

BANCORPSOUTH INC  
Form 10-Q  
August 08, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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.)

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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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer  Accelerated filer  Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

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

As of August 1, 2016, the registrant had outstanding 94,566,789 shares of common stock, par value \$2.50 per share.

BANCORPSOUTH, INC.

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## PART I.

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## BANCORPSOUTH, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

	June 30, 2016 (Unaudited)	December 31, 2015 (1)	June 30, 2015 (Unaudited)
	(Dollars in thousands, except per share amounts)		
<b>ASSETS</b>			
Cash and due from banks	\$ 186,381	\$ 154,192	\$ 183,541
Interest bearing deposits with other banks	86,472	43,777	34,438
Available-for-sale securities, at fair value	2,103,883	2,082,329	2,251,153
Loans and leases	10,604,547	10,404,326	10,041,455
Less: Unearned income	28,569	31,548	33,884
Allowance for credit losses	126,935	126,458	138,312
Net loans and leases	10,449,043	10,246,320	9,869,259
Loans held for sale, at fair value	210,698	157,907	199,370
Premises and equipment, net	305,694	308,125	303,837
Accrued interest receivable	39,645	40,901	41,065
Goodwill	294,901	291,498	291,498
Other identifiable intangibles	20,831	20,545	22,415
Bank-owned life insurance	255,240	251,534	247,983
Other real estate owned	14,658	14,759	24,299
Other assets	169,714	186,775	166,073
<b>TOTAL ASSETS</b>	<b>\$ 14,137,160</b>	<b>\$ 13,798,662</b>	<b>\$ 13,634,931</b>
<b>LIABILITIES</b>			
Deposits:			
Demand: Noninterest bearing	\$ 3,133,460	\$ 3,031,528	\$ 2,911,972
Interest bearing	4,838,704	5,003,806	4,881,469
Savings	1,512,694	1,442,336	1,407,616
Other time	1,879,509	1,853,491	1,933,904
Total deposits	11,364,367	11,331,161	11,134,961
Federal funds purchased and securities sold under agreement to repurchase	415,949	405,937	375,980
Short-term Federal Home Loan Bank borrowings and other short-term borrowing	-	62,000	92,500
Accrued interest payable	3,727	3,071	3,494
Junior subordinated debt securities	23,198	23,198	23,198
Long-term debt	365,588	69,775	73,962

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Other liabilities	251,288	248,076	250,640
<b>TOTAL LIABILITIES</b>	<b>12,424,117</b>	<b>12,143,218</b>	<b>11,954,735</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock, \$2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 94,546,091			
94,162,728 and 96,755,530 shares, respectively	236,365	235,407	241,889
Capital surplus	286,994	282,934	337,272
Accumulated other comprehensive loss	(27,587)	(41,825)	(41,288)
Retained earnings	1,217,271	1,178,928	1,142,323
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,713,043</b>	<b>1,655,444</b>	<b>1,680,196</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 14,137,160</b>	<b>\$ 13,798,662</b>	<b>\$ 13,634,931</b>
(1) Derived from audited consolidated financial statements.			

See accompanying notes to consolidated financial statements.

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## BANCORPSOUTH, INC. AND SUBSIDIARIES

## Consolidated Statements of Income

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
(In thousands, except for per share amounts)				
<b>INTEREST REVENUE:</b>				
Loans and leases	\$ 109,078	\$ 103,428	\$ 216,883	\$ 205,563
Deposits with other banks	229	126	492	362
Available-for-sale securities:				
Taxable	6,009	6,424	11,897	13,268
Tax-exempt	2,924	3,335	5,956	6,712
Loans held for sale	1,183	1,317	2,167	2,222
Total interest revenue	119,423	114,630	237,395	228,127
<b>INTEREST EXPENSE:</b>				
Deposits:				
Interest bearing demand	2,208	2,262	4,371	4,445
Savings	451	426	894	838
Other time	3,436	3,827	6,790	7,835
Federal funds purchased and securities sold under agreement to repurchase	159	85	299	167
Long-term debt	665	556	1,195	1,133
Junior subordinated debt	187	165	370	328
Other	1	-	1	(1)
Total interest expense	7,107	7,321	13,920	14,745
Net interest revenue	112,316	107,309	223,475	213,382
Provision for credit losses	2,000	(5,000)	3,000	(10,000)
Net interest revenue, after provision for credit losses	110,316	112,309	220,475	223,382
<b>NONINTEREST REVENUE:</b>				
Mortgage banking	9,043	14,102	11,661	22,669
Credit card, debit card and merchant fees	9,495	9,298	18,456	17,837
Deposit service charges	11,018	11,527	22,032	22,779
Security gains, net	86	41	88	55
Insurance commissions	28,803	29,319	62,052	62,812
Wealth management	5,347	5,508	10,456	11,718
Other	5,891	4,519	10,453	9,759
Total noninterest revenue	69,683	74,314	135,198	147,629
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	81,832	79,759	164,299	160,938
Occupancy, net of rental income	10,109	10,419	20,382	20,613

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Equipment	3,295	4,024	7,060	7,998
Deposit insurance assessments	2,582	2,377	4,870	4,688
Regulatory settlement	-	-	10,277	-
Other	30,900	31,598	64,130	70,873
Total noninterest expense	128,718	128,177	271,018	265,110
Income before income taxes	51,281	58,446	84,655	105,901
Income tax expense	16,589	18,733	27,414	33,922
Net income	\$ 34,692	\$ 39,713	\$ 57,241	\$ 71,979
Earnings per share: Basic	\$ 0.37	\$ 0.41	\$ 0.61	\$ 0.75
Diluted	\$ 0.37	\$ 0.41	\$ 0.60	\$ 0.74
Dividends declared per common share	\$ 0.10	\$ 0.075	\$ 0.20	\$ 0.15

See accompanying notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	\$ 34,692	\$ 39,713	\$ 57,241	\$ 71,979
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on securities	3,624	(5,365)	12,372	178
Pension and other postretirement benefits	933	1,110	1,866	2,220
Other comprehensive income (loss), net of tax	4,557	(4,255)	14,238	2,398
Comprehensive income	\$ 39,249	\$ 35,458	\$ 71,479	\$ 74,377

See accompanying notes to consolidated financial statements.



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

	Six months ended	
	June 30,	
	2016	2015
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$ 57,241	\$ 71,979
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,000	(10,000)
Depreciation and amortization	12,606	13,411
Amortization of intangibles	1,749	2,093
Amortization of debt securities premium and discount, net	5,200	6,503
Share-based compensation expense	4,679	3,904
Security gains, net	(88)	(55)
Net deferred loan origination expense	(3,335)	(3,295)
Excess tax benefit from exercise of stock options	(1,103)	(702)
Decrease in interest receivable	1,256	920
Increase in interest payable	656	94
Realized gain on mortgages sold, net	(23,516)	(21,672)
Proceeds from mortgages sold	745,752	687,076
Origination of mortgages held for sale	(777,951)	(728,269)
Loss on other real estate owned, net	1,729	2,634
Increase in bank-owned life insurance	(3,706)	(3,649)
Other, net	16,261	12,949
Net cash provided by operating activities	40,430	33,921
<b>Investing activities:</b>		
Proceeds from calls and maturities of available-for-sale securities	224,051	151,206
Proceeds from sales of available-for-sale securities	15	1,110
Purchases of available-for-sale securities	(229,469)	(261,356)
Net increase in loans and leases	(210,262)	(290,005)
Purchases of premises and equipment	(11,772)	(12,818)
Proceeds from sale of premises and equipment	949	139
Purchase of bank-owned life insurance, net of proceeds from death benefits	-	2,742
Acquisition of Insurance agency	(3,716)	-
Proceeds from sale of other real estate owned	6,219	11,468
Other, net	(50)	(12)
Net cash used in investing activities	(224,035)	(397,526)
<b>Financing activities:</b>		
Net increase in deposits	33,206	162,622
Net (decrease) increase in short-term debt and other liabilities	(51,997)	76,806
Advances of long-term debt	300,000	-
Repayment of long-term debt	(4,187)	(4,186)

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Issuance of common stock	207	5,168
Repurchase of common stock	(971)	(2,288)
Excess tax benefit from exercise of stock options	1,103	702
Payment of cash dividends	(18,872)	(14,490)
Net cash provided by financing activities	258,489	224,334
Increase (decrease) in cash and cash equivalents	74,884	(139,271)
Cash and cash equivalents at beginning of period	197,969	357,250
Cash and cash equivalents at end of period	\$ 272,853	\$ 217,979

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BANCORPSOUTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended	
	June 30,	
	2016	2015
	(In thousands)	
Supplemental Cash Flow Information		
Cash paid(received during the period for:		
Income tax payments, net	\$ 23,304	\$ 33,903
Interest paid	13,264	14,651
Non-cash Activities		
Transfers of loans to other real estate owned	7,874	4,534
Financed sales of other real estate owned	541	5,360
Transfers of loans held for sale to loan portfolio	-	75
See accompanying notes to consolidated financial statements.		

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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, 2015. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal, recurring nature. The results of operations for the three-month and six-month periods ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year. Certain 2015 amounts have been reclassified to conform with the 2016 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, BancorpSouth Insurance 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. The real estate segment is further disaggregated into the following classes: consumer mortgages; 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:

June 30, 2016	2015	December 31, 2015
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(In thousands)

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Commercial and industrial	\$ 1,701,848	\$ 1,735,444	\$ 1,752,273
Real estate			
Consumer mortgages	2,549,989	2,374,122	2,472,202
Home equity	614,686	558,460	589,752
Agricultural	251,566	239,884	259,360
Commercial and industrial-owner occupied	1,644,618	1,596,244	1,617,429
Construction, acquisition and development	1,021,218	860,407	945,045
Commercial real estate	2,254,653	2,081,394	2,188,048
Credit cards	108,101	110,552	112,165
All other	457,868	484,948	468,052
Gross loans and leases (1)	10,604,547	10,041,455	10,404,326
Less: Unearned income	28,569	33,884	31,548
Net loans and leases	\$ 10,575,978	\$ 10,007,571	\$ 10,372,778

(1) Gross loans and leases are net of deferred fees and costs.

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The following table shows the Company's loans and leases, net of unearned income, as of June 30, 2016 by segment, class and geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas	Louisiana	Mississippi	Missouri	Tennessee	Texas
Commercial and industrial	\$ 146,268	\$ 198,348	\$ 196,156	\$ 680,183	\$ 93,190	\$ 117,291	\$
Real estate							
Consumer mortgages	318,323	326,634	225,181	815,895	80,713	286,004	472,000
Home equity	93,400	43,484	67,923	226,158	23,427	145,122	13,000
Agricultural	7,684	79,186	27,600	67,078	3,571	13,942	52,000
Commercial and industrial-owner occupied	199,074	174,811	198,307	668,400	49,294	140,535	214,000
Construction, acquisition and development	121,768	102,732	55,618	322,841	22,212	148,243	247,000
Commercial real estate	346,711	359,930	227,451	613,773	198,254	176,006	330,000
Credit cards	-	-	-	-	-	-	-
All other	71,387	47,848	29,070	172,686	4,189	34,789	53,000
Total	\$ 1,304,615	\$ 1,332,973	\$ 1,027,306	\$ 3,567,014	\$ 474,850	\$ 1,061,932	\$

There are no other loan and lease concentrations which exceed 10% of total loans and leases not already 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 were originated through the permanent financing of construction, acquisition and development loans. Future economic distress could negatively impact borrowers' and guarantors' ability to repay their debt which would make more of the Company's loans collateral dependent.

The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by segment and class at June 30, 2016 and December 31, 2015:



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June 30, 2016

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding	90+ Days Past Due still Accruing
(In thousands)							
Commercial and industrial Real estate Consumer mortgages	\$ 5,563	\$ 400	\$ 5,647	\$ 11,610	\$ 1,686,479	\$ 1,698,089	\$ 82
Home equity	14,287	4,648	11,405	30,340	2,519,649	2,549,989	1,502
Agricultural	2,290	1,047	1,525	4,862	609,824	614,686	-
Commercial and industrial-owner occupied	201	176	194	571	250,995	251,566	-
Construction, acquisition and development	3,952	336	8,532	12,820	1,631,798	1,644,618	-
Commercial real estate	1,027	266	780	2,073	1,019,145	1,021,218	-
Credit cards	3,469	307	1,462	5,238	2,249,415	2,254,653	-
All other	471	229	354	1,054	107,047	108,101	291
Total	672	67	222	961	432,097	433,058	-
	\$ 31,932	\$ 7,476	\$ 30,121	\$ 69,529	\$ 10,506,449	\$ 10,575,978	\$ 1,875

December 31, 2015

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding	90+ Days Past Due still Accruing
(In thousands)							
Commercial and industrial Real estate Consumer mortgages	\$ 2,038	\$ 817	\$ 4,731	\$ 7,586	\$ 1,740,188	\$ 1,747,774	\$ 60
Home equity	13,827	4,692	13,604	32,123	2,440,079	2,472,202	1,655
Agricultural	2,589	268	1,896	4,753	584,999	589,752	-
Commercial and industrial-owner occupied	176	139	-	315	259,045	259,360	-
Construction, acquisition and development	1,189	3,105	4,034	8,328	1,609,101	1,617,429	-
Commercial real estate	1,017	207	2,409	3,633	941,412	945,045	-
	2,840	187	6,286	9,313	2,178,735	2,188,048	-



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Credit cards	420	343	323	1,086	111,079	112,165	298
All other	628	262	105	995	440,008	441,003	-
Total	\$ 24,724	\$ 10,020	\$ 33,388	\$ 68,132	\$ 10,304,646	\$ 10,372,778	\$ 2,013

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.

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

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Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration. Loans are further characterized by the possibility that the Company will sustain some loss if the deficiencies are not corrected.

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 June 30, 2016 and December 31, 2015:

	June 30, 2016						Total
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	
	(In thousands)						
Commercial and industrial Real estate	\$ 1,654,279	\$ -	\$ 36,866	\$ 91	\$ 384	\$ 6,469	\$ 1,698,089
Consumer mortgages	2,482,105	298	66,614	14	-	958	2,549,989
Home equity	603,039	-	10,163	-	-	1,484	614,686
Agricultural	242,721	-	8,085	-	-	760	251,566
Commercial and industrial-owner occupied	1,585,978	516	45,682	375	-	12,067	1,644,618
Construction, acquisition and development	1,003,045	-	12,809	-	-	5,364	1,021,218
Commercial real estate	2,202,501	-	38,867	151	-	13,134	2,254,653
Credit cards	108,101	-	-	-	-	-	108,101
All other	424,932	-	8,027	99	-	-	433,058
Total	\$ 10,306,701	\$ 814	\$ 227,113	\$ 730	\$ 384	\$ 40,236	\$ 10,575,978

	December 31, 2015						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
	(In thousands)						
Commercial and industrial	\$ 1,721,118	\$ -	\$ 19,529	\$ -	\$ -	\$ 7,127	\$ 1,747,774
Real estate							
Consumer mortgages	2,399,081	-	68,768	363	-	3,990	2,472,202
Home equity	577,539	-	10,418	-	-	1,795	589,752
Agricultural	250,579	-	7,909	-	-	872	259,360
Commercial and industrial-owner occupied	1,554,984	-	50,304	-	-	12,141	1,617,429
Construction, acquisition and development	920,372	-	17,090	-	-	7,583	945,045
Commercial real estate	2,124,448	-	45,658	161	-	17,781	2,188,048
Credit cards	112,165	-	-	-	-	-	112,165
All other	433,333	-	7,465	102	-	103	441,003
Total	\$ 10,093,619	\$ -	\$ 227,141	\$ 626	\$ -	\$ 51,392	\$ 10,372,778

(1) Impaired loans are shown exclusive of accruing troubled debt restructurings (“TDRs”)

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The following tables provide details regarding impaired loans and leases, net of unearned income, which exclude accruing TDRs by segment and class as of and for the three months and six months ended June 30, 2016 and as of and for the year ended December 31, 2015:

	June 30, 2016							
	Recorded Investment in Impaired Loans (1) (In thousands)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment Three months ended June 30, 2016	Six months ended June 30, 2016	Interest Income Recognized Three months ended June 30, 2016	Six months ended June 30, 2016	
With no related allowance:								
Commercial and industrial	\$ 5,968	\$ 13,178	\$ -	\$ 6,583	\$ 6,733	\$ 29	\$	\$
Real estate:								
Consumer mortgages	958	1,344	-	1,943	2,767	8	21	
Home equity	1,484	1,599	-	1,363	1,578	1	5	
Agricultural	254	311	-	271	291	1	4	
Commercial and industrial-owner occupied	12,067	13,735	-	11,608	10,913	96	204	
Construction, acquisition and development	5,135	5,135	-	5,374	5,600	1	4	
Commercial real estate	3,224	3,589	-	6,537	5,433	47	70	
All other	-	-	-	-	-	-	-	
Total	\$ 29,090	\$ 38,891	\$ -	\$ 33,679	\$ 33,315	\$ 183	\$	\$
With an allowance:								
Commercial and industrial	\$ 501	\$ 812	\$ 71	\$ 1,946	\$ 1,228	\$ 14	\$	\$
Real estate:								
Consumer mortgages	-	-	-	-	348	-	-	
Home equity	-	-	-	261	131	1	1	
Agricultural	506	506	124	521	535	-	-	
Commercial and industrial-owner occupied	-	-	-	1,146	1,489	-	-	
Construction, acquisition and development	229	229	4	229	686	-	-	

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Commercial real estate	9,910	9,910	2,871	7,544	9,998	38	101
All other	-	-	-	-	-	-	-
Total	\$ 11,146	\$ 11,457	\$ 3,070	\$ 11,647	\$ 14,415	\$ 53	\$ 112
Total:							
Commercial and industrial	\$ 6,469	\$ 13,990	\$ 71	\$ 8,529	\$ 7,961	\$ 43	\$ 7
Real estate:							
Consumer mortgages	958	1,344	-	1,943	3,115	8	21
Home equity	1,484	1,599	-	1,624	1,709	2	6
Agricultural	760	817	124	792	826	1	4
Commercial and industrial-owner occupied	12,067	13,735	-	12,754	12,402	96	204
Construction, acquisition and development	5,364	5,364	4	5,603	6,286	1	4
Commercial real estate	13,134	13,499	2,871	14,081	15,431	85	171
All other	-	-	-	-	-	-	-
Total	\$ 40,236	\$ 50,348	\$ 3,070	\$ 45,326	\$ 47,730	\$ 236	\$ 448

(1) Excludes \$2.8 million of non-accruing TDRs.

	December 31, 2015				
	Recorded Investment in Impaired Loans (1)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Commercial and industrial	\$ 7,055	\$ 13,986	\$ -	\$ 3,749	\$ 95
Real estate:					
Consumer mortgages	3,990	4,545	-	3,579	76
Home equity	1,795	1,795	-	744	7
Agricultural	322	380	-	142	6
Commercial and industrial-owner occupied	12,141	13,332	-	6,904	226
Construction, acquisition and development	5,969	6,052	-	3,553	25
Commercial real estate	5,017	6,879	-	7,944	202
All other	103	103	-	172	3
Total	\$ 36,392	\$ 47,072	\$ -	\$ 26,787	\$ 640
With an allowance:					
Commercial and industrial	\$ 72	\$ 383	\$ 78	\$ 3,635	\$ 84
Real estate:					
Consumer mortgages	-	-	-	368	9
Home equity	-	-	-	668	15
Agricultural	550	550	159	47	-
Commercial and industrial-owner occupied	-	-	326	1,866	51
Construction, acquisition and development	1,614	1,614	677	300	-
Commercial real estate	12,764	13,185	1,110	3,582	44
All other	-	-	-	-	-
Total	\$ 15,000	\$ 15,732	\$ 2,350	\$ 10,466	\$ 203
Total:					

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Commercial and industrial	\$	7,127	\$	14,369	\$	78	\$	7,384	\$	179
Real estate:										
Consumer mortgages		3,990		4,545		-		3,947		85
Home equity		1,795		1,795		-		1,412		22
Agricultural		872		930		159		189		6
Commercial and industrial-owner occupied		12,141		13,332		326		8,770		277
Construction, acquisition and development		7,583		7,666		677		3,853		25
Commercial real estate		17,781		20,064		1,110		11,526		246
All other		103		103		-		172		3
Total	\$	51,392	\$	62,804	\$	2,350	\$	37,253	\$	843

(1) Excludes \$2.6 million of non-accruing TDRs.

The following tables provide details regarding impaired loans and leases, net of unearned income, which include accruing TDRs, by segment and class as of and for the three months and six months ended June 30, 2016 and as of and for the year ended December 31, 2015:

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June 30, 2016

	Recorded Investment in Impaired Loans, including Accruing TDRs (In thousands)	Unpaid Principal Balance of Impaired Loans, including Accruing TDRs		Average Recorded Investment		Interest Income Recognized	
		Related Allowance for Credit Losses		Three months ended June 30, 2016	Six months ended June 30, 2016	Three months ended June 30, 2016	Six months ended June 30, 2016
With no related allowance:							
Commercial and industrial	\$ 5,968	\$ 13,178	-	\$ 6,583	\$ 6,733	\$ 29	\$
Real estate:							
Consumer mortgages	958	1,344	-	1,943	2,767	8	21
Home equity	1,485	1,599	-	1,363	1,578	1	5
Agricultural	253	311	-	271	291	1	4
Commercial and industrial-owner occupied	12,067	13,735	-	11,608	10,913	96	204
Construction, acquisition and development	5,135	5,135	-	5,374	5,600	1	4
Commercial real estate	3,224	3,589	-	6,537	5,433	47	70
All other	-	-	-	-	-	-	-
Total	\$ 29,090	\$ 38,891	-	\$ 33,679	\$ 33,315	\$ 183	\$
With an allowance:							
Commercial and industrial	\$ 3,850	\$ 4,181	165	\$ 5,243	\$ 3,328	\$ 49	\$
Real estate:							
Consumer mortgages	1,762	2,023	332	1,458	1,856	11	22
Home equity	3	13	1	277	149	1	1
Agricultural	591	591	150	612	596	1	2
Commercial and industrial-owner occupied	2,922	3,482	207	4,014	5,680	16	61
Construction, acquisition and development	1,585	1,585	47	1,595	2,067	10	20
Commercial real estate	11,221	11,434	3,784	9,072	11,142	54	125
Credit card	902	902	29	885	921	89	179
All other	891	933	14	895	846	8	16
Total	\$ 23,727	\$ 25,144	4,729	\$ 24,051	\$ 26,585	\$ 239	\$
Total:							



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Commercial and industrial	\$	9,818	\$	17,559	165	\$	11,826	\$	10,061	\$	78	\$
Real estate:												
Consumer mortgages		2,720		3,367	332		3,401		4,623		19	43
Home equity		1,488		1,612	1		1,640		1,727		2	6
Agricultural		844		902	150		883		887		2	6
Commercial and industrial-owner occupied		14,989		17,217	207		15,622		16,593		112	265
Construction, acquisition and development		6,720		6,720	47		6,969		7,667		11	24
Commercial real estate		14,445		15,023	3,784		15,609		16,575		101	195
Credit card		902		902	29		885		921		89	179
All other		891		933	14		895		846		8	16
Total	\$	52,817	\$	64,035	4,729	\$	57,730	\$	59,900	\$	422	\$

	December 31, 2015					
	Recorded Investment in Impaired Loans, Including Accruing TDRs (In thousands)	Unpaid Principal Balance of Impaired Loans, Including Accruing TDRs	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized	
With no related allowance:						
Commercial and industrial Real estate:	\$ 7,055	\$ 13,986	\$ -	\$ 3,749	\$ 95	
Consumer mortgages	3,990	4,545	-	3,579	76	
Home equity	1,795	1,795	-	744	7	
Agricultural	322	380	-	142	6	
Commercial and industrial-owner occupied	12,141	13,332	-	6,904	226	
Construction, acquisition and development	5,969	6,052	-	3,553	25	
Commercial real estate	5,017	6,879	-	7,944	202	
All other	103	103	-	172	3	
Total	\$ 36,392	\$ 47,072	\$ -	\$ 26,787	\$ 640	
With an allowance:						
Commercial and industrial Real estate:	\$ 968	\$ 1,294	\$ 181	\$ 4,251	\$ 114	
Consumer mortgages	1,787	1,896	226	2,056	75	
Home equity	20	30	3	674	15	
Agricultural	586	586	162	56	-	
Commercial and industrial-owner occupied	5,900	6,245	518	6,816	235	
Construction, acquisition and development	3,328	3,328	721	1,759	42	
Commercial real estate	13,616	14,250	1,217	7,802	187	
Credit cards	939	939	34	1,024	102	
All other	405	604	30	213	7	
Total	\$ 27,549	\$ 29,172	\$ 3,092	\$ 24,651	\$ 777	
Total:						
Commercial and industrial Real estate:	\$ 8,023	\$ 15,280	\$ 181	\$ 8,000	\$ 209	
Consumer mortgages	5,777	6,441	226	5,635	151	
Home equity	1,815	1,825	3	1,418	22	
Agricultural	908	966	162	198	6	
Commercial and industrial-owner occupied	18,041	19,577	518	13,720	461	
Construction, acquisition and development	9,297	9,380	721	5,312	67	
Commercial real estate	18,633	21,129	1,217	15,746	389	
Credit cards	939	939	34	1,024	102	

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All other	508	707	30	385	10
Total	\$ 63,941	\$ 76,244	\$ 3,092	\$ 51,438	\$ 1,417

Loans considered impaired under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 310, Receivables (“FASB ASC 310”), are loans greater than \$500,000 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 and all loans restructured in a TDR. The Company’s recorded investment in loans considered impaired exclusive of accruing TDRs at June 30, 2016 and December 31,

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2015 was \$40.2 million and \$51.4 million, respectively. At June 30, 2016 and December 31, 2015, \$11.1 million and \$15.0 million, respectively, of those impaired loans had a valuation allowance of \$3.1 million and \$2.4 million, respectively. The remaining balance of impaired loans of \$29.1 million and \$36.4 million at June 30, 2016 and December 31, 2015, respectively, have sufficient collateral supporting the collection of all outstanding principle or were charged down to fair value, less estimated selling costs. Therefore, such loans did not have an associated valuation allowance. Impaired loans that were characterized as non-accruing TDRs totaled \$14.1 million and \$15.1 million at June 30, 2016 and December 31, 2015, 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:

	June 30, 2016	2015	December 31, 2015
	(In thousands)		
Non-accrual loans and leases	\$ 68,638	\$ 67,766	\$ 83,028
Loans and leases 90 days or more past due, still accruing	1,875	1,568	2,013
Restructured loans and leases, still accruing	9,687	10,109	9,876
Total non-performing loans and leases	\$ 80,200	\$ 79,443	\$ 94,917

The Bank’s policy for all loan classifications provides that loans and leases are generally placed in non-accrual status if, in management’s opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless such loan or lease is both well-secured and in the process of collection. At June 30, 2016, the Company’s geographic NPL distribution was concentrated primarily in its Arkansas, Louisiana and Mississippi markets. The following table presents the Company’s nonaccrual loans and leases by segment and class as of the dates indicated:

	June 30, 2016	2015	December 31, 2015
	(In thousands)		
Commercial and industrial	\$ 8,675	\$ 9,740	\$ 8,493
Real estate			
Consumer mortgages	19,309	21,636	21,637
Home equity	2,734	3,550	4,021
Agricultural	1,107	259	921
Commercial and industrial-owner occupied	16,021	14,007	16,512

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Construction, acquisition and development	6,086	5,411	9,130
Commercial real estate	14,197	12,397	21,741
Credit cards	159	157	188
All other	350	609	385
Total	\$ 68,638	\$ 67,766	\$ 83,028

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. 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 generally be returned to accrual status in years after the restructure if there

has been at least a six-month period of sustained repayment performance by the borrower in accordance with the terms of the restructured loan. During the second quarter of 2016, 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 or a reduction in interest rates.

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

	Three months ended June 30, 2016		
	Number	Pre-Modification	Post-Modification
	of	Outstanding	Outstanding
	Contracts	Recorded	Recorded
		Investment	Investment
	(Dollars in thousands)		
Commercial and industrial	6	\$ 2,630	\$ 2,569
Real estate			
Consumer mortgages	8	604	586
Home equity	1	3	3
Agricultural	1	67	67
Commercial and industrial-owner occupied	3	585	581
Commercial real estate	1	961	956
All other	-	-	-
Total	20	\$ 4,850	\$ 4,762

	Six months ended June 30, 2016		
	Number	Pre-Modification	Post-Modification
	of	Outstanding	Outstanding
	Contracts	Recorded	Recorded
		Investment	Investment
	(Dollars in thousands)		
Commercial and industrial	9	\$ 3,236	\$ 3,174
Real estate			
Consumer mortgages	12	723	704
Home equity	1	3	3
Agricultural	1	67	67
Commercial and industrial-owner occupied	3	585	581

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Commercial real estate	2	3,687	1,318	
All other	3	716	713	
Total	31	\$	9,017	\$ 6,560

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	Year ended December 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Commercial and industrial Real estate	11	\$ 1,472	\$ 1,452
Consumer mortgages	21	1,230	1,144
Home equity	1	20	20
Agricultural	3	37	36
Commercial and industrial-owner occupied	13	6,357	6,329
Construction, acquisition and development	3	217	215
Commercial real estate	9	12,565	12,144
All other	7	94	88
Total	68	\$ 21,992	\$ 21,428

The tables below summarize TDRs within the previous 12 months for which there was a payment default during the period indicated (i.e., 30 days or more past due at any given time during the period indicated).

Three months ended June 30, 2016		
	Number of Contracts	Recorded Investment
		(Dollars in thousands)
Real estate		
Consumer mortgages	2	\$ 125



All other	1	15	
Total	3	\$	140

Six months ended June 30, 2016

Number of Recorded  
Contracts Investment

(Dollars in thousands)

Real estate			
Consumer mortgages	4	\$	172
Commercial and industrial-owner occupied	1	406	
Construction, acquisition and development	1	14	
Commercial real estate	1	9,335	
All other	2	20	
Total	9	\$	9,947

	Year ended December 31, 2015	
	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
Commercial and industrial Real estate	1	\$ 84
Consumer mortgages	4	226
Agricultural	1	20
Commercial and industrial-owner occupied	1	517
Commercial real estate	2	197
Total	9	\$ 1,044

## 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:

	Six months ended June 30, 2016				Balance, End of Period
	Balance, Beginning of Period (In thousands)	Charge-offs	Recoveries	Provision	
Commercial and industrial Real estate	\$ 17,583	\$ (888)	\$ 551	\$ 473	\$ 17,719
Consumer mortgages	33,198	(1,187)	954	260	33,225
Home equity	6,949	(774)	326	666	7,167
Agricultural	2,524	(21)	132	(272)	2,363
Commercial and industrial-owner occupied	14,607	(814)	226	(377)	13,642
Construction, acquisition and development	15,925	(506)	796	(679)	15,536
Commercial real estate	25,508	(1,115)	1,192	2,103	27,688

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Credit cards	4,047	(1,334)	380	346	3,439
All other	6,117	(904)	463	480	6,156
Total	\$ 126,458	\$ (7,543)	\$ 5,020	\$ 3,000	\$ 126,935

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	Year ended December 31, 2015				Balance, End of Period
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	
	(In thousands)				
Commercial and industrial Real estate	\$ 21,419	\$ (10,022)	\$ 2,035	\$ 4,151	\$ 17,583
Consumer mortgages	40,015	(3,995)	2,693	(5,515)	33,198
Home equity	9,542	(1,204)	639	(2,028)	6,949
Agricultural	3,420	(33)	384	(1,247)	2,524
Commercial and industrial-owner occupied	16,325	(1,800)	2,834	(2,752)	14,607
Construction, acquisition and development	9,885	(1,039)	11,727	(4,648)	15,925
Commercial real estate	23,562	(3,723)	1,656	4,013	25,508
Credit cards	6,514	(2,632)	658	(493)	4,047
All other	11,761	(2,271)	1,108	(4,481)	6,117
Total	\$ 142,443	\$ (26,719)	\$ 23,734	\$ (13,000)	\$ 126,458

	Six months ended June 30, 2015				Balance, End of Period
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	
	(In thousands)				
Commercial and industrial Real estate	\$ 21,419	\$ (1,819)	\$ 784	\$ 1,094	\$ 21,478
Consumer mortgages	40,015	(1,467)	1,652	(1,895)	38,305
Home equity	9,542	(743)	426	408	9,633
Agricultural	3,420	(8)	305	(678)	3,039
Commercial and industrial-owner occupied	16,325	(798)	696	1,121	17,344
Construction, acquisition and development	9,885	(615)	9,582	(9,061)	9,791
Commercial real estate	23,562	(2,124)	1,320	(963)	21,795
Credit cards	6,514	(1,203)	336	(134)	5,513
All other	11,761	(1,020)	565	108	11,414
Total	\$ 142,443	\$ (9,797)	\$ 15,666	\$ (10,000)	\$ 138,312

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

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	June 30, 2016	Allowance for	Allowance for	Total
	Recorded	Impaired Loans	All Other Loans	Allowance
	Balance of	and Leases	and Leases	
	Impaired Loans (1)			
	(In thousands)			
Commercial and industrial	\$ 6,469	\$ 71	\$ 17,648	\$ 17,719
Real estate				
Consumer mortgages	958	-	33,225	33,225
Home equity	1,484	-	7,167	7,167
Agricultural	760	124	2,239	2,363
Commercial and industrial-owner occupied	12,067	-	13,642	13,642
Construction, acquisition and development	5,364	4	15,532	15,536
Commercial real estate	13,134	2,871	24,817	27,688
Credit cards	-	-	3,439	3,439
All other	-	-	6,156	6,156
Total	\$ 40,236	\$ 3,070	\$ 123,865	\$ 126,935

	December 31, 2015	Allowance for	Allowance for	Total
	Recorded	Impaired Loans	All Other Loans	Allowance
	Balance of	and Leases	and Leases	
	Impaired Loans (1)			
	(In thousands)			
Commercial and industrial	\$ 7,127	\$ 78	\$ 17,505	\$ 17,583
Real estate				
Consumer mortgages	3,990	-	33,198	33,198
Home equity	1,795	-	6,949	6,949
Agricultural	872	159	2,365	2,524
Commercial and industrial-owner occupied	12,141	326	14,281	14,607
Construction, acquisition and development	7,583	677	15,248	15,925
Commercial real estate	17,781	1,110	24,398	25,508
Credit cards	-	-	4,047	4,047
All other	103	-	6,117	6,117
Total	\$ 51,392	\$ 2,350	\$ 124,108	\$ 126,458

(1) Impaired loans are shown exclusive of accruing troubled debt restructurings ("TDRs")

Management evaluates impaired loans individually in determining the allowance for impaired loans. As a result of the Company individually evaluating loans of \$500,000 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 other real estate owned (“OREO”) for the periods indicated:

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	Six months ended		Year ended
	June 30,	2015	December 31,
	2016		2015
	(In thousands)		
Balance at beginning of period	\$ 14,759	\$ 33,984	\$ 33,984
Additions to foreclosed properties			
New foreclosed properties	7,874	4,534	7,422
Reductions in foreclosed properties			
Sales including realized gains and losses, net	(6,505)	(11,010)	(20,649)
Writedowns	(1,470)	(3,209)	(5,998)
Balance at end of period	\$ 14,658	\$ 24,299	\$ 14,759

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

	June 30,		December 31,
	2016	2015	2015
	(In thousands)		
Commercial and industrial Real estate	\$ 74	\$ 84	\$ 84
Consumer mortgages	2,109	2,048	2,477
Home equity	654	101	101
Agricultural	25	25	25
Commercial and industrial-owner occupied	1,272	1,214	1,074
Construction, acquisition and development	8,051	19,639	10,212
Commercial real estate	2,312	1,069	678
All other	161	119	108
Total	\$ 14,658	\$ 24,299	