost and estimated fair value of available-for-sale securities at March 31, 2013 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.

| | | March 31, 2013 | |
|---|------------------------|----------------------|------------------------|
| | Amortized Cost | Estimated Fair Value | Weighted Average Yield |
| | (Dollars in thousands) | | |
| Maturing in one year or less | \$486,274 | \$490,208 | 1.65 % |
| Maturing after one year through five years | 1,151,485 | 1,170,308 | 1.42 |
| Maturing after five years through ten years | 403,630 | 417,612 | 3.59 |
| Maturing after ten years | 506,308 | 529,048 | 4.2 |
| Total | \$2,547,697 | \$2,607,176 | |

The following tables summarize information pertaining to temporarily impaired available-for-sale securities with continuous unrealized loss positions at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | | | | |
|--|-------------------------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Continuous Unrealized Loss Position | | | | | |
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| U.S. Government agencies | \$47,457 | \$2 | \$- | \$- | \$47,457 | \$2 |
| Government agency issued residential | | | | | | |
| mortgage-backed securities | 38,110 | 235 | 2,746 | 31 | 40,856 | 266 |
| Government agency issued commercial | | | | | | |
| mortgage-backed securities | 77,829 | 427 | - | - | 77,829 | 427 |
| Obligations of states and political subdivisions | 10,319 | 84 | 569 | 14 | 10,888 | 98 |
| Other | 6,671 | 6 | - | - | 6,671 | 6 |
| Total | \$180,386 | \$754 | \$3,315 | \$45 | \$183,701 | \$799 |

| | December 31, 2012 | | | | | |
|--------------------------------------|-------------------------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Continuous Unrealized Loss Position | | | | | |
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| U.S. Government agencies | \$47,395 | \$64 | \$- | \$- | \$47,395 | \$64 |
| Government agency issued residential | | | | | | |
| mortgage-backed securities | 55,939 | 145 | 2,839 | 114 | 58,778 | 259 |
| Government agency issued commercial | | | | | | |
| mortgage-backed securities | 26,239 | 135 | - | - | 26,239 | 135 |

| | | | | | | |
|--|-----------|-------|---------|-------|-----------|-------|
| Obligations of states and political subdivisions | 9,247 | 73 | 313 | 43 | 9,560 | 116 |
| Other | - | - | - | - | - | - |
| Total | \$138,820 | \$417 | \$3,152 | \$157 | \$141,972 | \$574 |

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 three months of 2013.

NOTE 6 – PER SHARE DATA

Basic earnings per share (“EPS”) are calculated using the two-class method. The two-class method provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic EPS. Diluted EPS is computed using the weighted-average number of shares determined for the basic EPS computation 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 2.3 million and 3.0 million shares of Company common stock with a weighted average exercise price of \$21.78 and \$20.80 per share for the three months ended March 31, 2013 and 2012, respectively, were excluded from diluted shares. Antidilutive other equity awards of approximately 70,000 and 68,000 shares of Company common stock for the three months ended March 31, 2013 and 2012, respectively, were also excluded from diluted shares. The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

| | Three months ended March 31, | | | | | |
|-----------------------------|--|---------------|-----------|-------------|---------------|-----------|
| | 2013 | | | 2012 | | |
| | Income | Shares | Per Share | Income | Shares | Per Share |
| | (Numerator) | (Denominator) | Amount | (Numerator) | (Denominator) | Amount |
| Basic EPS | (In thousands, except per share amounts) | | | | | |
| Income available to common | | | | | | |
| shareholders | \$20,805 | 94,596 | \$0.22 | \$22,866 | 91,728 | \$0.25 |
| Effect of dilutive share- | | | | | | |
| based awards | - | 160 | | - | 42 | |
| Diluted EPS | | | | | | |
| Income available to common | | | | | | |
| shareholders plus assumed | | | | | | |
| exercise of all outstanding | | | | | | |
| share-based awards | \$20,805 | 94,756 | \$0.22 | \$22,866 | 91,770 | \$0.25 |

NOTE 7 – COMPREHENSIVE INCOME

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

| | Three months ended March 31, | | | | | |
|---|------------------------------|-----------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
| | 2013 | | | 2012 | | |
| | 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: | (In thousands) | | | | | |
| Unrealized losses arising during holding period | \$ (8,571) | \$ 3,283 | \$ (5,288) | \$ (4,706) | \$ 1,799 | \$ (2,907) |
| Less: Reclassification adjustment for net gains realized in net income (1) | (19) | 7 | (12) | (74) | 28 | (46) |
| Recognized employee benefit plan net periodic benefit cost (2) | 1,337 | (511) | 826 | 1,192 | (114) | 1,078 |
| Other comprehensive loss | \$ (7,253) | \$ 2,779 | \$ (4,474) | \$ (3,588) | \$ 1,713 | \$ (1,875) |
| Net income | | | 20,805 | | | 22,866 |
| Comprehensive income | | | \$ 16,331 | | | \$ 20,991 |

(1) Reclassification adjustments for net gains on available-for-sale securities are reported as security gains, net on the consolidated statement of income.

(2) Recognized employee benefit plan net periodic benefit cost include amortization of unrecognized transition amount, recognized prior service cost and recognized net loss. For more information, see Footnote 9 - Pension Benefits.

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill by operating segment for the three months ended March 31, 2013 were as follows:

| | Community Banking (In thousands) | Insurance Agencies | Total |
|-------------------------------------|---|-----------------------|-----------|
| Balance as of December 31, 2012 | \$217,618 | \$57,555 | \$275,173 |
| Goodwill recorded during the period | - | - | - |
| Balance as of March 31, 2013 | \$217,618 | \$57,555 | \$275,173 |

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 segment 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 first quarter of 2013 that indicated the necessity of an earlier goodwill impairment assessment.

In the current economic 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 March 31, 2013 | | As of December 31, 2012 | |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | (In thousands) | | | |
| Core deposit intangibles | \$27,801 | \$ 21,831 | \$27,801 | \$ 21,674 |
| Customer relationship intangibles | 36,239 | 26,646 | 36,239 | 26,098 |
| Non-solicitation intangibles | 525 | 189 | 525 | 151 |
| Total | \$64,565 | \$ 48,666 | \$64,565 | \$ 47,923 |
| Unamortized intangible assets: | | | | |
| Trade names | \$688 | \$ - | \$688 | \$ - |

| | Three months ended March 31, | |
|-------------------------------------|---------------------------------|-------|
| | 2013 | 2012 |
| Aggregate amortization expense for: | (In thousands) | |
| Core deposit intangibles | \$157 | \$243 |
| Customer relationship intangibles | 548 | 511 |
| Non-solicitation intangibles | 38 | 9 |
| Total | \$743 | \$763 |

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ending December 31, 2013 and the succeeding four years:

| | Core Deposit Intangibles | Customer Relationship Intangibles | Non- Solicitation Intangibles | Total |
|-----------------------------------|--------------------------------|---|-------------------------------------|---------|
| Estimated Amortization Expense: | (In thousands) | | | |
| For year ending December 31, 2013 | \$582 | \$ 2,101 | \$150 | \$2,833 |
| For year ending December 31, 2014 | 526 | 1,820 | 150 | 2,496 |
| For year ending December 31, 2015 | 487 | 1,497 | 75 | 2,059 |
| For year ending December 31, 2016 | 451 | 1,161 | - | 1,612 |
| For year ending December 31, 2017 | 419 | 992 | - | 1,411 |

NOTE 9 – PENSION BENEFITS

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

| Three months ended March 31, | |
|---------------------------------|------|
| 2013 | 2012 |
| (In thousands) | |

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| | | |
|--|----------|----------|
| Service cost | \$2,684 | \$2,592 |
| Interest cost | 2,053 | 2,072 |
| Expected return on assets | (2,743) | (3,670) |
| Amortization of unrecognized transition amount | 5 | 5 |
| Recognized prior service cost | (192) | (192) |
| Recognized net loss | 1,524 | 1,379 |
| Net periodic benefit costs | \$3,331 | \$2,186 |

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.

In July 2012, the FASB issued an ASU regarding indefinite-lived intangible assets impairment. This ASU permits companies to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test on that asset. This ASU is effective for interim and annual periods beginning after September 15, 2012. This ASU did not have a material impact on the financial position and results of operations of the Company.

In January 2013, the FASB issued an ASU regarding clarification of the scope of disclosures about offsetting assets and liabilities. This ASU limits the scope of the new balance sheet offsetting disclosures in the original ASU issued in 2011 to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. This ASU is effective for interim and annual periods beginning on or after January 1, 2013. The adoption of this ASU affected disclosures only and did not have an impact on the financial position and results of operations of the Company.

In February 2013, the FASB issued an ASU regarding the reporting of amounts reclassified out of accumulated other comprehensive income. This ASU requires entities to present information about reclassification adjustments from accumulated other comprehensive income in their annual financial statements in a single note or on the face of the financial statements. This ASU is effective for interim and annual periods beginning after December 15, 2012. The adoption of this ASU affected disclosures only and did not have an 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 periods ended March 31, 2013 and 2012 were as follows:

| | Community Banking | Insurance Agencies | General Corporate and Other | Total |
|--|----------------------|-----------------------|-----------------------------------|--------------|
| (In thousands) | | | | |
| Three months ended March 31, 2013: | | | | |
| Results of Operations | | | | |
| Net interest revenue | \$92,244 | \$49 | \$5,785 | \$98,078 |
| Provision for credit losses | 4,101 | - | (101) | 4,000 |
| Net interest revenue after provision for credit losses | 88,143 | 49 | 5,886 | 94,078 |
| Noninterest revenue | 26,507 | 26,530 | 18,281 | 71,318 |
| Noninterest expense | 91,005 | 21,407 | 22,959 | 135,371 |
| Income before income taxes | 23,645 | 5,172 | 1,208 | 30,025 |
| Income tax expense (benefit) | 7,604 | 2,076 | (460) | 9,220 |
| Net income | \$16,041 | \$3,096 | \$1,668 | \$20,805 |
| Selected Financial Information | | | | |
| Total assets at end of period | \$10,082,036 | \$183,918 | \$3,127,181 | \$13,393,135 |
| Depreciation and amortization | 5,788 | 894 | 774 | 7,456 |
| Three months ended March 31, 2012: | | | | |
| Results of Operations | | | | |
| Net interest revenue | \$99,332 | \$73 | \$6,205 | \$105,610 |
| Provision for credit losses | 10,228 | - | (228) | 10,000 |
| Net interest revenue after provision for credit losses | 89,104 | 73 | 6,433 | 95,610 |
| Noninterest revenue | 29,163 | 23,151 | 20,046 | 72,360 |
| Noninterest expense | 96,701 | 18,698 | 20,281 | 135,680 |
| Income (loss) before income taxes | 21,566 | 4,526 | 6,198 | 32,290 |
| Income tax expense (benefit) | 6,110 | 1,819 | 1,495 | 9,424 |
| Net income (loss) | \$15,456 | \$2,707 | \$4,703 | \$22,866 |
| Selected Financial Information | | | | |
| Total assets at end of period | \$10,164,436 | \$175,763 | \$2,967,373 | \$13,307,572 |
| Depreciation and amortization | 5,970 | 874 | 751 | 7,595 |

The decreased net income of the General Corporate and Other operating segment for the three months ended March 31, 2013 was primarily related to the decrease in mortgage lending revenue.

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:

| | 2013 | March 31, 2012 | December 31, 2012 |
|--|------------------------|-------------------|-------------------------|
| | (Dollars in thousands) | | |
| Unpaid principal balance | \$5,236,852 | \$4,413,139 | \$5,058,912 |
| Weighted-average prepayment speed (CPR) | 15.4 | 18.1 | 17.1 |
| Discount rate (annual percentage) | 10.8 | 10.3 | 10.8 |
| Weighted-average coupon interest rate (percentage) | 4.3 | 4.8 | 4.4 |
| Weighted-average remaining maturity (months) | 306.0 | 310.0 | 307.0 |
| Weighted-average servicing fee (basis points) | 26.9 | 27.8 | 27.1 |

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 MSRs and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSRs 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:

| | 2013 | 2012 |
|---|----------------|----------|
| | (In thousands) | |
| Fair value as of January 1 | \$37,882 | \$30,174 |
| Additions: | | |
| Origination of servicing assets | 4,268 | 3,525 |
| Changes in fair value: | | |
| Due to payoffs/paydowns | (1,705) | (1,726) |
| Due to change in valuation inputs or assumptions used in the valuation model | 1,037 | 3,697 |
| Other changes in fair value | (4) | (2) |
| Fair value as of March 31 | \$41,478 | \$35,668 |

All of the changes to the fair value of the MSRs 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 \$3.5 million and \$3.1 million and late and other ancillary fees of approximately \$360,000 and \$362,000 for the three months ended March 31, 2013 and 2012, respectively.

NOTE 13 – DERIVATIVE INSTRUMENTS AND OFFSETTING ASSETS AND LIABILITIES

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 March 31, 2013, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$201.3 million with a carrying value and fair value reflecting a loss of approximately

\$968,000. At March 31, 2012, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$213.3 million with a carrying value and fair value reflecting a loss of approximately \$98,000. At March 31, 2013, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$188.4 million with a carrying value and fair value reflecting a gain of \$3.7 million. At March 31, 2012, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$159.1 million with a carrying value and fair value reflecting a gain of \$2.7 million.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk

to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of March 31, 2013, the notional amount of customer related derivative financial instruments was \$479.1 million with an average maturity of 60 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.6%. As of March 31, 2012, the notional amount of customer related derivative financial instruments was \$479.4 million with an average maturity of 59 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.8%.

Certain financial instruments such as derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. The Bank's derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association ("ISDA") master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Bank does not generally offset such financial instruments for financial reporting purposes.

| March 31, 2013 | | | | | | |
|------------------------------------|--|------------------------|--------------------------|---|------------------------------------|-----------------|
| | | | | Gross Amounts Not Offset in the Consolidated Balance Sheet | | |
| | Gross Amount Recognized (In thousands) | Gross Amount Offset | Net Amount Recognized | Financial Instruments | Financial Collateral Pledged | Net Amount |
| Financial assets: | | | | | | |
| Derivatives: | | | | | | |
| Forward commitments | \$3,666 | \$ - | \$3,666 | \$- | \$- | \$3,666 |
| Loan/lease interest rate swaps | 46,284 | - | 46,284 | - | - | 46,284 |
| Total financial assets | \$49,950 | \$ - | \$49,950 | \$- | \$- | \$49,950 |
| Financial liabilities: | | | | | | |
| Derivatives: | | | | | | |
| Forward commitments | \$968 | \$ - | \$968 | \$- | \$- | \$968 |
| Loan/lease interest rate swaps | 46,284 | - | 46,284 | - | (46,284) | - |
| Repurchase arrangements | 353,742 | - | 353,742 | (353,742) | - | - |
| Total financial liabilities | \$400,994 | \$ - | \$400,994 | \$(353,742) | \$(46,284) | \$968 |

| December 31, 2012 | | | | | | |
|-------------------|--|------------------------|--------------------------|---|------------------------------------|---------------|
| | | | | Gross Amounts Not Offset in the Consolidated Balance Sheet | | |
| | Gross Amount Recognized (In thousands) | Gross Amount Offset | Net Amount Recognized | Financial Instruments | Financial Collateral Pledged | Net Amount |

Financial assets:

Derivatives:

| | | | | | | |
|--------------------------------|----------|------|----------|-----|-----|----------|
| Forward commitments | \$4,168 | \$ - | \$4,168 | \$- | \$- | \$4,168 |
| Loan/lease interest rate swaps | 52,154 | - | 52,154 | - | - | 52,154 |
| Total financial assets | \$56,322 | \$ - | \$56,322 | \$- | \$- | \$56,322 |

Financial liabilities:

Derivatives:

| | | | | | | |
|--------------------------------|-----------|------|-----------|--------------|-------------|-------|
| Forward commitments | \$622 | \$ - | \$622 | \$- | \$- | \$622 |
| Loan/lease interest rate swaps | 52,154 | - | 52,154 | - | (52,154) | - |
| Repurchase arrangements | 414,611 | - | 414,611 | (414,611) | - | - |
| Total financial liabilities | \$467,387 | \$ - | \$467,387 | \$(414,611) | \$(52,154) | \$622 |

March 31, 2012

| | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | | | |
|-----------------------------------|---|------------------------|--------------------------|--------------------------|------------------------------------|---------------|
| | Gross Amount Recognized | Gross Amount Offset | Net Amount Recognized | Financial Instruments | Financial Collateral Pledged | Net Amount |
| (In thousands) | | | | | | |
| Financial assets: | | | | | | |
| Derivatives: | | | | | | |
| Forward commitments | \$2,963 | \$ - | \$2,963 | \$- | \$- | \$2,963 |
| Loan/lease interest rate swaps | 50,857 | - | 50,857 | - | - | 50,857 |
| Total financial assets | \$53,820 | \$ - | \$53,820 | \$- | \$- | \$53,820 |
| Financial liabilities: | | | | | | |
| Derivatives: | | | | | | |
| Forward commitments | \$351 | \$ - | \$351 | \$- | \$- | \$351 |
| Loan/lease interest rate swaps | 50,857 | - | 50,857 | - | (50,857) | - |
| Repurchase arrangements | 401,089 | - | 401,089 | (401,089) | - | - |
| Total financial liabilities | \$452,297 | \$ - | \$452,297 | \$(401,089) | \$(50,857) | \$351 |

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. 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 March 31, 2013 and 2012:

| | March 31, 2013 | | | |
|---|----------------|-------------|----------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| (In thousands) | | | | |
| Assets: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government agencies | \$- | \$1,517,725 | \$- | \$1,517,725 |
| Government agency issued residential mortgage-backed securities | - | 334,550 | - | 334,550 |
| Government agency issued commercial mortgage-backed securities | - | 196,459 | - | 196,459 |
| Obligations of states and political subdivisions | - | 550,475 | - | 550,475 |
| Other | 869 | 7,098 | - | 7,967 |
| Mortgage servicing rights | - | - | 41,478 | 41,478 |
| Derivative instruments | - | - | 49,392 | 49,392 |
| Total | \$869 | \$2,606,307 | \$90,870 | \$2,698,046 |
| Liabilities: | | | | |
| Derivative instruments | \$- | \$- | \$47,251 | \$47,251 |

| | March 31, 2012 | | | |
|---|----------------|-------------|----------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| (In thousands) | | | | |
| Assets: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government agencies | \$- | \$1,578,441 | \$- | \$1,578,441 |
| Government agency issued residential mortgage-backed securities | - | 385,146 | - | 385,146 |
| Government agency issued commercial mortgage-backed securities | - | 31,647 | - | 31,647 |
| Obligations of states and political subdivisions | - | 568,642 | - | 568,642 |
| Other | 665 | 8,994 | - | 9,659 |
| Mortgage servicing rights | - | - | 35,668 | 35,668 |
| Derivative instruments | - | - | 53,057 | 53,057 |
| Total | \$665 | \$2,572,870 | \$88,725 | \$2,662,260 |
| Liabilities: | | | | |
| Derivative instruments | \$- | \$- | \$51,208 | \$51,208 |

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three-month periods ended March 31, 2013 and 2012:

| | Mortgage Servicing Rights | Derivative Instruments (In thousands) | Available- for-sale Securities |
|---|---------------------------------|---|--------------------------------------|
| Balance at December 31, 2012 | \$37,882 | \$2,911 | \$- |
| Year to date net gains (losses) included in: | | | |
| Net income | (672) | (770) | - |
| Other comprehensive income | - | - | - |
| Purchases, sales, issuances and settlements, net | 4,268 | - | - |
| Transfers in and/or out of Level 3 | - | - | - |
| Balance at March 31, 2013 | \$41,478 | \$2,141 | \$- |
| Net unrealized gains (losses) included in net income for the quarter relating to assets and liabilities held at March 31, 2013 | \$1,037 | \$(770) | \$- |

| | 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 | 1,969 | 1,507 | - |
| Other comprehensive income | - | - | - |
| Purchases, sales, issuances and settlements, net | 3,525 | - | - |
| Transfers in and/or out of Level 3 | - | - | - |
| Balance at March 31, 2012 | \$35,668 | \$1,849 | \$- |
| Net unrealized gains included in net income for the quarter relating to assets and liabilities held at March 31, 2012 | \$3,697 | \$1,507 | \$- |

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 March 31, 2013 and 2012:

| | March 31, 2013 | | | | Total Losses |
|-------------------------|----------------|-----------|---------|-----------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Assets: | (In thousands) | | | | |
| Loans held for sale | \$- | \$105,523 | \$- | \$105,523 | \$- |
| Impaired loans | - | - | 137,791 | 137,791 | (11,658) |
| Other real estate owned | - | - | 96,314 | 96,314 | (31,507) |

| | March 31, 2012 | | | | Total Losses |
|---------------------|----------------|-----------|---------|-----------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Assets: | (In thousands) | | | | |
| Loans held for sale | \$- | \$110,294 | \$- | \$110,294 | \$- |

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| | | | | | |
|-------------------------|---|---|---------|---------|-----------|
| Impaired loans | - | - | 211,112 | 211,112 | (25,546) |
| Other real estate owned | - | - | 167,808 | 167,808 | (26,520) |

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 March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | December 31, 2012 | |
|---|----------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | (In thousands) | | | |
| Cash and due from banks | \$147,947 | \$147,947 | \$223,814 | \$223,814 |
| Interest bearing deposits with other banks | 969,506 | 969,506 | 979,800 | 979,800 |
| Available-for-sale securities | 2,607,176 | 2,607,176 | 2,434,032 | 2,434,032 |
| Net loans and leases | 8,418,937 | 8,430,959 | 8,472,523 | 8,546,810 |
| Loans held for sale | 105,523 | 105,616 | 129,138 | 129,230 |
| Liabilities: | | | | |
| Noninterest bearing deposits | 2,582,859 | 2,582,859 | 2,545,169 | 2,545,169 |
| Savings and interest bearing deposits | 6,053,066 | 6,053,066 | 5,945,281 | 5,945,281 |
| Other time deposits | 2,529,001 | 2,563,359 | 2,597,696 | 2,634,099 |
| Federal funds purchased and securities sold under agreement to repurchase | | | | |
| and other short-term borrowings | 353,742 | 353,142 | 414,611 | 414,399 |
| Long-term debt and other borrowings | 193,863 | 205,655 | 193,867 | 205,072 |
| Derivative instruments: | | | | |
| Forward commitments to sell fixed rate mortgage loans | (968) | (968) | (536) | (536) |
| Commitments to fund fixed rate mortgage loans | 3,666 | 3,666 | 4,081 | 4,081 |
| Interest rate swap position to receive | 45,727 | 45,727 | 51,517 | 51,517 |
| Interest rate swap position to pay | (46,284) | (46,284) | (52,154) | (52,154) |

NOTE 15 – OTHER NONINTEREST REVENUE AND EXPENSE

The following table details other noninterest revenue for the three months ended March 31, 2013 and 2012:

| | Three months ended March 31, | |
|--------------------------------|---------------------------------|---------|
| | 2013 | 2012 |
| | (In thousands) | |
| Annuity fees | \$483 | \$642 |
| Brokerage commissions and fees | 2,093 | 1,438 |
| Bank-owned life insurance | 1,887 | 2,613 |
| Other miscellaneous income | 4,284 | 4,377 |
| Total other noninterest income | \$8,747 | \$9,070 |

The following table details other noninterest expense for the three months ended March 31, 2013 and 2012:

| | Three months ended March 31, | |
|---------------------------------|---------------------------------|----------|
| | 2013 | 2012 |
| | (In thousands) | |
| Advertising | \$743 | \$841 |
| Foreclosed property expense | 2,354 | 8,409 |
| Telecommunications | 2,099 | 2,206 |
| Public relations | 1,005 | 1,466 |
| Data processing | 2,468 | 2,764 |
| Computer software | 1,963 | 1,803 |
| Amortization of intangibles | 743 | 763 |
| Legal | 9,366 | 2,216 |
| Postage and shipping | 1,135 | 1,255 |
| Other miscellaneous expense | 16,092 | 18,244 |
| Total other noninterest expense | \$37,968 | \$39,967 |

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, including those disclosed below, is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense of \$8.1 million accrued as of March 31, 2013 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 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 allegations 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 is seeking to recover alleged damages to the Company 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 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 and on March 4, 2013, the Eleventh Circuit Court of Appeals denied the Bank's petition for leave to appeal the class certification order. Notice to the certified class was sent, on or about May 3, 2013, primarily informing the class of the right to opt-out of the class and setting a deadline for same. 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 – CORRECTION OF IMMATERIAL ERROR

During the quarter ended March 31, 2013, the Company identified an immaterial error in its cash flow statements for prior periods. The Company improperly reported losses on the sale and writedowns of OREO as Investing Activities instead of as a reconciling item within Operating Activities, as well as reported unsettled trade liabilities for

investment purchases as Operating Activities instead of Investing Activities. These changes had no impact to the overall total of cash inflows and outflows within the cash flow statements for prior periods. The Company has deemed these changes immaterial to its consolidated financial statement taken as a whole. The following table reflects the changes in the cash flow statements for prior periods:

| | As Originally Reported | Adjustment | As Adjusted |
|--|------------------------------|-------------|----------------|
| Quarter Ended March 31, 2012 | | | |
| Net Cash provided by operating activities | \$44,556 | \$(28,997) | \$15,559 |
| Net cash provided by investing activities | 44,197 | 28,997 | 73,194 |
| Net cash provided by financing activities | 262,019 | - | 262,019 |
| Increase in cash and cash equivalents | 350,772 | - | 350,772 |
| Cash and cash equivalents at beginning of period | 499,344 | - | 499,344 |
| Cash and cash equivalents at end of period | \$850,116 | \$- | \$850,116 |
| Year Ended December 31, 2012 | | | |
| Net cash provided by operating activities | \$133,331 | \$4,365 | \$137,696 |
| Net cash provided by investing activities | 292,473 | (4,365) | 288,108 |
| Net cash provided by financing activities | 278,466 | - | 278,466 |
| Increase in cash and cash equivalents | 704,270 | - | 704,270 |
| Cash and cash equivalents at beginning of period | 499,344 | - | 499,344 |
| Cash and cash equivalents at end of period | \$1,203,614 | \$- | \$1,203,614 |
| Year Ended December 31, 2011 | | | |
| Net cash provided by operating activities | \$256,425 | \$21,332 | \$277,757 |
| Net cash provided by investing activities | 661,840 | (21,332) | 640,508 |
| Net cash used in financing activities | (691,007) | - | (691,007) |
| Increase in cash and cash equivalents | 227,258 | - | 227,258 |
| Cash and cash equivalents at beginning of period | 272,086 | - | 272,086 |
| Cash and cash equivalents at end of period | \$499,344 | \$- | \$499,344 |

NOTE 18 – SUBSEQUENT EVENT

The Company is in the process of offering a voluntary early retirement offer (“VERO”) to certain employees who were eligible because they met job classification, age and years-of-service criteria. As a result of eligible employees accepting the VERO prior to the deadline of May 20, 2013, the Company expects to record a one-time pre-tax charge for additional salaries, net periodic pension costs and other employee benefits ranging from \$8.0 million to \$16.0 million relating to benefits provided to the VERO participants who accept the offer. Participants may elect to receive the pension plan enhancements in the form of lump sum or annuity payments. Should total lump sum distributions from the Company's pension plan for the year exceed a threshold of \$16.7 million, an additional pre-tax non-cash charge ranging from \$8.0 million to \$13.0 million would be incurred to accelerate amortization of items included in accumulated other comprehensive income related to pension assets.

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 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 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 short-term and long-term impact of changes to banking capital standards on the Company’s regulatory capital and liquidity, the impact of regulations on service charges on the Company’s core deposit accounts, the susceptibility of the Company’s business to local economic and environmental 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, the Company’s ability to adapt its products and services to evolving industry standards and consumer preferences, 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, unfavorable ratings by ratings agencies, 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, 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 \$13.4 billion in assets at March 31, 2013. 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 periods ended March 31, 2013 and 2012 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 was reflected in the credit quality measures during 2010 and 2011, the Company's financial condition improved during 2012 as reflected by decreases in the allowance for credit losses, net charge-offs, total NPLs and total non-performing assets ("NPAs"), when compared to 2011 and 2010. The Company's financial condition continued to improve during the first quarter of 2013, as the allowance for credit losses, net charge-offs, total NPLs and total NPAs decreased at March 31, 2013 compared to December 31, 2012 and March 31, 2012. Management believes that the Company is better positioned with respect to overall credit quality as evidenced by this improvement in credit quality metrics at March 31, 2013 compared to December 31, 2012 and March 31, 2012. 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.

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 March 31, | | | |
|--|--|---|---------------|---|
| | 2013 | | 2012 | |
| | (Dollars in thousands, except per share data) | | | |
| Earnings Summary: | | | | |
| Total interest revenue | \$ 113,027 | | \$ 125,375 | |
| Total interest expense | 14,949 | | 19,765 | |
| Net interest income | 98,078 | | 105,610 | |
| Provision for credit losses | 4,000 | | 10,000 | |
| Noninterest income | 71,318 | | 72,360 | |
| Noninterest expense | 135,371 | | 135,680 | |
| Income before income taxes | 30,025 | | 32,290 | |
| Income tax expense | 9,220 | | 9,424 | |
| Net income | \$20,805 | | \$22,866 | |
| | | | | |
| Balance Sheet - Period-end balances: | | | | |
| Total assets | \$ 13,393,135 | | \$ 13,307,572 | |
| Total securities | 2,607,176 | | 2,573,535 | |
| Loans and leases, net of unearned income | 8,581,538 | | 8,737,923 | |
| Total deposits | 11,164,926 | | 11,082,322 | |
| Long-term debt | 33,500 | | 33,500 | |
| Total shareholders' equity | 1,465,180 | | 1,392,199 | |
| | | | | |
| Balance Sheet-Average Balances: | | | | |
| Total assets | \$ 13,249,374 | | \$ 13,088,358 | |
| Total securities | 2,520,414 | | 2,507,941 | |
| Loans and leases, net of unearned income | 8,580,329 | | 8,791,542 | |
| Total deposits | 11,090,989 | | 11,043,952 | |
| Long-term debt | 33,500 | | 33,500 | |
| Total shareholders' equity | 1,462,140 | | 1,363,709 | |
| | | | | |
| Common Share Data: | | | | |
| Basic earnings per share | \$0.22 | | \$0.25 | |
| Diluted earnings per share | 0.22 | | 0.25 | |
| Cash dividends per share | 0.01 | | 0.01 | |
| Book value per share | 15.39 | | 14.74 | |
| Tangible book value per share | 12.33 | | 11.70 | |
| Dividend payout ratio | 4.55 | % | 4.00 | % |
| | | | | |
| Financial Ratios (Annualized): | | | | |
| Return on average assets | 0.64 | % | 0.70 | % |
| Return on average shareholders' equity | 5.77 | | 6.74 | |
| Total shareholders' equity to total assets | 10.94 | | 10.46 | |
| Tangible shareholders' equity to tangible assets | 8.96 | | 8.49 | |
| Net interest margin-fully taxable equivalent | 3.37 | | 3.66 | |

| | | | | |
|---|-------|---|-------|---|
| Credit Quality Ratios (Annualized): | | | | |
| Net charge-offs to average loans and leases | 0.27 | % | 1.06 | % |
| Provision for credit losses to average loans and leases | 0.19 | | 0.45 | |
| Allowance for credit losses to net loans and leases | 1.89 | | 2.08 | |
| Allowance for credit losses to NPLs | 78.54 | | 63.73 | |
| Allowance for credit losses to NPAs | 53.61 | | 40.12 | |
| NPLs to net loans and leases | 2.41 | | 3.26 | |
| NPAs to net loans and leases | 3.53 | | 5.18 | |
| | | | | |
| Capital Adequacy: | | | | |
| Tier 1 capital | 14.06 | % | 13.22 | % |
| Total capital | 15.31 | | 14.47 | |
| Tier 1 leverage capital | 10.33 | | 9.85 | |

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 important to investors who are interested in evaluating the adequacy of the Company's capital levels. Tangible book value per share is defined by the Company as tangible shareholders' equity divided by total common shares outstanding. Management believes that tangible book value per share is important to investors who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. 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:

| | 2013 | March 31, 2012 | | |
|---|------------------------|---------------------|-------------|----------|
| | (Dollars in thousands) | | | |
| Tangible Assets: | | | | |
| Total assets | \$13,393,135 | \$13,307,572 | | |
| Less: Goodwill | 275,173 | 271,297 | | |
| Other identifiable intangible assets | 16,586 | 15,850 | | |
| Total tangible assets | \$13,101,376 | \$13,020,425 | | |
| Tangible Shareholders' Equity | | | | |
| Total shareholders' equity | \$1,465,180 | \$1,392,199 | | |
| Less: Goodwill | 275,173 | 271,297 | | |
| Other identifiable intangible assets | 16,586 | 15,850 | | |
| Total tangible shareholders' equity | \$1,173,421 | \$1,105,052 | | |
| Total shares outstanding | 95,174,441 | 94,436,177 | | |
| Tangible shareholders' equity to tangible assets | 8.96 | % | 8.49 | % |
| Tangible book value per share | \$12.33 | \$11.70 | | |

FINANCIAL HIGHLIGHTS

The Company reported net income of \$20.8 million for the first quarter of 2013, compared to net income of \$22.9 for the same quarter of 2012. The decrease in net interest income was the most significant factor contributing to the decrease in net income, as net interest revenue was \$98.1 million for the first quarter of 2013, compared to \$105.6 million for the first quarter of 2012. The decrease in net interest revenue was partially offset by the decrease in the provision for credit losses, as the provision in the first quarter of 2013 was \$4.0 million, compared to a provision of \$10.0 million for the first quarter of 2012. The decrease in the provision for credit losses reflected the impact of a decrease in NPL formation during the first three months of 2013, as NPLs decreased from \$233.6 million at December 31, 2012 to \$207.0 million at March 31, 2013. Net charge-offs decreased to \$5.9 million, or 0.27% of average loans and leases, during the first quarter of 2013, compared to \$23.3 million, or 1.06% of average loans and leases, during the first quarter of 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. Prior to 2012, many of these loans had become collateral-dependent, requiring recognition of an impairment loss to reflect the decline in real estate values. During 2012 and the first three months of 2013, the Company 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 \$14.9 million to \$51.7 million at March 31, 2013 from \$66.6 million at December 31, 2012 and a decrease of \$63.9 million from \$115.6 million at March 31, 2012.

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 \$98.1 million for the first quarter of 2013, a decrease of \$7.5 million, or 7.1%, from \$105.6 million for the first quarter of 2012. 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 decrease in net interest revenue for the first quarter of 2013 compared to the first quarter of 2012 was a result of the decrease in interest revenue that resulted from the declining interest rate environment combined with the low loan demand and loans re-pricing at lower rates, both at maturity and, in some cases, prior to maturity. Interest revenue decreased \$12.3 million, or 9.8%, in the first quarter of 2013 compared to the first quarter of 2012. While loan demand has been weak, the Company has managed to replace some loan runoff with new loan production, primarily in its Alabama, Greater Memphis Area, Texas and Louisiana markets. The decrease in interest revenue was somewhat offset by the decrease in interest expense, as the Company experienced an increase in lower rate savings deposits and noninterest demand deposits and a decrease in higher rate other time deposits, which resulted in a decrease in interest expense of \$4.8 million, or 24.4%, in the first quarter of 2013 compared to the first quarter of 2012.

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 \$1.0 million, or 1.4%, for the first quarter of 2013 compared to the first quarter of 2012. One of the primary contributors to the decrease in noninterest revenue was the decrease in mortgage lending revenue to \$12.3 million for the first quarter of 2013 compared to \$15.1 million for the first quarter of 2012. The decrease in mortgage lending revenue was primarily related to the change in fair value of MSRs. The fair value of MSRs increased \$1.0 million during the first quarter of 2013 compared to \$3.7 million during the first quarter of 2012. Mortgage origination volume remained relatively stable, increasing 7.8% to \$425.9 million for the first quarter of 2013 compared to \$395.1 million for the first quarter of 2012. While mortgage origination volume increased 7.8% for the first quarter of 2013 compared to the first quarter of 2012, mortgage origination revenue decreased 5.5% to \$9.2 million for the first quarter of 2013 compared to \$9.7 million for the first quarter of 2012.

Also contributing to the decrease in noninterest revenue was the decrease of 15.1% in service charges to \$12.8 million in the first quarter of 2013 from \$15.1 million in the first quarter of 2012. Bank-owned life insurance revenue decreased 27.8% for the first quarter of 2013 compared to the first quarter of 2012 as a result of the Company recording life insurance proceeds of approximately \$872,000 during the first three months of 2012 with no such life insurance proceeds recorded during the first three months of 2013. The decrease in noninterest revenue was partially offset by the increase in insurance commissions. Insurance commissions increased 15.1% to \$26.6 million for the first quarter of 2013 compared to \$23.2 million for the first quarter of 2012 as a result of new policies written and growth from existing customers. There were no significant non-recurring noninterest revenue items during the first quarter of 2013 or 2012.

Total noninterest expense remained relatively stable for the first quarter of 2013 compared to the first quarter of 2012. Foreclosed property expense decreased 72.0% for the first quarter of 2013 compared to the first quarter of 2012. Foreclosed property expense decreased primarily as a result of the Company experiencing gains on the sale and smaller writedowns of OREO. The decrease in foreclosed property expense was somewhat offset by the increase in salaries, employee benefits and legal fees. Salaries and employee benefits expense increased to \$79.4 million for the first quarter of 2013, compared to \$74.9 million for the first quarter of 2012. The increase in salaries and employee benefits was primarily related to increases in employee benefits and commissions during the first quarter of 2013 compared to the same period of 2012. Legal expense increased to \$9.4 million in the first quarter of 2013 from \$2.2 million in the first quarter of 2012 primarily as a result of a charge of \$6.8 million to legal expense that was recorded to increase our litigation reserve related to various legal matters. 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 table presents 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 ended March 31, 2013 and 2012:

| | Three months ended March 31, | | | | | | |
|---|---|----------|----------------|---|----------------------------|----------|----------------|
| | 2013 Average Balance | Interest | Yield/ Rate | | 2012 Average Balance | Interest | Yield/ Rate |
| ASSETS | (Dollars in millions, yields on taxable equivalent basis) | | | | | | |
| Loans and leases (net of unearned income) (1)(2) | \$8,580.4 | \$99.9 | 4.72 | % | \$8,791.5 | \$109.9 | 5.03 % |
| Loans held for sale | 90.2 | 0.7 | 3.02 | % | 61.3 | 0.5 | 3.57 % |
| Available-for-sale securities: | | | | | | | |
| Taxable (3) | 2,073.7 | 8.7 | 1.70 | % | 2,058.9 | 11.3 | 2.20 % |
| Non-taxable (4) | 446.7 | 6.1 | 5.53 | % | 449.1 | 6.5 | 5.86 % |
| Federal funds sold, securities purchased under agreement to resell and short-term investments | 963.6 | 0.6 | 0.25 | % | 603.9 | 0.4 | 0.27 % |
| Total interest earning assets and revenue | 12,154.6 | 116.0 | 3.87 | % | 11,964.7 | 128.6 | 4.32 % |
| Other assets | 1,261.0 | | | | 1,325.8 | | |
| Less: Allowance for credit losses | (166.2) | | | | (202.1) | | |
| Total | \$13,249.4 | | | | \$13,088.4 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | |
| Deposits: | | | | | | | |