

BANCORPSOUTH INC
Form 10-Q
May 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 001-12991

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

Mississippi
(State or other jurisdiction of incorporation or organization)

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

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

38804
(Zip Code)

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

NOT APPLICABLE
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

As of May 1, 2012, the registrant had outstanding 94,436,177 shares of common stock, par value \$2.50 per share.

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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011 (1)	March 31, 2011 (Unaudited)
	(Dollars in thousands, except per share amounts)		
ASSETS			
Cash and due from banks	\$ 184,441	\$ 195,681	\$ 146,989
Interest bearing deposits with other banks	665,675	303,663	102,312
Held-to-maturity securities, at amortized cost	-	-	1,667,203
Available-for-sale securities, at fair value	2,573,535	2,513,518	1,145,463
Federal funds sold and securities purchased under agreement to resell	-	-	150,000
Loans and leases	8,777,538	8,911,258	9,255,609
Less: Unearned income	39,615	40,947	41,773
Allowance for credit losses	181,777	195,118	198,333
Net loans	8,556,146	8,675,193	9,015,503
Loans held for sale	110,294	83,458	56,876
Premises and equipment, net	321,720	323,383	329,862
Accrued interest receivable	50,008	51,266	61,105
Goodwill	271,297	271,297	271,297
Bank-owned life insurance	202,698	200,085	194,988
Other real estate owned	167,808	173,805	136,412
Other assets	203,950	204,502	269,228
TOTAL ASSETS	\$ 13,307,572	\$ 12,995,851	\$ 13,547,238
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	\$ 2,260,012	\$ 2,269,799	\$ 2,027,990
Interest bearing	4,897,585	4,706,825	5,023,073
Savings	1,067,256	991,702	932,574
Other time	2,857,469	2,986,863	3,480,477
Total deposits	11,082,322	10,955,189	11,464,114
Federal funds purchased and securities sold under agreement to repurchase	401,089	373,933	421,782
Short-term Federal Home Loan Bank and other short-term borrowings	1,500	1,500	2,715
Accrued interest payable	7,652	8,644	13,238
Junior subordinated debt securities	160,312	160,312	160,312
Long-term Federal Home Loan Bank borrowings	33,500	33,500	110,000

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Other liabilities	228,998	199,861	164,016
TOTAL LIABILITIES	11,915,373	11,732,939	12,336,177
SHAREHOLDERS' EQUITY			
Common stock, \$2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 94,436,177, 83,483,796 and 83,481,737 shares, respectively	236,090	208,709	208,704
Capital surplus	309,426	227,567	225,597
Accumulated other comprehensive loss	(4,136)	(2,261)	(16,579)
Retained earnings	850,819	828,897	793,339
TOTAL SHAREHOLDERS' EQUITY	1,392,199	1,262,912	1,211,061
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 13,307,572	\$ 12,995,851	\$ 13,547,238

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2012	2011
	(In thousands, except for per share amounts)	
INTEREST REVENUE:		
Loans and leases	\$ 109,012	\$ 117,358
Deposits with other banks	401	122
Federal funds sold and securities purchased under agreement to resell	-	131
Held-to-maturity securities:		
Taxable	-	8,014
Tax-exempt	-	3,347
Available-for-sale securities:		
Taxable	11,162	8,585
Tax-exempt	4,256	824
Loans held for sale	544	447
Total interest revenue	125,375	138,828
INTEREST EXPENSE:		
Deposits:		
Interest bearing demand	4,449	6,546
Savings	714	826
Other time	11,291	17,483
Federal funds purchased and securities sold under agreement to repurchase	63	152
Federal Home Loan Bank borrowings	367	1,523
Junior subordinated debt	2,879	2,859
Other	2	2
Total interest expense	19,765	29,391
Net interest revenue	105,610	109,437
Provision for credit losses	10,000	53,479
Net interest revenue, after provision for credit losses	95,610	55,958
NONINTEREST REVENUE:		
Mortgage lending	15,142	7,581
Credit card, debit card and merchant fees	7,523	10,346
Service charges	15,116	15,368
Trust income	2,282	3,134
Security gains, net	74	17
Insurance commissions	23,153	22,549
Other	9,070	9,316
Total noninterest revenue	72,360	68,311

NONINTEREST EXPENSE:

Salaries and employee benefits	74,931	70,375
Occupancy, net of rental income	10,066	10,671
Equipment	5,333	5,658
Deposit insurance assessments	5,383	5,425
Other	39,967	37,881
Total noninterest expense	135,680	130,010
Income (loss) before income taxes	32,290	(5,741)
Income tax expense (benefit)	9,424	(5,247)
Net income (loss)	\$22,866	\$(494)
Earnings (loss) per share: Basic	\$0.25	\$(0.01)
Diluted	\$0.25	\$(0.01)
Dividends declared per common share	\$0.01	\$0.11

See accompanying notes to consolidated financial statements.

BANCORPSOUTH, INC. AND SUBSIDIARIES
 Consolidated Statements of Comprehensive Income

	Three months ended	
	March 31,	
	2012	2011
	(In thousands)	
Net income (loss)	\$22,866	\$(494)
Other comprehensive loss, net of tax		
Unrealized losses on securities, net of tax	(2,953)	(2,517)
Pension and other postretirement benefits	1,078	391
Other comprehensive loss	(1,875)	(2,126)
Comprehensive income	\$20,991	\$(2,620)

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Operating Activities:		
Net income	\$22,866	\$(494)
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	10,000	53,479
Depreciation and amortization	6,832	7,476
Deferred taxes	-	(145)
Amortization of intangibles	763	854
Amortization of debt securities premium and discount, net	2,820	1,813
Share-based compensation expense	562	617
Security gains, net	(74)	(17)
Net deferred loan origination expense	(2,006)	(2,127)
Excess tax benefit from exercise of stock options	-	(4)
Decrease (increase) in interest receivable	1,258	(80)
Decrease in interest payable	(992)	(1,098)
Realized gain on mortgages sold	(11,879)	(7,486)
Proceeds from mortgages sold	376,931	244,030
Origination of mortgages held for sale	(395,149)	(202,796)
Increase in bank-owned life insurance	(2,612)	(924)
Decrease (increase) in prepaid pension asset	465	(93)
Decrease in prepaid deposit insurance assessments	5,187	4,887
Other, net	29,584	(18,026)
Net cash provided by operating activities	44,556	79,866
Investing activities:		
Proceeds from calls and maturities of held-to-maturity securities	-	88,896
Proceeds from calls and maturities of available-for-sale securities	131,578	22,576
Purchases of held-to-maturity securities	-	(143,549)
Purchases of available-for-sale securities	(199,404)	(77,349)
Net decrease in loans and leases	117,050	66,339
Purchases of premises and equipment	(5,925)	(4,453)
Proceeds from sale of premises and equipment	906	17
Contingency earn-out payment	-	(1,200)
Other, net	(8)	(16)
Net cash provided by (used in) investing activities	44,197	(48,739)
Financing activities:		
Net increase (decrease) in deposits	127,133	(25,907)
Net increase (decrease) in short-term debt and other liabilities	27,153	(18,826)
Issuance of common stock	108,677	-
Excess tax benefit from exercise of stock options	-	4
Payment of cash dividends	(944)	(9,183)

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Net cash provided by (used in) financing activities	262,019	(53,912)
Increase (decrease) in cash and cash equivalents	350,772	(22,785)
Cash and cash equivalents at beginning of period	499,344	272,086
Cash and cash equivalents at end of period	\$850,116	\$249,301

See accompanying notes to consolidated financial statements.

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

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

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal, recurring nature. The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year. Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

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

NOTE 2 – LOANS AND LEASES

The Company’s loan and lease portfolio is disaggregated into the following segments: commercial and industrial; real estate; credit card; and all other loans and leases. The real estate segment is further disaggregated into the following classes: consumer mortgage; home equity; agricultural; commercial and industrial-owner occupied; construction, acquisition and development; and commercial real estate. A summary of gross loans and leases by segment and class as of the dates indicated follows:

	2012	March 31, 2011	December 31, 2011
	(In thousands)		
Commercial and industrial	\$ 1,452,492	\$ 1,497,380	\$ 1,484,967
Real estate			
Consumer mortgages	1,937,997	1,958,367	1,945,190
Home equity	501,331	531,406	514,362
Agricultural	256,683	250,393	239,487
Commercial and industrial-owner occupied	1,287,542	1,316,824	1,301,575
Construction, acquisition and development	858,110	1,117,335	908,362
Commercial real estate	1,742,001	1,831,226	1,754,022
Credit cards	100,527	100,732	106,281
All other	640,855	651,946	657,012
Total	\$ 8,777,538	\$ 9,255,609	\$ 8,911,258

The following table shows the Company's loans and leases, net of unearned income, as of March 31, 2012 by segment, class and geographical location:

	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other	Total
	(In thousands)								
Commercial and industrial	\$56,958	\$165,503	\$333,153	\$51,881	\$16,991	\$78,288	\$249,569	\$489,384	\$1,441,727
Real estate									
Consumer mortgages	108,285	270,476	757,160	55,566	82,585	166,615	444,094	53,216	1,937,997
Home equity	57,995	39,922	170,628	24,849	67,484	75,894	62,253	2,306	501,331
Agricultural	5,775	83,839	72,900	3,937	9,262	13,199	62,470	5,301	256,683
Commercial and industrial-owner occupied	114,985	166,065	453,201	68,002	95,874	95,133	244,967	49,315	1,287,542
Construction, acquisition and development	104,362	69,566	244,459	48,115	95,198	92,608	185,781	18,021	858,110
Commercial real estate	203,365	342,591	342,816	219,999	115,186	101,142	362,700	54,202	1,742,001
Credit cards	-	-	-	-	-	-	-	100,527	100,527
All other	31,347	88,646	195,309	5,662	57,105	47,204	95,521	91,211	612,005
Total	\$683,072	\$1,226,608	\$2,569,626	\$478,011	\$539,685	\$670,083	\$1,707,355	\$863,483	\$8,737,923

* Excludes the Greater Memphis Area.

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

The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by segment and class at March 31, 2012 and December 31, 2011:

	March 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding	90+ Days Past Due still

Accruing

(In thousands)

Commercial and industrial	\$3,831	\$1,511	\$3,392	\$8,734	\$1,432,993	\$1,441,727	\$10
Real estate							
Consumer mortgages	10,482	4,776	17,830	33,088	1,904,909	1,937,997	1,314
Home equity	1,832	769	288	2,889	498,442	501,331	-
Agricultural	638	25	1,518	2,181	254,502	256,683	-
Commercial and industrial-owner occupied	2,493	1,601	8,603	12,697	1,274,845	1,287,542	-
Construction, acquisition and development	9,860	331	16,142	26,333	831,777	858,110	-
Commercial real estate	5,165	1,540	8,979	15,684	1,726,317	1,742,001	-
Credit cards	377	360	587	1,324	99,203	100,527	228
All other	1,740	359	372	2,471	609,534	612,005	146
Total	\$36,418	\$11,272	\$57,711	\$105,401	\$8,632,522	\$8,737,923	\$1,698

December 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current	Total Outstanding	90+ Days Past Due still Accruing
Commercial and industrial	\$5,571	\$4,209	\$4,193	\$13,973	\$1,459,755	\$1,473,728	\$12
Real estate							
Consumer mortgages	15,740	6,485	14,569	36,794	1,908,396	1,945,190	2,974
Home equity	1,837	265	594	2,696	511,666	514,362	-
Agricultural	666	54	719	1,439	238,048	239,487	-
Commercial and industrial-owner occupied	2,199	844	12,977	16,020	1,285,555	1,301,575	-
Construction, acquisition and development	4,826	4,955	33,584	43,365	864,997	908,362	-
Commercial real estate	3,778	2,702	9,397	15,877	1,738,145	1,754,022	-
Credit cards	595	303	697	1,595	104,686	106,281	299
All other	2,124	390	1,579	4,093	623,211	627,304	149
Total	\$37,336	\$20,207	\$78,309	\$135,852	\$8,734,459	\$8,870,311	\$3,434

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

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

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

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

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

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

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

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The following tables provide details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at March 31, 2012 and December 31, 2011:

	March 31, 2012						Total
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	
	(In thousands)						
Commercial and industrial	\$1,376,983	\$6,449	\$47,783	\$4,159	\$247	\$6,106	\$1,441,727
Real estate							
Consumer mortgage	1,729,187	23,918	151,679	4,351	446	28,416	1,937,997
Home equity	476,300	2,793	19,626	754	275	1,583	501,331
Agricultural	229,865	1,936	21,763	20	-	3,099	256,683
Commercial and industrial-owner occupied	1,151,368	24,662	83,041	230	89	28,152	1,287,542
Construction, acquisition and development	601,396	22,939	121,556	956	-	111,263	858,110
Commercial real estate	1,491,021	47,535	171,891	72	-	31,482	1,742,001
Credit Cards	100,527	-	-	-	-	-	100,527
All other	575,399	16,685	18,222	678	10	1,011	612,005
Total	\$7,732,046	\$146,917	\$635,561	\$11,220	\$1,067	\$211,112	\$8,737,923

	December 31, 2011						Total
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	
	(In thousands)						
Commercial and industrial	\$1,415,731	\$4,947	\$43,549	\$1,263	\$405	\$7,833	\$1,473,728
Real estate							
Consumer mortgage	1,742,593	17,914	148,267	4,434	189	31,793	1,945,190
Home equity	492,235	2,775	17,050	1,134	493	675	514,362
Agricultural	213,280	3,795	19,296	20	-	3,096	239,487
Commercial and industrial-owner occupied	1,167,220	18,280					