

BANCORPSOUTH INC
Form 10-K
February 27, 2012

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-12991

BANCORPSOUTH, INC.

(Exact name of registrant as specified in its charter)

Mississippi

64-0659571

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi

38804

(Address of principal executive offices)

(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on
Which Registered

Common Stock, \$2.50 par value

New York Stock Exchange
New York Stock Exchange

Guarantee of 8.15% Preferred
Securities
of BancorpSouth Capital Trust I

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

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

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

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

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 definition 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 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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2011 was approximately \$979,000,000, based on the last reported sale price per share of the registrant's common stock as reported on the New York Stock Exchange on June 30, 2011.

As of February 15, 2012, the registrant had outstanding 94,436,177 shares of common stock, par value \$2.50 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement used in connection with the registrant's 2012 Annual Meeting of Shareholders, to be held April 25, 2012, are incorporated by reference into Part III of this Report.

BANCORPSOUTH, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2011

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PART I

ITEM 1. BUSINESS.

GENERAL

BancorpSouth, Inc. (the “Company”) is a financial holding company incorporated in 1982. Through its principal bank subsidiary, BancorpSouth Bank (the “Bank”), the Company conducts commercial banking and financial services operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. At December 31, 2011, the Company and its subsidiaries had total assets of \$13.0 billion and total deposits of \$11.0 billion. The Company’s principal office is located at One Mississippi Plaza, 201 South Spring Street, Tupelo, Mississippi 38804 and its telephone number is (662) 680-2000.

The Company’s Internet website address is www.bancorpsouth.com. The Company makes available its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports free of charge on its website on the Investor Relations webpage under the caption “SEC Filings” as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file or furnish information electronically with the SEC at www.sec.gov. The Company’s website and the information contained therein or linked thereto are not intended to be incorporated into this Annual Report on Form 10-K (this “Report”).

DESCRIPTION OF BUSINESS

The Bank has its principal office in Tupelo, Lee County, Mississippi, and conducts a general commercial banking, trust and insurance business through 289 offices in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. The Bank has grown through the acquisition of other banks and insurance agencies and through the opening of new branches and offices.

The Bank and its subsidiaries provide a range of financial services to individuals and small-to-medium size businesses. The Bank operates investment services and insurance agency subsidiaries which engage in investment brokerage services and sales of other insurance products. The Bank’s trust department offers a variety of services including personal trust and estate services, certain employee benefit accounts and plans, including individual retirement accounts, and limited corporate trust functions. All of the Company’s assets are located in the United States and all of its revenues generated from external customers originate within the United States.

The Company has registered the trademarks “BancorpSouth,” both typed form and design, and “Bank of Mississippi,” both typed form and design, with the U.S. Patent and Trademark Office. The trademark “BancorpSouth” will expire in 2024 and “Bank of Mississippi” will expire in 2020 unless the Company extends these trademarks for additional ten-year periods. Registrations of these trademarks with the U.S. Patent and Trademark Office generally may be renewed and continue indefinitely, provided that the Company continues to use these trademarks and files appropriate maintenance and renewal documentation with the U.S. Patent and Trademark Office at times required by the federal trademark laws and regulations.

COMPETITION

Vigorous competition exists in all major areas where the Bank is engaged in business. The Bank competes for available loans and depository accounts with state and national commercial banks, as well as savings and loan associations, insurance companies, credit unions, money market mutual funds, automobile finance companies and financial services companies. None of these competitors is dominant in the entire area served by the Bank.

The principal areas of competition in the banking industry center on a financial institution's ability and willingness to provide credit on a timely and competitively priced basis, to offer a sufficient range of deposit and investment opportunities at competitive prices and maturities, and to offer personal and other services of sufficient quality and at

competitive prices. Management believes that the Company and its subsidiaries can compete effectively in all these areas.

REGULATION AND SUPERVISION

This section provides a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those statutes and regulations specifically mentioned herein. Changes in applicable laws, and their application by regulatory and law enforcement agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Company is required to file annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve may also conduct examinations of the Company.

In 2004, pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”), the Company elected to be a financial holding company regulated as such under the Bank Holding Company Act of 1956 (the “Bank Holding Company Act”). Financial holding company powers relate to financial activities that are determined by the Federal Reserve to be financial in nature, incidental to an activity that is financial in nature or complementary to a financial activity (provided that the complementary activity does not pose a safety and soundness risk). GLBA expressly characterizes certain activities as financial in nature, including lending activities, underwriting and selling insurance, providing financial or investment advice, securities underwriting, dealing and making markets in securities and merchant banking. According to Federal Reserve policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), a financial holding company must act as a source of financial strength to its subsidiary banks and commit resources to support each such subsidiary. This support may be required at times when a financial holding company may not be able to provide such support.

The Bank is incorporated under the laws of the State of Mississippi and is subject to the applicable provisions of Mississippi banking laws and the laws of various states in which it operates, as well as federal law. The Bank is subject to the supervision of the Mississippi Department of Banking and Consumer Finance and to regular examinations by that department. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the “FDIC”) and, therefore, the Bank is subject to the provisions of the Federal Deposit Insurance Act and to examination by the FDIC. FDIC regulations require that management report annually on its responsibility for preparing its institution’s financial statements, and establishing and maintaining an internal control structure and procedures for financial reporting and compliance with designated laws and regulations concerning safety and soundness. The Bank is not a member of the Federal Reserve.

The Company and the Bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”). Among other things, FDICIA provides a framework for a system of supervisory actions based primarily on the capital levels of financial institutions. FDICIA identifies five capital categories for insured depository institutions (“well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critical undercapitalized”) and requires the respective federal regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. Capital is measured in two “Tiers” – Tier I capital consists of common shareholders’ equity and qualifying non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets, and Tier II capital consists of general allowance for losses on loans and leases, “hybrid” debt capital instruments and all or a portion of other subordinated capital debt, depending upon the remaining term to maturity. Total capital is the sum of Tier I and Tier II capital. For an insured financial institution to be classified as “well capitalized,” the Tier I capital, total capital and Tier I leverage capital (Tier I capital divided by the difference of total assets less goodwill) ratios must be at least 6%, 10% and 5%, respectively. The Bank exceeded the criteria for the “well capitalized” category at December 31, 2011. The Company is required to comply with the risk-based capital guidelines established by the Federal Reserve and with other tests relating to capital adequacy that the Federal Reserve adopts from time to time. See Note 21 to the Company’s Consolidated Financial Statements included in this Report for a discussion of the Company’s capital amounts and ratios.

In September 2010, the oversight body of the Basel Committee announced a package of reforms, commonly referred to as Basel III, that will increase existing capital requirements substantially over the next four years as well as add

liquidity requirements for banks. These reforms were endorsed by the G20 at the summit held in Seoul, South Korea in November 2010. The short-term and long-term impact of the new Basel III capital standards and the forthcoming new capital rules to be proposed for United States banks is uncertain. As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short-term impact of the implementation of Basel III may be or what impact an

alternative approach for United States banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

FDICIA provides for a risk-based deposit insurance premium structure for insured financial institutions. The FDIC generally provides deposit insurance up to \$250,000 per customer per institution for depository accounts held at insured financial institutions. Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank’s capital level and supervisory rating. Effective as of the second quarter of 2011, the FDIC bases the deposit insurance assessment on a redefined assessment base and a new scorecard method to calculate the assessment rate. As a result of the Dodd-Frank Act, institutions with total consolidated assets of \$10 billion or more are now required to bear a greater portion of the costs associated with increasing the DIF’s reserve ratio.

The Dodd-Frank Act established a new, independent Consumer Financial Protection Bureau tasked with protecting consumers from unfair, deceptive and abusive financial products and practices. The Dodd-Frank Act also created the Financial Stability Oversight Council to focus on identifying, monitoring and addressing systemic risks in the financial system. The Financial Stability Oversight Council is tasked with recommending increasingly strict rules for capital, leverage and other requirements based on a company’s size and complexity. The Dodd-Frank Act required the implementation of the “Volcker Rule” for banks and bank holding companies, which prohibits, with certain limited exceptions, proprietary trading and investment in and sponsorship of hedge funds and private equity funds, and generally otherwise limits the relationships with such funds. The Dodd-Frank Act also includes provisions that, among other things, reorganize bank supervision and strengthen the Federal Reserve.

The Dodd-Frank Act eliminated many of the remaining regulations that limited the ability of a bank to open branches in different states. The Dodd-Frank Act included savings associations and industrial loan companies, as well as banks, in the nationwide deposit limitation. Consequently, no acquisition of any financial institution can be approved if the effect of the acquisition would be to increase the acquirer’s nationwide deposits to more than 10% of all deposits. In addition, the Dodd-Frank Act requires fees charged for debit card transactions, commonly referred to as interchange fees, to be both “reasonable and proportional” to the cost incurred by the card issuer (the “Durbin Amendment”).

On June 29, 2011, the Federal Reserve released its final rule implementing the Durbin Amendment. The final rule set a base interchange rate of \$0.21 per transaction, plus an additional five basis points of the transaction cost for fraud charges. The Federal Reserve also approved an interim final rule that allows for an upward adjustment of no more than \$0.01 on the debit interchange fee for implementing certain fraud prevention standards. Additionally, the Federal Reserve adopted requirements that issuers include two unaffiliated networks for routing debit transactions, one that is signature-based and one that is personal identification number based. The effective date for the final and interim final rules of the Durbin Amendment was October 1, 2011.

Further, the Dodd-Frank Act provided that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other “covered financial institution” that provides an insider or other employee with “excessive compensation” or could lead to a material financial loss to such firm. Prior to the implementation of the Dodd-Frank Act, the bank regulatory agencies promulgated the Interagency Guidance on Sound Incentive Compensation Policies, which requires financial institutions to establish metrics for measuring the impact of activities to achieve incentive compensation with the related risk to the financial institution of such behavior.

The Company is a legal entity that is separate and distinct from its subsidiaries. There are various legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to the Company or its affiliates. In particular, the Bank is subject to certain restrictions imposed by federal law, including without limitation, sections 23A and 23B of the Federal Reserve Act, on any extensions of credit to the Company or, with certain exceptions, other affiliates.

The primary source of funds for dividends paid to the Company’s shareholders has been dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the Company without regulatory approval. Under Mississippi law, the Bank must obtain approval of the Commissioner of the Mississippi Department of Banking and Consumer Finance prior to paying any dividend on the Bank’s common stock. Under FDICIA, the Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized

under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends. In 2011, the Bank's board of directors

adopted a resolution requested by the FDIC and the Mississippi Department of Banking and Consumer Finance that, among other things, limits the declaration and payment of dividends in and requires maintenance of enhanced capital ratios.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4 (“SR 09-4”), on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve’s view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends. Further, in the current financial and economic environment, the Federal Reserve has indicated that bank and financial holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. In 2011, the board of directors of the Company adopted a resolution requested by the Federal Reserve Bank that, among other things, requires that the Company obtain prior written approval of the Federal Reserve Bank before taking a number of actions, including declaring and paying dividends to the Company’s shareholders, making distributions in connection with outstanding trust preferred securities and redeeming outstanding equity securities.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 prohibits a financial holding company, following an interstate acquisition, from controlling more than 10% of the nation’s total amount of bank deposits or 30% of bank deposits in the relevant state. States retain the ability to adopt legislation to effectively raise or lower the 30% limit.

The Community Reinvestment Act of 1977 (“CRA”) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving financial holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2011, the Company had a “satisfactory” rating under CRA.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the “USA Patriot Act”), requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The USA Patriot Act also requires that financial institutions follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The activities of the Company and its subsidiaries are also subject to regulation under various federal laws and regulations thereunder, including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act of 1968 and the Real Estate Settlement Procedures Act, among others, as well as various state laws.

GLBA and other federal and state laws, as well as the various guidelines adopted by the Federal Reserve and the FDIC, provide for minimum standards of privacy to protect the confidentiality of the non-public personal information of customers and to regulate the use of such information by financial institutions. The Company and its subsidiaries have adopted a customer information security program to comply with these regulatory requirements.

The Bank's insurance subsidiaries are regulated by the insurance regulatory authorities and applicable laws and regulations of the states in which they operate.

The Bank's investment services subsidiary is regulated as a registered investment adviser and broker-dealer by federal and/or state securities regulations and self-regulatory authorities.

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

In addition, there have been a number of legislative and regulatory proposals that could have an impact on the operation of financial holding companies and their bank and non-bank subsidiaries. Management is not able to predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on the Company and its subsidiaries.

LENDING ACTIVITIES

The Bank’s lending activities include both commercial and consumer loans. Loan originations are derived from a number of sources including direct solicitation by the Bank’s loan officers, existing depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders, real estate broker referrals and mortgage loan companies. The Bank has established systematic procedures for approving and monitoring loans that vary depending on the size and nature of the loan, and applies these procedures in a disciplined manner.

Commercial Lending

The Bank offers a variety of commercial loan services including term loans, lines of credit, equipment and receivable financing and agricultural loans. A broad range of short-to-medium term commercial loans, both secured and unsecured, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition and development of real estate and improvements), and the purchase of equipment and machinery. The Bank also makes construction loans to real estate developers for the acquisition, development and construction of residential subdivisions.

Commercial loans are granted based on the borrower’s ability to generate cash flow to support its debt obligations and other cash related expenses. A borrower’s ability to repay commercial loans is substantially dependent on the success of the business itself and on the quality of its management. As a general practice, the Bank takes as collateral a security interest in any available real estate, equipment, inventory, receivables or other personal property, although such loans may also be made infrequently on an unsecured basis. In many instances, the Bank requires personal guarantees of its commercial loans to provide additional credit support.

The Bank has had very little exposure as an agricultural lender. Crop production loans have been either fully supported by the collateral and financial strength of the borrower, or a 90% loan guaranty has been obtained through the Farm Service Agency on such loans.

Residential Consumer Lending

A portion of the Bank’s lending activities consists of the origination of fixed and adjustable rate residential mortgage loans secured by owner-occupied property located in the Bank’s primary market areas. Home mortgage lending is unique in that a broad geographic territory may be served by originators working from strategically placed offices either within the Bank’s traditional banking facilities or from other locations. In addition, the Bank offers construction loans, second mortgage loans and home equity lines of credit.

The Bank finances the construction of individual, owner-occupied houses on the basis of written underwriting and construction loan management guidelines. First mortgage construction loans are made to qualified individual borrowers and are generally supported by a take-out commitment from a permanent lender. The Bank makes residential construction loans to individuals who intend to erect owner-occupied housing on a purchased parcel of real estate. The construction phase of these loans has certain risks, including the viability of the contractor, the contractor’s ability to complete the project and changes in interest rates.

In most cases, the Bank sells its mortgage loans with terms of 15 years or more in the secondary market and either retains or releases the right to service those loans. The sale of mortgage loans to the secondary market allows the Bank to manage the interest rate risks related to such lending operations. Generally, after the sale of a loan with servicing retained, the Bank's only involvement is to act as a servicing agent. In certain cases, the Bank

may be required to repurchase mortgage loans upon which customers have defaulted that were previously sold in the secondary market if these loans did not meet the underwriting standards of the entity that purchased the loans. Any such loans are held by the Bank in its mortgage loan portfolio.

Non-Residential Consumer Lending

Non-residential consumer loans made by the Bank include loans for automobiles, recreation vehicles, boats, personal (secured and unsecured) and deposit account secured loans. Non-residential consumer loans are attractive to the Bank because they typically have a shorter term and carry higher interest rates than those charged on other types of loans.

The Bank also issues credit cards solicited on the basis of applications received through referrals from the Bank's branches and other marketing efforts. The Bank generally has a small portfolio of credit card receivables outstanding. Credit card lines are underwritten using conservative credit criteria, including past credit history and debt-to-income ratios, similar to the credit policies applicable to other personal consumer loans.

The Bank grants consumer loans based on employment and financial information solicited from prospective borrowers as well as credit records collected from various reporting agencies. Financial stability and credit history of the borrower are the primary factors the Bank considers in granting such loans. The availability of collateral is also a factor considered in making such loans. The geographic area of the borrower is another consideration, with preference given to borrowers in the Bank's primary market areas.

OTHER FINANCIAL SERVICES

The Bank's insurance service subsidiary serves as an agent in the sale of title insurance, commercial lines of insurance and a full line of property and casualty, life, health and employee benefits products and services and operates in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Missouri and Illinois.

The Bank's investment services subsidiary provides brokerage, investment advisory and asset management services and operates in certain communities in Mississippi, Tennessee, Alabama, Arkansas, Louisiana, Texas, Florida and Missouri.

See Note 22 to the Company's Consolidated Financial Statements included elsewhere in this Report for financial information about each segment of the Company, as defined by U.S. generally accepted accounting principles ("U.S. GAAP").

ASSET QUALITY

Management seeks to maintain a high quality of assets through conservative underwriting and sound lending practices. Management intends to follow this policy even though it may result in foregoing the funding of higher yielding loans. Management believes that the Bank has adequate underwriting and loan administration policies in place and personnel to manage the associated risks prudently.

In an effort to maintain the quality of the loan portfolio, management seeks to limit high risk loans. These loans include loans to provide initial equity and working capital to new businesses with no other capital strength, loans secured by unregistered stock, loans for speculative transactions in stock, land or commodity markets, loans to borrowers or the taking of collateral outside the Bank's primary market areas, loans dependent on secondary liens as primary collateral and non-recourse loans. To the extent risks are identified, additional precautions are taken in order to reduce the Bank's risk of loss. Commercial loans entail certain additional risks because they usually involve large loan balances to single borrowers or a related group of borrowers, resulting in a more concentrated loan portfolio. Further, because payment of these loans is usually dependent upon the successful operation of the commercial enterprise, the risk of loss with respect to these loans may increase in the event of adverse conditions in the economy.

The Board of Directors of the Bank focuses much of its efforts and resources, and that of the Bank's management and lending officials, on loan underwriting and credit quality monitoring policies and practices. Loan status and monitoring is handled through the Bank's loan administration department. Also, an independent loan review department of the Bank is responsible for reviewing the credit rating and classification of individual credits and

assessing trends in the portfolio, adherence to internal credit policies and procedures and other factors that may affect the overall adequacy of the allowance for credit losses. Weak financial performance is identified and monitored using past due reporting, the internal loan rating system, loan review reports, the various loan committee functions and periodic asset quality rating committee meetings. Senior loan officers have established a review

process with the objective of identifying, evaluating and initiating necessary corrective action for problem loans. The results of loan reviews are reported to the Audit Committee of both the Company's and the Bank's Board of Directors. This process is an integral element of the Bank's loan program. Nonetheless, management maintains a cautious outlook in anticipating the potential effects of uncertain economic conditions (both locally and nationally) and the possibility of more stringent regulatory standards.

RECENT ACQUISITIONS

The Company completed no acquisitions during 2011.

EMPLOYEES

At December 31, 2011, the Company and its subsidiaries had approximately 4,244 full-time equivalent employees. The Company and its subsidiaries are not a party to any collective bargaining agreements and employee relations are considered to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Offices Held	Age
Aubrey B. Patterson	Chairman of the Board of Directors and Chief Executive Officer of the Company and the Bank; Director of the Company	69
James V. Kelley	President and Chief Operating Officer of the Company and the Bank; Director of the Company	62
William L. Prater	Treasurer and Chief Financial Officer of the Company; Executive Vice President, Chief Financial Officer and Cashier of the Bank	51
Larry Bateman	Executive Vice President of the Company and Vice Chairman of the Bank	62
W. James Threadgill, Jr.	Executive Vice President of the Company and Vice Chairman of the Bank	57
Gordon Lewis	Executive Vice President of the Company and Vice Chairman of the Bank	62

James Ronald Hodges	Executive Vice President of the Company and Vice Chairman and Chief Lending Officer of the Bank	59
Cathy S. Freeman	Executive Vice President and Corporate Secretary of the Company and the Bank	46
Gary C. Bonds	Senior Vice President and Principal Accounting Officer of the Company and Executive Vice President and Controller of the Bank	64
Carol Waddle	Executive Vice President of the Company and Executive Vice President, Audit and Loan Review of the Bank	50

None of the executive officers of the Company is related by blood, marriage or adoption to any other executive officer or to any of the Company's directors or nominees for election at the 2012 annual meeting of shareholders. There are no arrangements or understandings between any of the executive officers and any other person pursuant to which any individual was or is to be selected as an officer. The executive officers of the Company are appointed by the Board of Directors at its first meeting following the annual meeting of shareholders, and they hold office until the next annual meeting or until their successors are duly appointed and qualified.

Mr. Patterson has served as Chairman of the Board and Chief Executive Officer of the Bank and the Company for at least the past five years.

Mr. Kelley has served as President and Chief Operating Officer of the Bank and the Company for at least the past five years.

Mr. Prater joined the Company on September 1, 2008 and served as Executive Vice President until June 30, 2009, when he was named Treasurer and Chief Financial Officer of the Company and Executive Vice President, Chief Financial Officer and Cashier of the Bank. Prior to joining the Company, Mr. Prater most recently served as Executive Vice President of Finance at Regions Bank.

Mr. Bateman has served as Executive Vice President of the Company and Vice Chairman of the Bank for at least the past five years.

Mr. Threadgill has served as Executive Vice President of the Company and Vice Chairman of the Bank for at least the past five years.

Mr. Lewis had served as Louisiana/Texas Region President of BancorpSouth Bank for at least one year prior to December 2007, when he was named Executive Vice President of the Company and Vice Chairman of the Bank.

Mr. Hodges had served as Regional and Area Loan Administrator for at least four years prior to April 2010, when he was named Senior Executive Vice President of the Bank and Deputy to the Company's Chief Lending Officer. Mr. Hodges served in that capacity until September 2011, when he was named Executive Vice President of the Company and Vice Chairman and Chief Lending Officer of the Bank.

Mrs. Freeman had served as First Vice President and Corporate Secretary of the Company and the Bank or Senior Vice President and Corporate Secretary of the Company and the Bank for at least one year prior to January 2008, when she was named Executive Vice President of the Company and the Bank.

Mr. Bonds had served as Senior Vice President of the Company and Senior Vice President and Controller of the Bank for at least two years prior to September 2008, when he was named Executive Vice President and

Controller of the Bank. In December 2008, he was also named Senior Vice President and Principal Accounting Officer of the Company.

Ms. Waddle had served as Senior Vice President and General Auditor of the Company for at least three years prior to January 27, 2010, when she was named Senior Vice President of the Company and Senior Vice President, Audit and Loan Review of the Bank. Ms. Waddle served in that capacity until January 2012, when she was named Executive Vice President of the Company and Executive Vice President, Audit and Loan Review of the Bank.

ITEM 1A. RISK FACTORS.

Certain statements contained in this Annual 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 Exchange Act. 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,” “believe,” “estimate,” “expect,” “plan,” “predict,” “foresee,” “may,” “might,” “could,” “should,” “could” or “intend,” future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company’s trademarks, the Company’s ability to compete effectively, the effect of changes in laws, governmental regulations and legislative proposals affecting financial institutions, special assessments by the FDIC, examinations by federal regulators, commercial loans, repurchase of mortgage loans, the impact of economic conditions in the Company’s market area and the economic downturn, identification and resolution of credit issues, debit card revenues, the use of non-U.S. GAAP financial measures, the effect of certain claims, legal and administrative proceedings and pending litigation, reserves for troubled debt restructurings, diversification of revenue stream, the Company’s policy regarding asset quality, the Company’s policy regarding underwriting and lending practices, critical and significant accounting policies, allowance for credit losses, other real estate owned, impairment of goodwill, other-than-temporary impairment of securities, valuation of mortgage servicing rights, pension and other postretirement benefit amounts, net interest revenue, net interest margin, interest rate sensitivity, credit quality, credit losses, determination of collateral fair value, analysis of guarantors, compliance with underwriting and/or appraisal standards, potential losses from representation and warranty obligations, the Company’s foreclosure process, inspection and review of construction, acquisition and development loans, maturity and renewal of construction, acquisition and development loans, deferred tax assets, unrecognized tax benefits, disputed tax positions, junior subordinated debt securities, capital resources, sources of liquidity and liquidity strategies, sources of maturing loans and investment securities, the Company’s ability to obtain funding, the ability to declare and/or pay dividends, credit losses from off-balance sheet commitments and arrangements, future acquisitions and consideration to be used therefor, the impact of recent accounting pronouncements, amortization expense of amortizable identifiable intangible assets, interest income, valuation of stock options, fair value of loans and leases, fair value of held-to-maturity and available-for-sale securities, maturities of available-for-sale securities, appraisal adjustments, concessions granted for troubled debt restructurings, value of investment securities, contributions to pension plans, related party transactions, impaired loans, nonperforming loans and leases, non-accrual loans and leases, economic value of equity, future lease payments, the use of proceeds from the underwritten public offering of the Company’s common stock, deposits, the Company’s operating results and financial condition, and amendments to the Company’s code of business conduct and ethics or waiver of a provision thereof.

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 due to a variety of factors. These factors include, but are not limited to, the following:

- Local, regional and national economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact;
 - The ability of the Company to increase noninterest revenue and expand noninterest revenue business;
 - Changes in general business or economic conditions or government fiscal and monetary policies;
- Fluctuations in prevailing interest rates and the effectiveness of the Company’s interest rate hedging strategies;
 - The ability of the Company to maintain credit quality;
 - The ability of the Company to provide and market competitive products and services;
 - Changes in the Company’s operating or expansion strategy;
 - Geographic concentration of the Company’s assets and susceptibility to economic downturns in that area;
- The availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity;
 - Volatility and disruption in national and international financial markets;
 - Government intervention in the U.S. financial system;

- Laws and regulations affecting financial institutions in general;
- The ability of the Company to operate and integrate new technology;

- The ability of the Company to manage its growth and effectively serve an expanding customer and market base;
 - The ability of the Company to attract, train and retain qualified personnel;
 - Changes in consumer preferences;
 - The ability of the Company to collect amounts due under loan agreements and to attract deposits;
- Legislation and court decisions related to the amount of damages recoverable in legal proceedings;
 - Possible adverse rulings, judgments, settlements and other outcomes of pending litigation; and
 - Other factors generally understood to affect the financial results of financial services companies.

The Company undertakes no obligation to update its forward-looking statements to reflect events or circumstances that occur after the date of this Report.

In addition to the factors listed above that could influence the forward-looking statements in this Report, management believes that the risk factors set forth below should be considered in evaluating the Company's business. Other relevant risk factors are outlined below and may be supplemented from time to time in the Company's filings with the SEC.

Our financial performance may be adversely affected by conditions in the financial markets and economic conditions generally.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters or a combination of these or other factors.

Since mid-2007, the financial services industry and the securities markets generally have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. The global markets have been characterized by substantially increased volatility and an overall loss of investor confidence. Market conditions have led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads and to cause rating agencies to lower credit ratings. Despite recent stabilization in asset prices, economic performance and significant declines in Federal Reserve borrowing rates, there remains a risk of continued asset and economic deterioration, which may increase the cost and decrease the availability of liquidity. Additionally, some banks and other lenders have suffered significant losses and they have become reluctant to lend, even on a secured basis, because of capital limitations, potentially increased risks of default and the impact of declining asset values on collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide.

It is possible that the business environment in the United States will continue to deteriorate for the foreseeable future. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of our loans, our results of operations and our financial condition.

The recent downgrade of the U.S. government's sovereign credit rating, any related rating agency action in the future, the ongoing debt crisis in Europe and the downgrade of the sovereign credit ratings for several European nations could negatively impact our business, financial condition and results of operations.

On November 21, 2011, a Congressional committee that was formed to achieve \$1.2 trillion in deficit reduction measures announced that it had failed to achieve its stated purpose by the deadline imposed by Congress' August agreement to raise the U.S. government's debt ceiling. Standard & Poor's Rating Services, which had downgraded the U.S. government's AAA sovereign credit rating to AA+ with a negative outlook in August 2011, affirmed its AA+

rating following the announcement. Moody's Investors Services, which changed its U.S. government rating outlook to negative on August 2, 2011, also reaffirmed its rating following the Congressional committee's announcement. On November 22, 2011, Fitch Ratings stated that the failure of the committee to reach

an agreement would likely cause it to change its outlook on U.S. government debt to negative. Further, on November 28, 2011, Fitch stated that a downgrade of the U.S. sovereign credit rating would occur without a credible plan in place by 2013 to reduce the U.S. government deficit. The impact of any additional downgrades to the U.S. government's sovereign credit rating by any of these rating agencies, as well as the perceived creditworthiness of U.S. government-related obligations, is inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions and have a material adverse effect on our business, financial condition and results of operation.

In addition, certain European nations continue to experience varying degrees of financial stress. Despite various assistance packages, market concerns over the direct and indirect exposure of European banks and insurers to these European nations and each other have resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. Risks related to the European economic crisis have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. As these conditions persist, our financial condition and results of operations could be materially adversely affected.

Our provision and allowance for credit losses may not be adequate to cover actual credit losses.

We make various assumptions and judgments about the collectability of our loan and lease portfolio and utilize these assumptions and judgments when determining the provision and allowance for credit losses. The determination of the appropriate level of the provision for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the amount reserved in the allowance for credit losses. In addition, bank regulatory agencies periodically review our provision and the total allowance for credit losses and may require an increase in the allowance for credit losses or future provisions for credit losses, based on judgments different than those of management. Any increases in the provision or allowance for credit losses will result in a decrease in our net income and, potentially, capital, and may have a material adverse effect on our financial condition and results of operations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Provision for Credit Losses and Allowance for Credit Losses" included herein for more information regarding our process for determining the appropriate level of the provision and allowance for credit losses.

We make and hold in our portfolio a significant number of real estate construction, acquisition and development loans, which are based upon estimates of costs and values associated with the completed project and which pose more credit risk than other types of loans typically made by financial institutions.

At December 31, 2011, we had a balance of \$908.4 million in real estate construction, acquisition and development loans, representing 10.2% of our total loan portfolio. These real estate construction, acquisition and development loans have certain risks that are not present in other types of loans. The primary credit risks associated with real estate construction, acquisition and development loans are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk and environmental and other hazard risks. Market risks are risks associated with the sale of the completed residential and commercial units. They include affordability risk, which means the risk that borrowers cannot obtain affordable financing, product design risk, and risks posed by competing projects. Real estate construction, acquisition and development loans also involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, real estate construction, acquisition and development loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan

upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance and accrued interest on the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified

period of time while we attempt to dispose of it. The adverse effects of the foregoing matters upon our real estate construction, acquisition and development portfolio could necessitate a further increase in non-performing loans related to this portfolio and these non-performing loans may result in a material level of charge-offs, which may have a material adverse effect on our financial condition and results of operations. At December 31, 2011, non-accrual real estate construction, acquisition and development loans totaled \$133.1 million.

As a result of the downturn in the housing market, demand for construction, acquisition and development loans has been declining, a trend that management expects to continue. The decline in this portfolio presents an additional challenge to maintaining and growing our earning assets.

We hold a significant amount of other real estate owned and may acquire and hold significant additional amounts, which could lead to increased operating expenses and vulnerability to additional declines in real property values.

As our business necessitates, we foreclose on and take title to real estate serving as collateral for loans. At December 31, 2011, we had \$173.8 million of other real estate owned, compared to \$133.4 million at December 31, 2010. The amount of other real estate owned held by us may continue to increase as a result of, among other things, the continued deterioration of the commercial and residential real estate markets and the tightening of the credit market. Increased other real estate owned balances have led to greater expenses as we incur costs to manage, maintain and dispose of real properties. We expect that our earnings will continue to be negatively affected by various expenses associated with other real estate owned, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with other real estate owned assets. The expenses associated with holding a significant amount of other real estate owned could have a material adverse effect on our results of operations and financial condition.

Other real estate is reported at the lower of cost or fair value, less estimated selling costs. Fair value is determined on the basis of current appraisals, comparable sales and other estimates of value obtained principally from independent sources. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is charged to the allowance for credit losses. Subsequent valuation adjustments on the periodic revaluation of the property will result in additional charges, with a corresponding write-down expense. Significant judgments and complex estimates are required in estimating the fair value of other real estate owned, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as we have experienced during the past few years. In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our other real estate owned disposition strategy, such as immediate liquidation sales. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate owned. A significant increase in the rate of foreclosures on real estate collateral with reported fair values less than the loan balances, a substantial additional decline in the value of our holdings of other real estate owned or our failure to realize net proceeds from sales of substantial amounts of other real estate owned equal to or greater than our reported values, or some combination of these, could have a material adverse effect on our financial condition.

Our ability to declare and pay dividends is limited.

There can be no assurance of whether or when we may pay dividends on our common stock in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Historically, our principal source of funds used to pay cash dividends on our common equity has been dividends received from the Bank. Although the Bank's asset quality, earnings performance, liquidity and capital requirements will be taken into account before we declare or pay any future dividends on our common stock, our board of directors will also consider our liquidity and capital requirements and our board of directors could determine to declare and pay dividends without relying on dividend payments from the Bank.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay. For example, under guidance issued by the Federal Reserve Board, as a bank holding company, we are required to consult with the Federal Reserve before declaring dividends and are to consider eliminating, deferring or reducing dividends if (i) our net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) our prospective rate of earnings

retention is not consistent with our capital needs and overall current and prospective financial condition, or (iii) we will not meet, or are in danger of not meeting, our minimum regulatory capital adequacy ratios.

In addition, we need the approval of the Federal Reserve and the Bank needs the approval of the FDIC before paying cash dividends. Further, the Bank's board of directors has approved a resolution requested by the FDIC and the Mississippi Department of Banking and Consumer Finance such that the declaration and payment of dividends will be limited to the Bank's current net operating income and conditioned upon the prior written consent of the regulators and maintenance of minimum capital ratios. Finally, our board of directors has approved a resolution requested by the Federal Reserve such that we need the prior approval of the Federal Reserve before making any declaration or payment of dividends on any of our capital stock.

We may become involved in legal or administrative proceedings filed by or against us.

The nature of our business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative investigations and proceedings. Although we 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.

We 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 us, our directors, management or employees, including remedies or damage awards. On at least a quarterly basis, we assess our 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 our 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 we will incur a loss and the amount can be reasonably estimated, we establish 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, our insurance will not cover all such litigation, other proceedings or claims, or the costs of defense. While the final outcome of any legal proceedings is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense we have accrued is adequate and that any incremental liability arising from pending legal proceedings and threatened claims and those otherwise arising in the ordinary course of business, will not have a material adverse effect on our 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 one or more quarterly reporting periods. See "Item 3. Legal Proceedings" included herein for more information regarding material pending legal proceedings.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available on favorable terms when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance any acquisitions or we may otherwise elect or be required to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot provide assurance of our ability to raise additional capital if needed or to be able to do so on terms acceptable to us. If we cannot raise additional capital on favorable terms when needed, it may have a material adverse effect on our financial condition and results of operations.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on the liquidity of the Bank and/or the Company. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. A decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated could detrimentally impact our access to liquidity sources. Our ability to borrow could also be impaired by factors that are

not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets.

Our operations are subject to extensive governmental regulation and supervision.

We elected to be a financial holding company pursuant to the GLBA and the Bank Holding Company Act. The Bank is a Mississippi state banking corporation. Both the Company and the Bank are subject to extensive governmental regulation, supervision, legislation and control. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These laws and regulations limit the manner in which we operate, including the amount of loans we can originate, interest we can charge on loans and fees we can charge for certain services. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Most recently, the Dodd-Frank Act implemented sweeping reforms to the financial services industry. It is possible that there will be continued changes to the banking and financial institutions regulatory regimes in the future. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. We cannot predict the extent to which the government and governmental organizations may change any of these laws or controls. We also cannot predict how such changes would adversely affect our business and prospects.

The Dodd-Frank Act and related rules and regulations may adversely affect our business, financial condition and results of operations.

The Dodd-Frank Act contains a variety of far-reaching changes and reforms for the financial services industry and directs federal regulatory agencies to study the effects of, and issue implementing regulations for, these reforms. Many of the provisions of the Dodd-Frank Act could have a direct effect on our performance and, in some cases, impact our ability to conduct business. Examples of these provisions include, but are not limited to:

- Creation of the Financial Stability Oversight Council that may recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- Application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank and financial holding companies, such as the Company;
- Changes to the assessment base used by the FDIC to assess insurance premiums from insured depository institutions and increases to the minimum reserve ratio for the DIF from 1.15% to not less than 1.35%, with provisions to require institutions with total consolidated assets of \$10 billion or more to bear a greater portion of the costs associated with increasing the DIF's reserve ratio;
- Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations and, for bank and financial holding companies with \$10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
- Implementation of risk retention rules for loans (excluding qualified residential mortgages) that are sold by a bank;
 - Implementation of annual stress tests for all state member banks with assets exceeding \$10 billion and
- Amendment of the Electronic Fund Transfer Act which, among other things, gave the Federal Reserve the authority to issue rules which have limited debit-card interchange fees.

Many of these provisions have already been the subject of proposed and final rules by the FDIC and Federal Reserve. Many other provisions, however, remain subject to regulatory rulemaking and implementation, the effects of which are not yet known. The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business, may require that we change certain of our business practices, may materially affect our business model or affect retention of key personnel, may require us to raise additional capital and could expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously

conducted or our financial condition and results of operations.

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We obtain a significant portion of our noninterest revenue through service charges on core deposit accounts, and regulations impacting service charges could reduce our fee income.

A significant portion of our noninterest revenue is derived from service charge income. Management anticipates that changes in banking regulations will have an adverse impact on our service charge income. Additionally, changes in customer behavior as well as increased competition from other financial institutions may result in declines in deposit accounts or in overdraft frequency resulting in a decline in service charge income. A reduction in deposit account fee income could have a material adverse effect on our earnings.

Because of the geographic concentration of our assets, our business is highly susceptible to local economic conditions. Our business is primarily concentrated in selected markets in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. As a result of this geographic concentration, our financial condition and results of operations depend largely upon economic conditions in these market areas. Deterioration in economic conditions in the markets we serve could result in one or more of the following: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decrease in the demand for our products and services; and a decrease in the value of collateral for loans, especially real estate collateral, in turn reducing customers' borrowing power, the value of assets associated with problem loans and collateral coverage.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure owed to us. Any such losses could have a material adverse affect on our financial condition and results of operations.

Changes in interest rates could have an adverse impact on our results of operations and financial condition.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference or spread between interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities may fluctuate. This can cause decreases in our spread and can adversely affect our earnings and financial condition.

Interest rates are highly sensitive to many factors including:

- The rate of inflation;
- Economic conditions;
- Federal monetary policies; and
- Stability of domestic and foreign markets.

The Bank originates residential mortgage loans for sale and for our portfolio. The origination of residential mortgage loans is highly dependent on the local real estate market and the level of interest rates. Increasing interest rates tend to reduce the origination of loans for sale and fee income, which we report as gain on sale of loans. Decreasing interest rates generally result in increased prepayments of loans and mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. This typically leads to reinvestment at lower rates than the loans or securities were paying. Changes in market interest rates could also reduce the value of our financial assets. Our financial condition and results of operations could be adversely affected if we are unsuccessful in managing the effects of changes in interest rates.

Monetary policies and economic factors may limit our ability to attract deposits or make loans.

The monetary policies of federal regulatory authorities, particularly the Federal Reserve, and economic conditions in our service area and the United States generally, affect our ability to attract deposits and extend loans. We cannot predict either the nature or timing of any changes in these monetary policies and economic conditions, including the

Federal Reserve's interest rate policies, or their impact on our financial performance. The banking business is subject to various material business risks, which have become more acute during the current environment of economic slowdown and recession. In the current economic environment, foreclosures have increased and such conditions could also lead to a potential decline in deposits and demand for loans.

Volatility in capital and credit markets could adversely affect our business.

The capital and credit markets have been experiencing volatility and disruption for several years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Reputational risk may impact our results.

Our ability to originate and maintain accounts is highly dependent upon customer and other external perceptions of our business practices and/or our financial health. Adverse perceptions regarding our business practices and/or our financial health could damage our reputation in both the customer and funding markets, leading to difficulties in generating and maintaining accounts as well as in financing them. Adverse developments with respect to the customer or other external perceptions regarding the practices of our competitors, or our industry as a whole, may also adversely impact our reputation. While we carefully monitor internal and external developments for areas of potential reputational risk and have established governance structures to assist in evaluating such risks in our business practices and decisions, adverse reputational impacts on third parties with whom we have important relationships may also adversely impact our reputation. Adverse impacts on our reputation, or the reputation of our industry, may also result in greater regulatory and/or legislative scrutiny, which may lead to laws, regulations or regulatory actions that may change or constrain the manner in which we engage with our customers and the products and services we offer. Adverse reputational impacts or events may also increase our litigation risk.

Hurricanes or other adverse weather events could negatively affect local economies where we maintain branch offices or cause disruption or damage to our branch office locations, which could have an adverse effect on our business or results of operations.

We have operations in Mississippi, Alabama, Louisiana, Texas and Florida, which include areas susceptible to hurricanes or tropical storms. Such weather conditions can disrupt our operations, result in damage to our branch office locations or negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage caused by future hurricanes, tropical storms or other adverse weather events will affect our operations or the economies in our market areas, but such weather conditions could result in a decline in loan originations and an increase in the risk of delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of devastating hurricanes or storms.

We could be required to write down goodwill and other intangible assets.

When we acquire a business, a portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2011, our goodwill and other identifiable intangible assets were \$289.7 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. We completed such an impairment analysis for all of our reporting segments during the second quarter of 2011 and a roll-forward of that analysis during the third quarter of 2011. Based on these analyses, the estimated fair value of all of our reporting segments exceeded the respective carrying values. Our annual goodwill impairment evaluation performed during the fourth quarter of 2011 also indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price.

Diversification in types of financial services may adversely affect our financial performance.

As part of our business strategy, we may further diversify our lines of business into areas that are not traditionally associated with the banking business. As a result, we would need to manage the development of new business lines in which we have not previously participated. Each new business line would require the investment of additional capital and the significant involvement of our senior management to develop and integrate the service

subsidiaries with our traditional banking operations. We can offer no assurances that we will be able to develop and integrate new services without adversely affecting our financial performance.

We compete with other financial holding companies, bank holding companies, banks, insurance and financial services companies.

The banking, insurance and financial services businesses are extremely competitive in our service areas in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. We compete, and will continue to compete, with well-established banks, credit unions, insurance agencies and other financial institutions, some of which have significantly greater resources and lending limits. Some of our competitors provide certain services that we do not provide.

We face risks in connection with completed or potential acquisitions.

Historically, we have grown through the acquisition of other financial institutions as well as the development of de novo offices. If appropriate opportunities present themselves, we intend to pursue additional acquisitions in the future that we believe are strategic, including possible FDIC-assisted transactions. There can be no assurance that we will be able to identify, negotiate or finance potential acquisitions successfully or integrate such acquisitions with our current business.

Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel and systems of acquired companies into our business, which may divert management's attention from ongoing business operations. The success of our acquisitions is often dependent on the continued employment of key employees of the acquired business. If certain key employees were to leave, we could conclude that the value of an acquired business has decreased and that the related goodwill has been impaired. We cannot assure you that we will be successful in effectively integrating any acquisition into the operations of our business or in retaining key employees. Moreover, there can be no assurance that the anticipated benefits of any acquisition will be realized.

Our growth strategy includes risks that could have an adverse effect on financial performance.

An element of our growth strategy is the acquisition of additional banks (which might include the acquisition of bank assets and liabilities in FDIC-assisted transactions), bank holding companies, financial holding companies, insurance agencies and/or other businesses related to the financial services industry that may complement our organizational structure in order to achieve greater economies of scale. We cannot assure you that appropriate growth opportunities will continue to exist, that we will be able to acquire banks, insurance agencies, bank holding companies and/or financial holding companies that satisfy our criteria or that any such acquisitions will be on terms favorable to us. Further, our growth strategy requires that we continue to hire qualified personnel, while concurrently expanding our managerial and operational infrastructure. We cannot assure you that we will be able to hire and retain qualified personnel or that we will be able to successfully expand our infrastructure to accommodate future acquisitions or growth. As a result of these factors, we may not realize the expected economic benefits associated with our acquisitions. This could have a material adverse effect on our financial performance.

We may experience interruptions or breaches in our information system security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of these information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We may be adversely affected by the failure of certain third party vendors to perform.

We rely upon certain third party vendors to provide products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to the risk that these vendors might not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks. While we believe these policies and procedures help to mitigate risk, the failure of an external vendor to perform in accordance with applicable contractual arrangements or service

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level agreements could be disruptive to our operations, which could have a material adverse effect on our financial condition and results of operations.

Issuing additional shares of our common stock to acquire other banks, bank holding companies, financial holding companies and/or insurance agencies may result in dilution for existing shareholders and may adversely affect the market price of our stock.

In connection with our growth strategy, we have issued, and may issue in the future, shares of our common stock to acquire additional banks, bank holding companies, financial holding companies, insurance agencies and/or other businesses related to the financial services industry that may compliment our organizational structure. Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We usually must pay an acquisition premium above the fair market value of acquired assets for the acquisition of banks, bank holding companies, financial holding companies and insurance agencies. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

Anti-takeover provisions may discourage a change of our control.

Our governing documents and certain agreements to which we are a party contain provisions that make a change-in-control difficult to accomplish, and may discourage a potential acquirer. These include a classified or “staggered” board of directors, change-in-control agreements with members of management and supermajority voting requirements. These anti-takeover provisions may have an adverse effect on the market for our common stock.

Securities that we issue, including our common stock, are not FDIC insured.

Securities that we issue, including our common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC or any other governmental agency or instrumentality or any private insurer and are subject to investment risk, including the possible loss of your investment.

We may issue debt or equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock. In the future, we may attempt to increase our capital resources by entering into debt or debt-like financing that is unsecured or secured by all or up to all of our assets, or by issuing additional debt or equity securities, which could include issuances of secured or unsecured commercial paper, medium-term notes, senior notes, subordinated notes, preferred stock or securities convertible into or exchangeable for equity securities. In the event of our liquidation, our lenders and holders of our debt and preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Because any decision to incur debt or issue securities in future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any such future offerings and debt financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

We reported a material weakness in our internal control over financial reporting; our internal controls might not continue to be effective.

Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010 reported a material weakness in our internal control over financial reporting designed to ensure proper accounting for allowance for credit losses, as described in our Annual Report on Form 10-K for the years ended December 31, 2010 and December 31, 2009. During the fourth quarter of 2011, our management concluded that the control deficiency in our credit grading process related to the determination of the allowance for credit losses has been remediated. We cannot provide any assurance, however, that our internal controls will continue to be effective.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The physical properties of the Company are held by its subsidiaries as follows:

- a. The Bank - The main office is located at One Mississippi Plaza, 201 South Spring Street in the central business district of Tupelo, Mississippi in a seven-floor, modern, glass, concrete and steel office building owned by the Bank. The Bank occupies approximately 75% of the space, with the remainder leased to various unaffiliated tenants.

The Bank owns 232 of its 258 branch banking facilities. The remaining 26 branch banking facilities are occupied under leases with unexpired terms ranging from one to 12 years. The Bank also owns other buildings that provide space for computer operations, lease servicing, mortgage lending, warehouse needs and other general purposes.

Management considers all of the Bank's owned buildings and leased premises to be in good condition.

- b. BancorpSouth Insurance Services, Inc. - This wholly-owned subsidiary of the Bank owns six of the 24 offices it occupies. It leases 18 offices that have unexpired terms varying in duration from one to six years.

ITEM 3. LEGAL PROCEEDINGS.

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 SEC, 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.

On May 12, 2010, the Company and its Chief Executive Officer, President and Chief Financial Officer were named in a purported class action lawsuit filed in the U.S. District Court for the Middle District of Tennessee on behalf of certain purchasers of the Company's common stock. On September 17, 2010, an Executive Vice President of the Company was added as a party to the lawsuit. The amended complaint alleges that the defendants issued materially false and misleading statements regarding the Company's business and financial results. The plaintiff seeks class certification, an unspecified amount of damages and awards of costs and attorneys' fees and other equitable relief. No class has been certified and, at this stage of the lawsuit, management cannot determine the probability of an unfavorable outcome to the Company. There are significant uncertainties involved in any purported class action

litigation. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company's business, consolidated financial position or results of operations.

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

In November 2010, the Company was informed that the Atlanta Regional Office of the SEC had issued an Order of Investigation concerning the Company. This investigation is ongoing and is primarily focused on the Company's recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal controls and its communications with the independent auditors prior to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. In connection with its investigation, the SEC issued subpoenas for documents and testimony, with which the Company has fully complied. The Company is cooperating fully with the SEC. No claims have been made by the SEC against the Company or against any individuals affiliated with the Company. At this time, it is not possible to predict when or how the investigation will be resolved or the cost or potential liabilities associated with this matter.

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

PART II

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

MARKET FOR COMMON STOCK

The common stock of the Company trades on the New York Stock Exchange under the symbol "BXS." The following table sets forth, for the quarters indicated, the range of sale prices of the Company's common stock as reported on the New York Stock Exchange:

		High	Low
2011	Fourth	\$11.39	\$8.23
	Third	14.35	8.61
	Second	16.25	11.57
	First	16.75	14.71
2010	Fourth	\$16.31	\$12.27

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Third	18.73	12.41
Second	23.25	17.86
First	24.75	17.55

HOLDERS OF RECORD

As of February 15, 2012, there were 8,518 shareholders of record of the Company's common stock.

DIVIDENDS

The Company declared cash dividends each quarter in an aggregate annual amount of \$0.14 and \$0.88 per share during 2011 and 2010, respectively. Future dividends, if any, will vary depending on the Company's profitability, anticipated capital requirements and applicable federal and state regulations. The Company is further restricted by the Federal Reserve's authority to limit or prohibit the payment of dividends, as outlined in SR 09-4. The board of directors of the Company has adopted a resolution requested by the Federal Reserve Bank that, among other things, requires that the Company obtain prior written approval of the Federal Reserve Bank before taking a number of actions, including declaring and paying dividends to the Company's shareholders, making distributions in connection with outstanding trust preferred securities and redeeming outstanding equity securities. The Bank's board of directors has adopted a resolution requested by the FDIC and the Mississippi Department of Banking and Consumer Finance that, among other things, limits the declaration and payment of dividends and requires maintenance of enhanced capital ratios. There can be no assurance that the Federal Reserve Bank, the FDIC or the Mississippi Department of Banking and Consumer Finance will not limit or prohibit future dividends. See "Item 1. Business – Regulation and Supervision" included herein for more information on restrictions and limitations on the Company's ability to pay dividends.

ISSUER PURCHASES OF EQUITY SECURITIES

The Company made the following purchases of its common stock during the quarter ended December 31, 2011:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share
October 1 - October 31	-	\$ -
November 1 - November 30	-	-
December 1 - December 31	5,158	11.02
Total	5,158	

(1) This represents 5,158 shares redeemed from an employee during the fourth quarter of 2011 for tax withholding purposes upon vesting of restricted stock.

ITEM 6. SELECTED FINANCIAL DATA.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Selected Financial Information" for the Selected Financial Data.

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

OVERVIEW

The Company is a regional financial holding company with \$13.0 billion in assets headquartered in Tupelo, Mississippi. The Company's wholly-owned banking subsidiary has commercial banking operations in

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Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, and Missouri. 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. The Bank's insurance agency subsidiary also operates an office in Illinois.

Management's discussion and analysis provides a narrative discussion of the Company's financial condition and results of operations for the previous three years. For a complete understanding of the following discussion, you should refer to the Consolidated Financial Statements and related Notes presented elsewhere in this Report. This discussion and analysis is based on reported financial information, and certain amounts for prior years have been reclassified to conform with the current financial statement presentation. 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 a decline in credit quality and increases in the Company's measures of non-performing loans and leases ("NPLs") and net charge-offs in 2010 compared to 2009, the Company's NPLs and net charge-offs decreased during 2011 compared to 2010. Management believes that the Company is better positioned with respect to overall credit quality as evidenced by the improvement in credit quality metrics at December 31, 2011 compared to December 31, 2010. Management believes, however, that continued weakness in the economic environment could adversely affect the strength of the credit quality of the Company's assets overall. Therefore, management will continue to focus on early identification and resolution of any credit issues.

The largest source of the Company's revenue is 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.

As a result of the impact of the Durbin Amendment, among other factors, the Company's debit card revenue decreased in 2011 by \$3.0 million. The Company estimates that debit card revenue could be reduced in 2012 by more than \$13.0 million.

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

SELECTED FINANCIAL
INFORMATION

	At or for the Year Ended December 31,				
	2011	2010	2009	2008	2007
Earnings Summary:					
	(Dollars in thousands, except per share amounts)				
Interest revenue	\$537,853	\$582,762	\$615,414	\$705,413	\$801,242
Interest expense	102,940	141,620	170,515	264,577	378,343
Net interest revenue	434,913	441,142	444,899	440,836	422,899
Provision for credit losses	130,081	204,016	117,324	56,176	22,696
Net interest revenue, after provision for credit losses	304,832	237,126	327,575	384,660	400,203
Noninterest revenue	270,845	264,144	275,276	245,607	232,151
Noninterest expense	533,633	487,033	490,017	455,913	428,410
Income before income taxes	42,044	14,237	112,834	174,354	203,944
Income tax expense (benefit)	4,475	(8,705)	30,105	53,943	66,001
Net income	\$37,569	\$22,942	\$82,729	\$120,411	\$137,943
Balance Sheet - Year-End Balances:					
Total assets	\$12,995,851	\$13,615,010	\$13,167,867	\$13,480,218	\$13,189,841
Total securities	2,513,518	2,709,081	1,993,594	2,316,380	2,627,110
Loans and leases, net of unearned income	8,870,311	9,333,107	9,775,136	9,691,277	9,179,684
Total deposits	10,955,189	11,490,021	10,677,702	9,711,872	10,064,099
Long-term debt	35,000	110,000	112,771	286,312	88,977
Total shareholders' equity	1,262,912	1,222,244	1,276,296	1,240,260	1,196,626
Balance Sheet - Average Balances:					
Total assets	13,280,047	13,304,836	13,203,659	13,200,801	12,857,135
Total securities	2,620,404	2,157,096	2,179,479	2,417,390	2,781,232
Loans and leases, net of unearned income	9,159,431	9,621,529	9,734,580	9,429,963	8,784,940
Total deposits	11,251,406	11,107,445	10,155,730	9,803,999	10,200,098
Long-term debt	66,673	111,547	290,582	278,845	139,537
Total shareholders' equity	1,240,768	1,241,321	1,255,605	1,224,280	1,121,000
Common Share Data:					
Basic earnings per share	\$0.45	\$0.28	\$0.99	\$1.46	\$1.69
Diluted earnings per share	0.45	0.27	0.99	1.45	1.69
Cash dividends per share	0.14	0.88	0.88	0.87	0.83
Book value per share	15.13	14.64	15.29	14.92	14.54
Dividend payout ratio	31.11	314.29	88.89	60.00	49.11
Financial Ratios:					
Return on average assets	0.28	% 0.17	% 0.63	% 0.91	% 1.07
Return on average shareholders' equity	3.03	% 1.85	% 6.59	% 9.84	% 12.31
Total shareholders' equity to total assets	9.72	% 8.98	% 9.69	% 9.20	% 9.07

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Tangible shareholders' equity to tangible assets	7.67	%	7.00	%	7.63	%	7.15	%	7.09	%
Net interest margin-fully taxable equivalent	3.69	%	3.70	%	3.77	%	3.75	%	3.68	%

Credit Quality Ratios:

Net charge-offs to average loans and leases	1.44	%	1.90	%	0.76	%	0.40	%	0.14	%
Provision for credit losses to average loans and leases	1.42	%	2.12	%	1.21	%	0.60	%	0.26	%
Allowance for credit losses to net loans and leases	2.20	%	2.11	%	1.80	%	1.37	%	1.25	%
Allowance for credit losses to NPLs	60.55	%	49.93	%	94.41	%	207.45	%	394.76	%
Allowance for credit losses to NPAs	39.33	%	37.31	%	71.64	%	120.36	%	215.47	%
NPLs to net loans and leases	3.63	%	4.23	%	1.91	%	0.66	%	0.32	%
NPAs to net loans and leases	5.59	%	5.65	%	2.51	%	1.14	%	0.58	%

Capital Ratios:

Tier I capital	11.77	%	10.61	%	11.17	%	10.79	%	10.63	%
Total capital	13.03	%	11.87	%	12.42	%	12.04	%	11.81	%
Tier I leverage capital	8.85	%	8.07	%	8.95	%	8.65	%	8.13	%

In addition to financial ratios based on measures defined by U.S. GAAP, the Company utilizes tangible shareholders' equity and tangible asset measures when evaluating the performance of the Company. Tangible shareholders' equity is defined by the Company as total shareholders' equity less goodwill and identifiable

intangible assets. Tangible assets are defined by the Company as total assets less goodwill and identifiable intangible assets. Management believes the ratio of tangible shareholders' equity to tangible assets to be an important measure of financial strength of the Company. The following table reconciles tangible assets and tangible shareholders' equity as presented above to U.S. GAAP financial measure as reflected in the Company's unaudited consolidated financial statements:

	2011	2010	December 31, 2009		2008	2007
			(In thousands)			
Tangible Assets:						
Total assets	\$12,995,851	\$13,615,010	\$13,167,867	\$13,480,218	\$13,189,841	
Less: Goodwill	271,297	270,097	270,097	268,966	254,889	
Identifiable intangible assets	16,613	19,624	23,533	28,164	26,549	
Total tangible assets	\$12,707,941	\$13,325,289	\$12,874,237	\$13,183,088	\$12,908,403	
Tangible Shareholders' Equity						
Total shareholders' equity	\$1,262,912	\$1,222,244	\$1,276,296	\$1,240,260	\$1,196,626	
Less: Goodwill	271,297	270,097	270,097	268,966	254,889	
Identifiable intangible assets	16,613	19,624	23,533	28,164	26,549	
Total tangible shareholders' equity	\$975,002	\$932,523	\$982,666	\$943,130	\$915,188	
Tangible shareholders' equity to tangible assets	7.67	% 7.00	% 7.63	% 7.15	% 7.09	%

FINANCIAL HIGHLIGHTS

The Company reported net income of \$37.6 million for 2011 compared to \$22.9 million for 2010 and \$82.7 million for 2009. The provision for credit losses was the most significant factor contributing to both the increase in earnings in 2011 compared to 2010 and the decrease in earnings in 2010 compared to 2009, as the provision for credit losses was \$130.1 million in 2011 compared to \$204.0 million in 2010 and \$117.3 million in 2009. Net charge-offs decreased to \$131.9 million, or 1.44% of average loans and leases in 2011 from \$183.1 million, or 1.90% of average loans and leases in 2010, compared to \$74.1 million, or 0.76% of average loans and leases, in 2009. The decrease in the provision for credit losses from 2010 to 2011 reflected the impact of a significant decrease in NPL formation during 2011 as NPLs decreased to \$322.3 million at December 31, 2011 after having increased to \$394.4 million at December 30, 2010 from \$186.5 million at December 31, 2009. The impact of the economic environment continues to be evident on real estate consumer mortgage and construction, acquisition and development loans and more specifically on residential construction, acquisition and development loans. Many of these loans have become collateral-dependant, requiring recognition of additional loan loss provisions or charge-offs to reflect the decline in real estate values. During 2011, 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 \$78.4 million to \$133.1 million at December 31, 2011 from \$211.5 million at December 31, 2010.

The primary source of revenue for the Company is 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 for 2011 was \$434.9 million, compared to \$441.1 million for

2010 and \$444.9 million for 2009. 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 those assets and liabilities to maximize net interest revenue, while balancing interest rate, credit, liquidity and capital risks. The Company experienced an increase in lower rate savings deposits and average demand deposits and a decrease in higher rate other time deposits and long-term borrowing, which resulted in a decrease in interest expense of \$38.7 million, or 27.3%, in 2011 compared to 2010. The 1.4% decrease in net interest revenue in 2011 compared to 2010 was a result of the decrease in interest expense being more than offset by the decrease in interest revenue that resulted from the declining interest rate environment combined with the low loan demand, as interest revenue decreased \$44.9 million, or 7.3%, in 2011 compared to

2010. While loan demand has been weak, the Company has managed to replace some loan runoff with new loan production, primarily in its Texas and Louisiana markets.

The Company attempts to diversify its revenue stream by increasing the amount of revenue received from mortgage lending operations, insurance agency activities, brokerage and securities activities and other activities that generate fee income. Management believes this diversification is important to reduce the impact of fluctuations in net interest revenue on the overall operating results of the Company. Noninterest revenue for 2011 was \$270.8 million, compared to \$264.1 million for 2010 and \$275.3 million for 2009. While total noninterest revenue increased \$6.7 million, or 2.54%, during 2011 compared to 2010, mortgage lending revenue decreased \$12.7 million, or 42.6%, to \$17.1 million in 2011 compared to \$29.7 million in 2010. The decrease in mortgage lending revenue was primarily related to the fair value adjustment of MSR's, as the fair value of MSR's decreased \$14.0 million during 2011 compared to a decrease of \$4.0 million during 2010. Mortgage lending revenue was also adversely impacted by the decrease in mortgage originations, which decreased during 2011 to \$1.2 billion from \$1.4 billion in 2010. The decreased level of mortgage origination volumes resulted in a decrease in origination revenue to \$24.3 million in 2011 compared to \$28.6 million in 2010.

One of the primary contributors to the increase in noninterest revenue in 2011 was the increase in securities gains, which reflected a net gain of \$12.1 million in 2011 compared to a net gain of \$2.6 million in 2010. During the second quarter of 2011, the Company determined that it no longer had the intent to hold until maturity all securities that were previously classified as held-to-maturity. As a result of this determination, all securities were classified as available-for-sale and recorded at fair value. The 2010 net security gains included other-than-temporary impairment charges of \$2.1 million related to the Company's investment in pooled trust preferred securities.

Noninterest revenue was positively impacted by the 12.5% increase in credit card, debit card and merchant fee income for 2011 compared to 2010, as the number and monetary volume of items processed increased with this increase somewhat offset by the impact of the Durbin Amendment, which reduced debit card revenue by \$3.0 million in 2011. Service charges decreased 5.7% in 2011 compared to 2010 as a result of a lower volume of items processed and changes in banking regulations related to overdraft fees. Insurance commissions increased \$4.7 million, or 5.8%, in 2011 compared to 2010 as a result of new policies written and growth from existing customers, while insurance commissions remained relatively stable in 2010 compared to 2009. The Company recorded \$2.2 million in gains related to the disposition of fixed assets during 2011, and there were no other significant non-recurring noninterest revenue items during 2011 or 2010.

Noninterest expense for 2011 was \$533.6 million, an increase of 9.6% from \$487.0 million for 2010, which was a decrease of 0.6% from \$490.0 million for 2009. The increase in noninterest expense in 2011 compared to 2010 was largely a result of the \$9.8 million prepayment penalty related to the early repayment of Federal Home Loan Bank ("FHLB") advances during the second quarter of 2011, as well as the \$3.1 million recorded as a result of the closure of 22 branch offices during the third quarter of 2011 under the Company's branch optimization project. Foreclosed property expense increased \$9.4 million, or 51.4%, to \$27.8 million in 2011 compared to \$18.4 million in 2010 as a result of writedowns of other real estate owned because of the decline in property values attributable to the prevailing economic environment. Deposit insurance assessments increased \$2.1 million, or 10.7%, in 2011 compared to 2010 primarily as a result of a slightly higher assessment rate. Effective as of the second quarter of 2011, the FDIC bases the deposit insurance assessment on a redefined assessment base and a new scorecard method to calculate the assessment rate. Income tax expense increased in 2011 and 2010 primarily as a result of the increase in pretax income in 2011 compared to 2010. The major components of net income are discussed in more detail in the various sections that follow.

The Company continued its commitment to maintaining a strong capital base as its total shareholders' equity to total assets ratio was 9.72%, 8.98%, and 9.69% at December 31, 2011, 2010 and 2009, respectively. Also, noninterest bearing demand deposits and savings deposits increased 10.2% and 14.9%, respectively, at December 31, 2011 compared to December 31, 2010. During the second quarter of 2011, the Company repaid FHLB advances totaling \$75.0 million resulting in a decrease in long-term FHLB borrowings of 69.6% to \$33.5 million at December 31, 2011 compared to \$110.0 million at December 31, 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which require the Company to make estimates and assumptions (see Note 1 to the Company's Consolidated Financial Statements included elsewhere in this Report). Management believes that its determination of the allowance for

credit losses, valuation of other real estate owned, the annual goodwill impairment assessment, the assessment for other-than-temporary impairment of securities, the valuation of mortgage servicing rights and the estimation of pension and other postretirement benefit amounts involve a higher degree of judgment and complexity than the Company's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Company's borrowers, subjecting the Company to significant volatility of earnings.

Allowance for Credit Losses

The allowance for credit losses is established through the provision for credit losses, which is a charge against earnings. Provisions for credit losses are made to reserve for estimated probable losses on loans and leases. The allowance for credit losses is a significant estimate and is regularly evaluated by the Company for adequacy by taking into consideration factors such as changes in the nature and volume of the loan and lease portfolio; trends in actual and forecasted portfolio credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. In determining an adequate allowance for credit losses, management makes numerous assumptions, estimates and assessments. The use of different estimates or assumptions could produce different provisions for credit losses. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Provision for Credit Losses and Allowance for Credit Losses" included herein for more information. At December 31, 2011, the allowance for credit losses was \$195.1 million, representing 2.10% of total loans and leases, net of unearned income.

Other Real Estate Owned

Other real estate owned, consisting of assets that have been acquired through foreclosure or in satisfaction of loans, is carried at the lower of cost or fair value, less estimated selling costs. Fair value is based on independent appraisals and other relevant factors. Other real estate owned is revalued on an annual basis or more often if market conditions necessitate. Valuation adjustments required at foreclosure are charged to the allowance for credit losses. Subsequent valuation adjustments on the periodic revaluation of the property are charged to net income as noninterest expense. Significant judgments and complex estimates are required in estimating the fair value of other real estate owned, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during the past two years. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate owned.

Goodwill

The Company's policy is to assess goodwill for impairment at the reporting segment level on an annual basis or sooner if an event occurs or circumstances change which indicate that the fair value of a reporting unit is below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting segment in assessing impairment at least annually. The Company's annual assessment date is during the Company's fourth quarter. Because of the volatile market conditions during which the Company's market value fell below book value, however, the Company performed a complete goodwill impairment analysis for all of its reporting segments during the second quarter of 2011 and a roll-forward of that analysis during the third quarter of 2011. Based on these analyses, the estimated fair value of all of the Company's reporting segments exceeded the respective carrying values. The Company's annual goodwill impairment evaluation performed during the fourth quarter of 2011 also indicated no impairment of goodwill for its reporting units. Therefore, no goodwill impairment was recorded.

In the current environment, forecasting cash flows, credit losses and growth in addition to valuing the Company's assets with any degree of assurance is very difficult and subject to significant changes over very short periods of time. Management will continue to update its analysis as circumstances change. If market conditions continue to be volatile and unpredictable, impairment of goodwill related to the Company's reporting segments may be necessary in future periods. Goodwill was \$271.3 million at December 31, 2011.

Assessment for Other-Than-Temporary Impairment of Securities

Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. The term “other-than-temporary” is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near-term recovery of value are not necessarily favorable. Management reviews criteria such as the

magnitude and duration of the decline, as well as the reasons for the decline, and whether the Company would be required to sell the securities before a full recovery of costs in order to predict whether the loss in value is other-than-temporary. Once a decline in value is determined to be other-than-temporary, the impairment is separated into (a) the amount of the impairment related to the credit loss and (b) the amount of the impairment related to all other factors. The value of the security is reduced by the other-than-temporary impairment with the amount of the impairment related to credit loss recognized as a charge to earnings and the amount of the impairment related to all other factors recognized in other comprehensive income.

Mortgage Servicing Rights

The Company recognizes as assets the rights to service mortgage loans for others, known as mortgage servicing rights (“MSRs”). The Company records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 860, Transfers and Servicing (“FASB ASC 860”). 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. Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSRs 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. At December 31, 2011, the Company’s mortgage servicing asset was valued at \$30.2 million.

Pension and Postretirement Benefits

Accounting for pension and other postretirement benefit amounts is another area where the accounting guidance requires management to make various assumptions in order to appropriately value any related asset or liability. Estimates that the Company makes to determine pension-related assets and liabilities include actuarial assumptions, expected long-term rate of return on plan assets, rate of compensation increase for participants and discount rate. Estimates that the Company makes to determine asset and liability amounts for other postretirement benefits include actuarial assumptions and a discount rate. Changes in these estimates could impact earnings. For example, lower expected long-term rates of return on plan assets could negatively impact earnings, as would lower estimated discount rates or higher rates of compensation increase. In estimating the projected benefit obligation, actuaries must make assumptions about such factors as mortality rate, turnover rate, retirement rate, disability rate and the rate of compensation increases. The Company accounts for the over-funded or under-funded status of its defined benefit and postretirement plans as an asset or liability in its consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur through comprehensive income as required by FASB ASC 715, Compensation – Retirement Benefits (“FASB ASC 715”). In accordance with FASB ASC 715, the Company calculates the expected return on plan assets each year based on the balance in the pension asset portfolio at the beginning of the year and the expected long-term rate of return on that portfolio. In determining the reasonableness of the expected rate of return, the Company considers a variety of factors including the actual return earned on plan assets, historical rates of return on the various asset classes of which the plan portfolio is comprised and current/prospective capital market conditions and economic forecasts. The Company used an expected rate of return of 8% on plan assets for 2011. The discount rate is the rate used to determine the present value of the Company’s future benefit obligations for its pension and other postretirement benefit plans. The Company determines the discount rate to be used to discount plan liabilities at the measurement date with the assistance of its actuary using the actuary’s proprietary model. The Company developed a level equivalent yield using its actuary’s model as of December 30, 2011 and the expected cash flows from the BancorpSouth, Inc. Retirement Plan (the “Basic Plan”), the BancorpSouth, Inc. Restoration Plan (the “Restoration Plan”) and the BancorpSouth, Inc. Supplemental Executive Retirement Plan (the “Supplemental Plan”). Based on this analysis, the Company established its discount rate assumptions for determination of the projected benefit obligation at 4.80% for the Basic Plan, 4.45% for the Restoration Plan and 3.85% for the Supplemental Plan based on a December 31, 2011 measurement date.

RESULTS OF OPERATIONS

Net Interest Revenue

Net interest revenue is the difference between interest revenue earned on assets, such as loans, leases and securities, and interest expense paid on liabilities, such as deposits and borrowings, and continues to provide the Company with its principal source of revenue. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. The Company's long-term objective is to manage interest earning assets and interest bearing liabilities to maximize net interest revenue, while balancing interest rate, credit and liquidity risk. Net interest margin is determined by dividing fully taxable equivalent net interest revenue by average earning assets. For purposes of the following discussion, revenue from tax-exempt loans and investment securities has been adjusted to a fully taxable equivalent ("FTE") basis, using an effective tax rate of 35%. The following tables present average interest earning assets, average interest bearing liabilities, net interest revenue-FTE, net interest margin-FTE and net interest rate spread for the three years ended December 31, 2011:

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(Taxable equivalent basis)	2011			2010			2009		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
ASSETS (Dollars in thousands, yields on taxable equivalent basis)									
Loans and leases (net of unearned income) (1)(2)	\$9,159,431	\$464,413	5.07%	\$9,621,529	\$500,108	5.20%	\$9,734,580	\$520,315	5.35%
Loans held for sale	53,504	2,219	4.15%	68,980	3,024	4.38%	115,181	3,965	3.44%
Held-to-maturity securities:									
Taxable (3)	547,471	13,266	2.42%	985,606	36,718	3.73%	1,015,440	47,397	4.67%
Non-taxable (4)	133,827	8,673	6.48%	236,530	16,014	6.77%	194,370	13,619	7.01%
Available-for-sale securities:									
Taxable (5)	1,667,936	44,243	2.65%	863,091	32,033	3.71%	898,073	35,026	3.90%
Non-taxable (6)	271,170	16,897	6.23%	71,869	5,039	7.01%	71,596	5,223	7.30%
Federal funds sold, securities purchased under agreement to resell and short-term investments	310,052	868	0.28%	376,328	961	0.26%	49,197	205	0.42%
Total interest earning assets and revenue	12,143,391	550,579	4.53%	12,223,933	593,897	4.86%	12,078,437	625,750	5.18%
Other assets	1,347,685			1,293,963			1,275,150		
Less: allowance for credit losses	(211,029)			(213,060)			(149,928)		
Total	\$13,280,047			\$13,304,836			\$13,203,659		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits:									
Demand - interest bearing	\$4,907,058	\$22,646	0.46%	\$4,649,235	\$35,187	0.76%	\$4,051,362	\$40,047	0.99%
Savings	943,317	3,211	0.34%	784,504	3,576	0.46%	712,740	3,700	0.52%
Other time	3,322,733	61,709	1.86%	3,782,727	83,999	2.22%	3,633,453	101,308	2.79%
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings	437,589	555	0.13%	539,524	1,384	0.26%	1,175,708	2,378	0.20%
	160,312	11,451	7.14%	160,312	11,461	7.15%	160,312	11,630	7.25%

Junior subordinated
debt securities

Long-term FHLB borrowings	66,673	3,368	5.05%	111,547	6,013	5.38%	290,582	11,452	3.93%
Total interest bearing liabilities and expense	9,837,682	102,940	1.05%	10,027,849	141,620	1.41%	10,024,157	170,515	1.70%
Demand deposits - noninterest bearing	2,078,298			1,890,979			1,758,175		
Other liabilities	123,299			144,687			165,722		
Total liabilities	12,039,279			12,063,515			11,948,054		
Shareholders' equity	1,240,768			1,241,321			1,255,605		
Total	\$13,280,047			\$13,304,836			\$13,203,659		
Net interest revenue-FTE	\$447,639			\$452,277			\$455,235		
Net interest margin-FTE			3.69%			3.70%			3.77%
Net interest rate spread			3.49%			3.45%			3.48%
Interest bearing liabilities to interest earning assets			81.01%			82.03%			82.99%

(1) Includes taxable equivalent adjustment to interest of approximately \$3,337,000, \$3,326,000 and \$3,302,000 in 2011, 2010 and 2009, respectively, using an effective tax rate of 35%.

(2) Non-accrual loans are included in Loans and leases (net of unearned income).

(3) Includes taxable equivalent adjustments to interest of approximately \$186,000 in 2011 and \$440,000 in 2010 and 2009 using an effective tax rate of 35%.

(4) Includes taxable equivalent adjustments to interest of approximately \$3,035,000, \$5,605,000 and \$4,767,000 in 2011, 2010 and 2009, respectively, using an effective tax rate of 35%.

(5) Includes taxable equivalent adjustment to interest of approximately \$254,000 in 2011 using an effective tax rate of 35%.

(6) Includes taxable equivalent adjustment to interest of approximately \$5,914,000, \$1,764,000 and \$1,827,000 in 2011, 2010 and 2009, respectively, using an effective tax rate of 35%.

Net interest revenue-FTE decreased 1.0% to \$447.6 million in 2011 from \$452.3 million in 2010, which represented a decrease of 0.7% from \$455.2 million in 2009. The slight decrease in net interest revenue-FTE for 2011 compared to 2010 was primarily a result of decreased net loans and leases combined with the continued declining loan yields and the increase in average lower rate securities. The decrease in net interest revenue was somewhat offset by the decrease in higher rate long-term FHLB borrowings and other time deposits, resulting in a

decrease in interest expense related to those borrowings to \$3.4 million for 2011 compared to \$6.0 million for 2010. The slight decrease in net interest revenue-FTE for 2010 compared to 2009 was a result of continued deposit growth, combined with a decrease in net loans and leases, resulting in an increase in short-term investments that had lower average rates earned than the average rates paid on the deposit growth. The yield on interest earning assets declined 33 basis points to 4.53% in 2011 from 4.86% in 2010 and the average rate paid on interest bearing liabilities declined 36 basis points to 1.05% in 2011 compared to 1.41% in 2010. The yield on interest earning assets declined 32 basis points to 4.86% in 2010 from 5.18% in 2009, which exceeded the decline of 29 basis points in the average rate paid on interest bearing liabilities to 1.41% in 2010 from 1.70% in 2009. The declining loan yields experienced by the Company in 2011 and 2010 was a result of reduced interest rates with this decline being somewhat offset by the impact of the interest rate floors evident on a portion of the Company's variable rate loans. The effect of the interest rate floors on the Company's variable rate loans is more fully discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Interest Rate Sensitivity."

Interest revenue-FTE decreased 7.3% to \$550.6 million in 2011 from \$593.9 million in 2010, which represented a decrease of 5.1% from \$625.8 million in 2009. The decrease in interest revenue-FTE in 2011 and 2010 was primarily a result of the declining loan yields as interest rates were at historically low levels combined with decreased net loans and leases resulting in an overall decrease in the yield on average interest earning assets of 33 basis points during 2011 and 32 basis points during 2010. Average interest earning assets decreased \$80.5 million, or 0.7%, to \$12.1 billion in 2011 and increased \$145.5 million, or 1.2%, to \$12.2 billion in 2010 from \$12.1 billion in 2009. The decrease in average interest earning assets during 2011 was primarily a result of the larger decreases in net loans and leases and short-term investments than the increase in securities, as the decrease in deposits resulted in less funds to invest in securities. The increase in average interest earning assets during 2010 was primarily a result of the increase in short-term investments, which was attributable to continued deposit growth, combined with a decrease in net loans and leases.

Interest expense decreased 27.3% to \$102.9 million in 2011 from \$141.6 million in 2010, which represented a decrease of 17.0% from \$170.5 million in 2009. The decrease in interest expense during 2011 was a result of the increase in average lower cost interest bearing demand deposits combined with the decrease in other time deposit rates and the decrease in average long-term deposits and long-term deposit rates, resulting in an overall decrease in the average rate paid of 36 basis points. The decrease in interest expense during 2010 was a result of the increase in lower cost interest bearing demand deposits combined with the decrease in demand and other time deposit rates, resulting in an overall decrease in the average rate paid of 29 basis points during 2010. Average interest bearing liabilities decreased \$190.2 million, or 1.9%, to \$9.8 billion in 2011 after remaining stable at \$10.0 billion in 2010 and 2009. The decrease in interest bearing liabilities in 2011 compared to 2010 was primarily a result of the decrease in short-term and long-term borrowings. The decrease in short-term and long-term borrowings during 2010 was offset by the slightly larger increase in the Company's interest bearing demand, savings and other time deposits, resulting in average interest bearing liabilities that remained flat from 2009 to 2010.

Net interest margin-FTE for 2011 was 3.69%, a decrease of one basis point from 3.70% for 2010, which represented a decrease of seven basis points from 3.77% for 2009. The slight decrease in the net interest margin-FTE for 2011 compared to 2010 was primarily a result of the combination of increased average deposits and weak loan demand resulting in higher levels of average investments with lower yields than those earned on the loan portfolio. During 2011, the Company was somewhat able to mitigate the effect of lower loan yields by increasing lower cost demand deposits and decreasing higher rate time deposits. The decrease in the net interest margin-FTE for 2010 compared to 2009 was primarily a result of the higher level of average nonaccrual loans and the reversal of current year interest for loans placed on nonaccrual status or charged off. The higher level of average nonaccrual loans and the reversal of current year interest for loans placed on nonaccrual status or charged off during 2010 decreased net interest margin-FTE by 14 basis points in 2010. Also, the combination of increased deposits and weak loan demand resulted in higher levels of short-term investments with relatively low yields.

Net interest revenue-FTE may also be analyzed by segregating the rate and volume components of interest revenue and interest expense. The table below presents an analysis of rate and average volume change in net interest revenue from 2010 to 2011 and from 2009 to 2010. Changes that are not solely a result of volume or rate have been allocated to volume.

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(Taxable equivalent basis)	2011 over 2010 - Increase (Decrease)			2010 over 2009 - Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST REVENUE	(In thousands)					
Loans and leases (net of unearned income)	\$ (23,430)	\$ (12,265)	\$ (35,695)	\$ (5,876)	\$ (14,331)	\$ (20,207)
Loans held for sale	(642)	(163)	(805)	(2,025)	1,084	(941)
Held-to-maturity securities:						
Taxable	(10,617)	(12,835)	(23,452)	(1,111)	(9,568)	(10,679)
Non-taxable	(6,656)	(685)	(7,341)	2,854	(459)	2,395
Available-for-sale securities:						
Taxable	21,349	(9,139)	12,210	(1,298)	(1,695)	(2,993)
Non-taxable	12,419	(561)	11,858	19	(203)	(184)
Federal funds sold, securities purchased under agreement to resell and short-term investments	(186)	93	(93)	835	(79)	756
Total increase (decrease)	(7,763)	(35,555) -	(43,318) -	(6,602)	(25,251) -	(31,853)
INTEREST EXPENSE						
Demand deposits - interest bearing	1,190	(13,731)	(12,541)	4,525	(9,385)	(4,860)
Savings deposits	541	(906)	(365)	327	(451)	(124)
Other time deposits	(8,543)	(13,747)	(22,290)	3,315	(20,624)	(17,309)
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings	(129)	(700)	(829)	(1,632)	638	(994)
Junior subordinated debt securities	-	(10)	(10)	-	(169)	(169)
Long-term FHLB borrowings	(2,278)	(367)	(2,645)	(9,651)	4,212	(5,439)
Total increase (decrease)	(9,219)	(29,461)	(38,680)	(3,116)	(25,779)	(28,895)
Total net increase (decrease)	\$1,456	\$ (6,094)	\$ (4,638)	\$ (3,486)	\$528	\$ (2,958)

Interest Rate Sensitivity

The interest rate sensitivity gap is the difference between the maturity or repricing opportunities of interest sensitive assets and interest sensitive liabilities for a given period of time. A prime objective of asset/liability management is to maximize net interest margin while maintaining a reasonable mix of interest sensitive assets and liabilities. The following table presents the Company's interest rate sensitivity at December 31, 2011:

Interest Rate Sensitivity - Maturing or Repricing
 91 Days
 to
 One Year
 Over One
 Year to
 Five Years

0 to 90
 Days

(In thousands)

INTEREST
 EARNING
 ASSETS:

Interest bearing deposits with banks	\$ 303,663	\$ -	\$ -
Available-for-sale securities	126,905	213,472	1,308,961
Loans and leases, net of unearned income	4,139,518	1,674,333	2,744,478
Loans held for sale	65,818	343	2,005
Total interest earning assets	4,635,904	1,888,148	4,055,444

INTEREST
 BEARING
 LIABILITIES:

Interest bearing demand and savings deposits	5,698,527	-	-
Other time deposits	632,499	1,307,134	1,046,987
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short-term borrowings	373,933	1,500	-
Long-term FHLB borrowings and junior subordinated debt securities	-	-	3,500
Other	1 -	-	68 -
Total interest bearing liabilities	6,704,960	1,308,634	1,050,555
Interest rate sensitivity gap	\$(2,069,056)	\$579,514	\$3,004,889

Cumulative interest sensitivity gap	\$(2,069,056)	\$(1,489,542)	\$1,515,347
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In the event interest rates increase after December 31, 2011, based on this interest rate sensitivity gap, it is likely that the Company would experience decreased net interest revenue in the following one-year period, as the cost of funds would increase at a more rapid rate than interest revenue on interest earning assets. Conversely, in the event interest rates decline after December 31, 2011, based on this interest rate sensitivity gap, the Company would likely experience slightly increased net interest revenue in the following one-year period. It should be noted that the balances shown in the table above are at December 31, 2011 and may not be reflective of positions at other times during the year or in subsequent periods. Allocations to specific interest rate sensitivity periods are based on the earlier of maturity or repricing dates. The increased liability sensitivity in the 0 to 90 day category as compared to other categories was primarily a result of the Company's utilization of shorter term, lower cost deposits to fund earning assets during 2011.

As of December 31, 2011, the Bank had \$1.9 billion in variable rate loans with interest rates determined by a floor, or minimum rate. This portion of the loan portfolio had an average interest rate earned of 4.66%, an average maturity of 30 months and a fully-indexed interest rate of 3.71% at December 31, 2011. The fully-indexed interest rate is the interest rate that these loans would be earning without the effect of interest rate floors. While the Bank benefits from interest rate floors in the current interest rate environment, loans currently earning their floored interest rate may not experience an immediate impact on the interest rate earned should key indices rise. Key indices include, but are not limited to, the Wall Street Journal prime rate, the Bank's prime rate and the London Interbank Offering Rate. At December 31, 2011, the Company had \$975.2 million, \$1.2 billion and \$724.9 million in variable rate loans with interest rates tied to the Bank's prime rate, the Wall Street Journal prime rate and the London Interbank Offering Rate, respectively. The Bank's net interest margin may be negatively impacted by the timing and magnitude of a rise in key indices.

Interest Rate Risk Management

Interest rate risk refers to the potential changes in net interest income and Economic Value of Equity ("EVE") resulting from adverse movements in interest rates. EVE is defined as the net present value of the balance sheet's cash flow. EVE is calculated by discounting projected principal and interest cash flows under the current interest rate environment. The present value of asset cash flows less the present value of liability cash flows derives

the net present value of the Company's balance sheet. The Company's Asset / Liability Committee utilizes financial simulation models to measure interest rate exposure. These models are designed to simulate the cash flow and accrual characteristics of the Company's balance sheet. In addition, the models incorporate assumptions about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the Company's balance sheet arising from both strategic plans and customer behavior. Finally, management makes assumptions regarding loan and deposit growth, pricing, and prepayment speeds.

The sensitivity analysis included below delineates the percentage change in net interest income and EVE derived from instantaneous parallel rate shifts of plus and minus 400, 300, 200 and 100 basis points. The impact of minus 400, 300, 200 and 100 basis point rate shocks as of December 31, 2011 and 2010 was not considered meaningful because of the historically low interest rate environment. Variances were calculated from the base case scenario, which reflected current market rates. Management of the Company assumed all non-maturity deposits have an average life of one day for calculating EVE, which management believes is the most conservative approach. In addition, management assumes a beta value of 1, or 100 percent, for all non-term deposits when calculating Net Income and Net Interest Income instantaneous rate shocks. "Beta", in the context of deposit rates, is defined as the percentage change in interest rate paid given a change in market rates.

Net Interest Income		
% Variance from Base Case Scenario		
Rate Shock	December 31, 2011	December 31, 2010
+400 basis points	-14.7%	NA
+300 basis points	-11.7%	NA
+200 basis points	-8.7%	-7.4%
+100 basis points	-4.9%	-4.1%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

NA=not available

Economic Value of Equity		
% Variance from Base Case Scenario		
Rate Shock	December 31, 2011	December 31, 2010
+400 basis points	-36.7%	NA
+300 basis points	-28.8%	NA
+200 basis points	-20.3%	-15.1%
+100 basis points	-10.9%	-8.1%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

NA=not available

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

Net Interest Income

% Variance from Base Case Scenario

Rate Ramp	December 31, 2011	December 31, 2010
+200 basis points	-6.7%	-6.1%
-200 basis points	NM	NM

NM=not meaningful

Provision for Credit Losses and Allowance for Credit Losses

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

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

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

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

Loans of \$200,000 or more that become 60 or more days past due are identified for review by the Impairment Committee, which decides whether an impairment exists and to what extent a specific allowance for loss should be made. Loans that do not meet these requirements may also be identified by management for impairment review. Loans subject to such review are evaluated as to collateral dependency, current collateral value, guarantor or other financial support and likely disposition. Each such loan is individually evaluated for impairment. The impairment evaluation of real estate loans generally focuses on the fair value of underlying collateral obtained from appraisals, as the repayment of these loans may be dependent on the liquidation of the collateral. In certain

circumstances, other information such as comparable sales data is deemed to be a more reliable indicator of fair value of the underlying collateral than the most recent appraisal. In these instances, such information is used in determining the impairment recorded for the loan. As the repayment of commercial and industrial loans is generally dependent upon the cash flow of the borrower or guarantor support, the impairment evaluation generally focuses on

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

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

At December 31, 2011, impaired loans totaled \$234.9 million, which was net of cumulative charge-offs of \$52.2 million. Additionally, the Company had specific reserves of \$39.7 million included in the allowance for credit losses. Impaired loans at December 31, 2011 were primarily from the Company's residential construction, acquisition and development real estate and commercial real estate portfolios. Impaired loan charge-offs are determined necessary when management does not anticipate any future recovery of collateral values. The loans were evaluated for impairment based on the fair value of the underlying collateral securing the loan. As part of the impairment review process, appraisals are used to determine the property values. The appraised values that are used are generally based on the disposition value of the property, which assumes Bank ownership of the property "as-is" and a 180-day marketing period. If a current appraisal or one with an inspection date within the past 12 months using the necessary assumptions is not available, a new third-party appraisal is ordered. In cases where an impairment exists and a current appraisal is not available at the time of review, a staff appraiser may determine an estimated value based upon earlier appraisals, the sales contract, approved foreclosure bids, comparable sales, comparable appraisals, officer estimates or current market conditions until a new appraisal is received. After a new appraisal is received, the value used in the review will be updated and any adjustments to reflect further impairments are made. Appraisals are obtained from state-certified appraisers based on certain assumptions which may include foreclosure status, bank ownership, other real estate owned marketing period of 180 days, costs to sell, construction or development status and the highest and best use of the property. A staff appraiser may make adjustments to appraisals based on sales contracts, comparable sales and other pertinent information if an appraisal does not incorporate the effect of these assumptions.

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

Any loan or portion thereof which is classified as "loss" by regulatory examiners or which is determined by management to be uncollectible, because of factors such as the borrower's failure to pay interest or principal, the borrower's financial condition, economic conditions in the borrower's industry or the inadequacy of underlying collateral, is charged off.

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An analysis of the allowance for credit losses for the five years ended December 31, 2011 is provided in the following table:

	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Balance, beginning of period	\$ 196,913	\$ 176,043	\$ 132,793	\$ 115,197	\$ 98,834
Loans and leases charged off:					
Commercial and industrial	(17,337)	(11,879)	(9,534)	(7,124)	(2,656)
Real estate					
Consumer mortgages	(10,186)	(25,639)	(13,917)	(8,161)	(4,801)
Home equity	(5,852)	(5,215)	(5,372)	(1,307)	(537)
Agricultural	(3,420)	(1,201)	(848)	(381)	(45)
Commercial and industrial-owner occupied					
Construction, acquisition and development	(10,302)	(9,200)	(4,033)	(1,970)	(1,126)
Commercial	(67,362)	(113,237)	(32,638)	(15,332)	(818)
Credit cards	(17,436)	(14,084)	(3,584)	(814)	(465)
All other	(3,072)	(4,559)	(4,770)	(3,636)	(2,979)
Total loans and leases charged off	(7,088)	(6,008)	(3,517)	(3,342)	(3,414)
	(142,055)	(191,022)	(78,213)	(42,067)	(16,841)
Recoveries:					
Commercial and industrial	1,567	1,330	761	1,134	997
Real estate					
Consumer mortgages	1,111	1,448	824	532	836
Home equity	185	179	109	30	117
Agricultural	123	12	2	-	29
Commercial and industrial-owner occupied					
Construction, acquisition and development	393	399	297	75	261
Commercial	3,951	1,706	128	263	27
Credit cards	1,045	845	189	23	126
All other	803	829	617	319	282
Total recoveries	1,001	1,128	1,212	1,537	1,680
	10,179	7,876	4,139	3,913	4,355
Net charge-offs	(131,876)	(183,146)	(74,074)	(38,154)	(12,486)
Provision charged to operating expense	130,081	204,016	117,324	56,176	22,696
Other, net	-	-	-	(426)	6,153
Balance, end of period	\$ 195,118	\$ 196,913	\$ 176,043	\$ 132,793	\$ 115,197
Loans and leases, net of unearned income - average					
	\$ 9,159,431	\$ 9,621,529	\$ 9,734,580	\$ 9,429,963	\$ 8,784,940
Loans and leases, net of unearned income - period end					
	\$ 8,870,311	\$ 9,333,107	\$ 9,775,136	\$ 9,691,277	\$ 9,179,684

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Net charge-offs to average loans and leases	1.44	%	1.90	%	0.76	%	0.40	%	0.14	%
Provision for credit losses to average loans and leases, net of unearned income	1.42	%	2.12	%	1.21	%	0.60	%	0.26	%
Allowance for credit losses to loans and leases, net of unearned income	2.20	%	2.11	%	1.80	%	1.37	%	1.25	%
Allowance for credit losses to net charge-offs (annualized)	147.96	%	107.52	%	237.66	%	348.04	%	922.61	%

Net charge-offs decreased \$51.3 million, or 28.0%, in 2011 compared to 2010, and increased \$109.0 million, or 147.2%, in 2010 compared to 2009. Net charge-offs as a percentage of average loans and leases

decreased to 1.44% in 2011 compared to 1.90% in 2010 after having increased from 0.76% in 2009. These decreases were primarily a result of decreased losses within the real estate construction, acquisition and development and consumer mortgage segments of the Company's loan and lease portfolio. The losses experienced in these segments were primarily a result of the weakened financial condition of the corresponding borrowers and guarantors. These borrowers' weakened state hindered their ability to service their loans with the Company, which caused a number of loans to become collateral dependent. Once it is determined a loan's repayment is dependent upon the underlying collateral, the loan is charged down to net realizable value or a specific reserve is allocated to the loan. While this process resulted in an increased level of charge-offs in 2010, it resulted in a decreased level of charge-offs in 2011 as updated appraisals came in closer to loan carrying values. The decreased level of charge-offs in 2011 resulted in an increase in the ratio of the allowance for credit losses to annualized charge-offs to 147.96% after having declined to 107.52% in 2010.

The provision for credit losses decreased to \$130.1 million in 2011 compared to a provision of \$204.0 million in 2010 as a result of a decrease in net charge-offs, a decline in the formation of new non-accrual loans, including fewer loans being identified for impairment, continued stabilization in values of previously impaired loans, and a significant decrease in NPLs. The increase in the provision for credit losses in 2010 compared to 2009 was primarily a result of the significant declines in collateral values and the financial stress placed on borrowers as a result of the lackluster prevailing economic environment.

As of December 31, 2011 and 2010, 85% and 79%, respectively, of nonaccrual loans had been charged down to net realizable value or had specific reserves to reflect recent appraised values. As a result, impaired loans had an aggregate net book value of 68% and 67% of their contractual principal balance at December 31, 2011 and 2010, respectively. Nonaccrual loans not impaired are loans not determined to be collaterally dependant.

The breakdown of the allowance by loan and lease segment and class is based, in part, on evaluations of specific loan and lease histories and on economic conditions within specific industries or geographical areas. Accordingly, because all of these conditions are subject to change, the allocation is not necessarily indicative of the breakdown of any future allowance for losses. The following table presents (i) the breakdown of the allowance for credit losses by loan and lease segment and class and (ii) the percentage of each segment and class in the loan and lease portfolio to total loans and leases at the dates at December 31 of each of the years indicated:

	2011		2010		2009	
	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Commercial and industrial	\$20,724	16.6	\$22,479	16.1	\$21,154	15.1
Real estate						
Consumer mortgages	36,529	21.8	35,540	20.8	37,048	20.5
Home equity	8,630	5.8	7,305	5.8	7,218	5.6
Agricultural	3,921	2.7	4,997	2.7	4,192	2.7
Commercial and industrial-owner occupied	21,929	14.6	20,403	14.2	22,989	14.7
Construction, acquisition and development	45,562	10.2	59,048	12.5	46,193	14.9
Commercial	39,444	19.7	33,439	19.4	26,694	18.4
Credit cards	4,021	1.2	4,126	1.1	3,481	1.1
All other	14,358	7.4	9,576	7.4	7,074	&