

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

OR

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

For the transition period from _____ to _____

Commission File Number: 001-12991

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

Mississippi
(State or other jurisdiction of incorporation or organization)

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

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

38804
(Zip Code)

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

NOT APPLICABLE

(Former name, former address, and former fiscal year, if changed since last report)

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

Yes No

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

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

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

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

BANCORPSOUTH, INC.
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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

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

SHAREHOLDERS' EQUITY

Common stock, \$2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 95,174,441, 94,549,867 and 94,436,177 shares, respectively	237,936	236,375	236,090
Capital surplus	311,091	311,909	309,426
Accumulated other comprehensive loss	(13,120)	(8,646)	(4,136)
Retained earnings	929,273	909,414	850,819
TOTAL SHAREHOLDERS' EQUITY	1,465,180	1,449,052	1,392,199
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$13,393,135	\$13,397,198	\$13,307,572

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

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

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

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

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

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal, recurring nature. The results of operations for the three-month period ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year. Certain 2012 amounts have been reclassified to conform with the 2013 presentation.

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

NOTE 2 – LOANS AND LEASES

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

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

The following table shows the Company's loans and leases, net of unearned income, as of March 31, 2013 by segment, class and geographical location:

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

* Excludes the Greater Memphis Area.

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

The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by segment and class at March 31, 2013 and December 31, 2012:

March 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current	Total Outstanding	90+ Days Past Due still Accruing
Commercial and industrial	\$1,704	\$145	\$2,188	\$4,037	\$1,476,879	\$1,480,916	\$22
Real estate							
Consumer mortgages	12,110	2,535	15,155	29,800	1,841,512	1,871,312	842
Home equity	2,429	1,208	377	4,014	478,384	482,398	-
Agricultural	756	170	3,284	4,210	245,257	249,467	-
Commercial and industrial-owner occupied	1,234	1,509	2,951	5,694	1,329,280	1,334,974	-
Construction, acquisition and development	2,965	4,007	12,329	19,301	708,791	728,092	-
Commercial real estate	1,613	58	11,764	13,435	1,726,098	1,739,533	-
Credit cards	420	266	492	1,178	97,625	98,803	261
All other	1,242	333	410	1,985	594,058	596,043	-
Total	\$24,473	\$10,231	\$48,950	\$83,654	\$8,497,884	\$8,581,538	\$1,125

December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due (In thousands)	Current	Total Outstanding	90+ Days Past Due still Accruing
Commercial and industrial	\$3,531	\$476	\$4,118	\$8,125	\$1,468,486	\$1,476,611	\$414
Real estate							
Consumer mortgages	11,308	3,643	13,821	28,772	1,845,103	1,873,875	512
Home equity	1,337	371	350	2,058	484,016	486,074	-
Agricultural	400	287	3,946	4,633	251,563	256,196	10
Commercial and industrial-owner occupied	2,629	3,587	2,933	9,149	1,323,954	1,333,103	19
Construction, acquisition and development	2,547	2,472	14,790	19,809	715,999	735,808	-
Commercial real estate	4,673	56	10,469	15,198	1,733,683	1,748,881	-
Credit cards	536	379	473	1,388	103,496	104,884	228
All other	2,354	253	445	3,052	618,505	621,557	27
Total	\$29,315	\$11,524	\$51,345	\$92,184	\$8,544,805	\$8,636,989	\$1,210

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

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

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

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

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

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

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

The following tables provide details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at March 31, 2013 and December 31, 2012:

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

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

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

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

	March 31, 2013				
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Commercial and industrial	\$2,085	\$3,800	\$-	\$2,641	\$-
Real estate					
Consumer mortgage	10,537	14,357	-	12,331	16
Home equity	1,595	1,739	-	1,476	3
Agricultural	4,289	4,777	-	4,568	4
Commercial and industrial-owner occupied	9,586	12,513	-	12,040	33
Construction, acquisition and development	35,312	52,293	-	42,612	55
Commercial real estate	41,154	56,017	-	39,808	71
All other	1,234	1,683	-	1,247	3
Total	\$105,792	\$147,179	\$-	\$116,723	\$185
With an allowance:					
Commercial and industrial	\$1,374	\$1,374	\$763	\$1,465	\$-
Real estate					
Consumer mortgage	5,943	6,601	1,962	3,104	2
Home equity	442	442	32	291	-
Agricultural	555	555	215	368	-
Commercial and industrial-owner occupied	4,632	5,553	1,361	4,593	3
Construction, acquisition and development	10,504	12,828	5,864	9,229	25
Commercial real estate	8,549	8,908	1,461	11,037	16
All other	-	-	-	-	-
Total	\$31,999	\$36,261	\$11,658	\$30,087	\$46
Total:					
Commercial and industrial	\$3,459	\$5,174	\$763	\$4,106	\$-
Real estate					
Consumer mortgage	16,480	20,958	1,962	15,435	18
Home equity	2,037	2,181	32	1,767	3
Agricultural	4,844	5,332	215	4,936	4
Commercial and industrial-owner occupied	14,218	18,066	1,361	16,633	36
Construction, acquisition and development	45,816	65,121	5,864	51,841	80
Commercial real estate	49,703	64,925	1,461	50,845	87
All other	1,234	1,683	-	1,247	3
Total	\$137,791	\$183,440	\$11,658	\$146,810	\$231

	December 31, 2012				
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With no related allowance:					
Commercial and industrial	\$2,557	\$4,169	\$-	\$2,779	\$12
Real estate					
Consumer mortgage	11,307	15,464	-	11,762	77
Home equity	934	1,078	-	858	6
Agricultural	4,435	6,292	-	3,527	8
Commercial and industrial-owner occupied	13,018	16,551	-	12,674	123
Construction, acquisition and development	47,982	69,331	-	54,085	324
Commercial real estate	33,952	45,722	-	19,824	199
All other	1,544	2,165	-	848	9
Total	\$115,729	\$160,772	\$-	\$106,357	\$758
With an allowance:					
Commercial and industrial	\$2,288	\$2,288	\$1,241	\$5,368	\$38
Real estate					
Consumer mortgage	3,800	3,914	1,103	10,323	88
Home equity	446	446	111	569	5
Agricultural					