BANCORPSOUTH INC
Form 10-Q
November 07, 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 September 30, 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	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

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 [X] 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). [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer [X] 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 [X]

As of November 1, 2013, the registrant had outstanding 95,213,534 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

	September 30, 2013 (Unaudited)	December 31, 2012 (1)	September 30, 2012 (Unaudited)
	(Dollars in thousands, except per share amounts)		
ASSETS			
Cash and due from banks	$ 199,464	$ 223,814	$ 176,529
Interest bearing deposits with other banks	361,401	979,800	757,207
Available-for-sale securities, at fair value	2,554,156	2,434,032	2,483,606
Loans and leases	8,806,392	8,672,752	8,716,715
Less: Unearned income	33,277	35,763	36,746
Allowance for credit losses	153,974	164,466	169,019
Net loans and leases	8,619,141	8,472,523	8,510,950
Loans held for sale	77,114	129,138	129,408
Premises and equipment, net	314,441	319,456	321,068
Accrued interest receivable	43,034	44,356	48,314
Goodwill	275,173	275,173	275,173
Bank-owned life insurance	236,969	231,120	203,798
Other real estate owned	76,853	103,248	128,211
Other assets	158,407	184,538	201,473
TOTAL ASSETS	$ 12,916,153	$ 13,397,198	$ 13,235,737
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	$ 2,597,762	$ 2,545,169	$ 2,492,508
Interest bearing	4,493,359	4,799,496	4,697,260
Savings	1,220,227	1,145,785	1,103,490
Other time	2,406,598	2,597,696	2,681,382
Total deposits	10,717,946	11,088,146	10,974,640
Federal funds purchased and securities sold under agreement to repurchase	418,623	414,611	377,676
Accrued interest payable	5,156	6,140	6,759
Junior subordinated debt securities	31,446	160,312	160,312
Long-term debt	83,500	33,500	33,500
Other liabilities	178,871	245,437	236,147
TOTAL LIABILITIES	11,435,542	11,948,146	11,789,034
SHAREHOLDERS' EQUITY			
Common stock, $2.50 par value per share			

Authorized - 500,000,000 shares; Issued - 95,211,602,			
94,549,867 and 94,440,710 shares, respectively	238,029	236,375	236,102
Capital surplus	312,798	311,909	311,271
Accumulated other comprehensive (loss) income	(39,389)	(8,646)	5,952
Retained earnings	969,173	909,414	893,378
TOTAL SHAREHOLDERS' EQUITY	1,480,611	1,449,052	1,446,703
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,916,153	$ 13,397,198	$ 13,235,737

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
	(In thousands, except for per share amounts)			
INTEREST REVENUE:				
Loans and leases	$ 98,836	$ 105,937	$ 296,452	$ 322,686
Deposits with other banks	310	399	1,395	1,182
Federal funds sold and securities purchased under agreement to resell	-	2	-	3
Available-for-sale securities:				
Taxable	8,218	9,329	25,323	30,679
Tax-exempt	3,866	4,109	11,737	12,575
Loans held for sale	731	974	2,090	2,204
Total interest revenue	111,961	120,750	336,997	369,329
INTEREST EXPENSE:				
Deposits:				
Interest bearing demand	2,061	3,889	7,609	12,523
Savings	383	686	1,318	2,091
Other time	7,271	9,482	22,983	31,048
Federal funds purchased and securities sold under agreement to repurchase	80	73	213	202
Federal Home Loan Bank borrowings	350	364	1,047	1,097
Junior subordinated debt	1,424	2,875	7,141	8,633
Other	151	2	154	5
Total interest expense	11,720	17,371	40,465	55,599
Net interest revenue	100,241	103,379	296,532	313,730
Provision for credit losses	500	6,000	7,500	22,000
Net interest revenue, after provision for credit losses	99,741	97,379	289,032	291,730
NONINTEREST REVENUE:				
Mortgage lending	5,134	13,549	35,372	39,731
Credit card, debit card and merchant fees	8,834	8,270	24,681	23,580
Deposit service charges	13,679	14,189	39,335	43,002
Trust income	3,332	3,101	9,734	8,522
Security (losses) gains, net	(5)	39	17	290
Insurance commissions	23,800	23,519	76,303	69,636
Other	7,740	7,753	24,499	24,487
Total noninterest revenue	62,514	70,420	209,941	209,248
NONINTEREST EXPENSE:				
Salaries and employee benefits	73,532	74,829	231,230	227,421
Occupancy, net of rental income	10,360	10,944	31,174	31,497

Equipment	4,555	5,083	14,088	15,540
Deposit insurance assessments	3,325	3,998	9,068	13,375
Voluntary early retirement expense	-	-	10,850	-
Write-off and amortization of bond issue cost	2,907	38	2,983	114
Other	34,718	38,896	107,626	118,027
Total noninterest expense	129,397	133,788	407,019	405,974
Income before income taxes	32,858	34,011	91,954	95,004
Income tax expense	8,001	10,186	25,537	27,689
Net income	$ 24,857	$ 23,825	$ 66,417	$ 67,315
Earnings per share: Basic	$ 0.26	$ 0.25	$ 0.70	$ 0.72
Diluted	$ 0.26	$ 0.25	$ 0.70	$ 0.72
Dividends declared per common share	$ 0.05	$ 0.01	$ 0.07	$ 0.03

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(In thousands)			
Net income	$ 24,857	$ 23,825	$ 66,417	$ 67,315
Other comprehensive (loss) income, net of tax				
Unrealized (losses) gains on securities	(881)	4,183	(33,220)	6,306
Pension and other postretirement benefits	825	435	2,477	1,907
Other comprehensive (loss) income, net of tax	(56)	4,618	(30,743)	8,213
Comprehensive income	$ 24,801	$ 28,443	$ 35,674	$ 75,528

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2013	2012
	(In thousands)	
Operating Activities:		
Net income	$ 66,417	$ 67,315
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	7,500	22,000
Depreciation and amortization	19,874	20,336
Deferred taxes	(3,002)	-
Amortization of intangibles	2,151	2,366
Amortization of debt securities premium and discount, net	11,514	9,794
Share-based compensation expense	2,017	2,363
Security gains, net	(17)	(290)
Net deferred loan origination expense	(5,845)	(6,088)
Excess tax benefit from exercise of stock options	68	-
Decrease in interest receivable	1,322	2,952
Decrease in interest payable	(984)	(1,885)
Realized gain on mortgages sold	(42,343)	(49,030)
Proceeds from mortgages sold	1,301,266	1,448,252
Origination of mortgages held for sale	(1,202,701)	(1,447,087)
Loss on other real estate owned, net	5,325	20,447
Increase in bank-owned life insurance	(5,849)	(3,713)
Decrease in prepaid pension asset	15,175	3,401
Decrease in prepaid deposit insurance assessments	-	11,086
Other, net	(11,985)	7,377
Net cash provided by operating activities	159,903	109,596
Investing activities:		
Proceeds from calls and maturities of available-for-sale securities	408,824	386,658
Proceeds from sales of available-for-sale securities	-	2,812
Purchases of available-for-sale securities	(617,203)	(348,905)
Net (increase) decrease in loans and leases	(169,671)	124,393
Purchases of premises and equipment	(18,077)	(18,815)
Proceeds from sale of premises and equipment	3,047	1,063
Proceeds from sale of other real estate owned	41,617	50,029
Other, net	108	(23)
Net cash (used in) provided by investing activities	(351,355)	197,212
Financing activities:		
Net (decrease) increase in deposits	(370,200)	19,452
Net increase in short-term debt and other liabilities	4,000	2,232
Advances of long-term debt	50,000	-
Redemption of Junior Subordinated Debt	(128,866)	-
Issuance of common stock	459	108,733
Excess tax benefit from exercise of stock options	(68)	-

Payment of cash dividends	(6,622)	(2,833)
Net cash (used in) provided by financing activities	(451,297)	127,584
(Decrease) increase in cash and cash equivalents	(642,749)	434,392
Cash and cash equivalents at beginning of period	1,203,614	499,344
Cash and cash equivalents at end of period	$ 560,865	$ 933,736

See accompanying notes to consolidated financial statements, specifically Note 18.

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 and nine-month periods ended September 30, 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, 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:

	September 30, 2013	2012	December 31, 2012
	(In thousands)		

Commercial and industrial	$ 1,510,035	$ 1,471,563	$ 1,484,788
Real estate			
Consumer mortgages	1,931,171	1,888,783	1,873,875
Home equity	490,361	492,833	486,074
Agricultural	234,547	257,733	256,196
Commercial and industrial-owner occupied	1,422,077	1,309,631	1,333,103
Construction, acquisition and development	723,609	823,692	735,808
Commercial real estate	1,795,352	1,738,516	1,748,881
Credit cards	105,112	101,405	104,884
All other	594,128	632,559	649,143
Total	$ 8,806,392	$ 8,716,715	$ 8,672,752

The following table shows the Company's loans and leases, net of unearned income, as of September 30, 2013 by segment, class and geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas an Louisian
Commercial and industrial	$ 82,158	$ 167,672	$ 280,961	$ 30,080	$ 22,350	$ 81,512	$ 25
Real estate							
Consumer mortgages	119,583	254,133	696,396	61,622	97,748	156,788	484,890
Home equity	64,712	39,351	164,095	21,443	67,668	68,951	61,879
Agricultural	8,570	74,355	55,503	3,918	15,212	11,869	60,186
Commercial and industrial-owner occupied	165,153	174,315	471,711	60,402	96,102	86,582	277,303
Construction, acquisition and development	91,974	67,271	185,174	26,834	79,615	104,400	135,489
Commercial real estate	264,623	303,769	276,522	195,627	101,268	96,988	408,417
Credit cards	-	-	-	-	-	-	-
All other	35,094	60,041	154,391	2,661	48,839	40,976	88,651
Total	$ 831,867	$ 1,140,907	$ 2,284,753	$ 402,587	$ 528,802	$ 648,066	$ 1,77

* 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 September 30, 2013 and December 31, 2012:

	September 30, 2013						
	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	$ 1,553	$ 580	$ 1,595	$ 3,728	$ 1,500,081	$ 1,503,809	$ 15
Real estate							
Consumer mortgages	11,488	2,928	13,004	27,420	1,903,751	1,931,171	1,178
Home equity	1,095	280	569	1,944	488,417	490,361	-
Agricultural	740	22	3,145	3,907	230,640	234,547	-
Commercial and industrial-owner occupied	1,355	3,619	1,440	6,414	1,415,663	1,422,077	-
Construction, acquisition and development	4,525	247	9,210	13,982	709,627	723,609	-
Commercial real estate	7,912	752	8,733	17,397	1,777,955	1,795,352	-
Credit cards	462	290	286	1,038	104,074	105,112	263
All other	1,600	223	455	2,278	564,799	567,077	23
Total	$ 30,730	$ 8,941	$ 38,437	$ 78,108	$ 8,695,007	$ 8,773,115	$ 1,479

	December 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	$ 3,531	$ 476	$ 4,118	$ 8,125	$ 1,468,486	$ 1,476,611	$ 414
Real estate							
	11,308	3,643	13,821	28,772	1,845,103	1,873,875	512

Consumer mortgages							
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.

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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 September 30, 2013 and December 31, 2012:

	September 30, 2013						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	$ 1,461,578	$ 7,774	$ 31,596	$ -	$ -	$ 2,861	$ 1,503,809
Real estate							
Consumer mortgages	1,794,492	22,114	103,987	918	-	9,660	1,931,171
Home equity	471,418	2,569	15,069	-	-	1,305	490,361
Agricultural	210,065	3,044	17,816	-	-	3,622	234,547
Commercial and industrial-owner occupied	1,343,131	12,632	52,992	475	105	12,742	1,422,077
Construction, acquisition and development	637,448	8,450	53,498	1,027	-	23,186	723,609
Commercial real estate	1,668,562	17,266	83,226	412	-	25,886	1,795,352

Credit cards	105,112	-	-	-	-	-	105,112
All other	548,402	4,497	13,695	-	-	483	567,077
Total	$ 8,240,208	$ 78,346	$ 371,879	$ 2,832	$ 105	$ 79,745	$ 8,773,115

	December 31, 2012						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	$ 1,426,498	$ 14,663	$ 29,876	$ 729	$ -	$ 4,845	$ 1,476,611
Real estate							
Consumer mortgages	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
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 and nine months ended September 30, 2013 and as of and for the year ended December 31, 2012:

	September 30, 2013						
				Average Recorded Investment		Interest Income Recognized	
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Three months ended September 30, 2013	Nine months ended September 30, 2013	Three months ended September 30, 2013	Nine month ended September 3 2013
	(In thousands)						
With no related allowance:							
Commercial and industrial	$ 2,861	$ 3,244	$ -	$ 2,868	$ 2,792	$ 6	$
Real estate:							
Consumer mortgages	7,917	10,698	-	9,779	10,041	20	48
Home equity	873	911	-	694	1,007	1	4
Agricultural	3,622	4,219	-	3,630	3,809	-	4
Commercial and industrial-owner occupied	9,714	12,173	-	7,514	8,306	23	60
Construction, acquisition and development	16,666	25,026	-	19,708	30,212	17	89
Commercial real estate	18,613	25,724	-	18,900	27,513	33	140
All other	483	776	-	489	786	2	6
Total	$ 60,749	$ 82,771	$ -	$ 63,582	$ 84,466	$ 102	$ 3
With an allowance:							
Commercial and industrial	$ -	$ -	$ 283	$ 123	$ 788	$ -	$
Real estate:							
Consumer mortgages	1,743	1,743	489	3,059	4,037	11	24
Home equity	432	432	23	337	593	-	2
Agricultural	-	-	-	39	439	-	2
Commercial and industrial-owner occupied	3,028	3,090	1,119	4,417	5,434	18	52
Construction, acquisition and development	6,520	6,666	1,637	5,087	8,692	9	63
	7,273	12,253	292	12,008	13,033	4	51

Commercial real estate							
All other	-	-	-	-	-	-	-
Total	$ 18,996	$ 24,184	$ 3,843	$ 25,070	$ 33,016	$ 42	$ 1
Total:							
Commercial and industrial	$ 2,861	$ 3,244	$ 283	$ 2,991	$ 3,580	$ 6	$
Real estate:							
Consumer mortgages	9,660	12,441	489	12,838	14,078	31	72
Home equity	1,305	1,343	23	1,031	1,600	1	6
Agricultural	3,622	4,219	-	3,669	4,248	-	6
Commercial and industrial-owner occupied	12,742	15,263	1,119	11,931	13,740	41	112
Construction, acquisition and development	23,186	31,692	1,637	24,795	38,904	26	152
Commercial real estate	25,886	37,977	292	30,908	40,546	37	191
All other	483	776	-	489	786	2	6
Total	$ 79,745	$ 106,955	$ 3,843	$ 88,652	$ 117,482	$ 144	$ 5

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	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 mortgages	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 mortgages	3,800	3,914	1,103	10,323	88
Home equity	446	446	111	569	5
Agricultural	947	947	92	1,468	12
Commercial and industrial-owner occupied	3,702	4,737	864	9,977	65
Construction, acquisition and development	13,353	16,257	4,350	45,582	377
Commercial real estate	16,461	16,709	2,720	16,953	204
All other	2	2	60	324	3
Total	$ 40,999	$ 45,300	$ 10,541	$ 90,564	$ 792
Total:					
	$ 4,845	$ 6,457	$ 1,241	$ 8,147	$ 50

Commercial and industrial					
Real estate:					
Consumer mortgages	15,107	19,378	1,103	22,085	165
Home equity	1,380	1,524	111	1,427	11
Agricultural	5,382	7,239	92	4,995	20
Commercial and industrial-owner occupied	16,720	21,288	864	22,651	188
Construction, acquisition and development	61,335	85,588	4,350	99,667	701
Commercial real estate	50,413	62,431	2,720	36,777	403
All other	1,546	2,167	60	1,172	12
Total	$ 156,728	$ 206,072	$ 10,541	$ 196,921	$ 1,550

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The following tables provide details regarding impaired real estate construction, acquisition and development loans and leases, net of unearned income, by collateral type as of and for the three months and nine months ended September 30, 2013 and as of and for the year ended December 31, 2012:

	September 30, 2013						
				Average Recorded Investment		Interest Income Recognized	
	Recorded Investment in Impaired Loans	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Three months ended September 30, 2013	Nine months ended September 30, 2013	Three months ended September 30, 2013	Nine months ended September 30, 2013
	(In thousands)						
With no related allowance:							
Multi-family construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -
One-to-four family construction	2,638	4,147	-	3,916	5,675	6	25
Recreation and all other loans	744	790	-	750	872	-	1
Commercial construction	126	464	-	126	2,060	-	1
Commercial acquisition and development	7,579	8,664	-	8,572	10,164	5	35
Residential acquisition and development	5,579	10,961	-	6,344	11,441	6	27
Total	$ 16,666	$ 25,026	$ -	$ 19,708	$ 30,212	$ 17	$ 89
With an allowance:							
Multi-family construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -
One-to-four family	-	-	-	86	442	-	3

construction							
Recreation and all other loans	-	-	-	-	-	-	-
Commercial construction	1,461	1,461	629	476	672	3	11
Commercial acquisition and development	2,539	2,620	244	1,636	1,607	2	10
Residential acquisition and development	2,520	2,585	764	2,889	5,971	4	39
Total	$ 6,520	$ 6,666	$ 1,637	$ 5,087	$ 8,692	$ 9	$ 63
Total:							
Multi-family construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -
One-to-four family construction	2,638	4,147	-	4,002	6,117	6	28
Recreation and all other loans	744	790	-	750	872	-	1
Commercial construction	1,587	1,925	629	602	2,732	3	12
Commercial acquisition and development	10,118	11,284	244	10,208	11,771	7	45
Residential acquisition and development	8,099	13,546	764	9,233	17,412	10	66
Total	$ 23,186	$ 31,692	$ 1,637	$ 24,795	$ 38,904	$ 26	$ 152

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

Loans considered impaired under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 310, Receivables (“FASB ASC 310”), are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's recorded investment in loans considered impaired at September 30, 2013 and December 31, 2012 was $79.7 million and $156.7 million, respectively. At September 30, 2013 and December 31, 2012, $19.0 million and $41.0 million, respectively, of those impaired loans had a valuation allowance of $3.8 million and $10.5 million, respectively. The remaining balance of impaired loans of $60.7 million and $115.7 million at September 30, 2013 and December 31, 2012, respectively, were charged down to fair value, less estimated selling costs which approximated net realizable value. Therefore, such loans did not have an associated valuation allowance. Impaired loans that were characterized as troubled debt restructurings ("TDRs") totaled $25.0 million and $47.3 million at September 30, 2013 and December 31, 2012, respectively. The average recorded investment in impaired loans was $88.7 million and $117.5 million for the three months and nine months ended September 30, 2013, respectively, and $196.9 million for the year ended December 31, 2012.

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

	September 30, 2013	September 30, 2012	December 31, 2012
	(In thousands)		
Non-accrual loans and leases	$ 121,353	$ 219,738	$ 207,241
Loans and leases 90 days or more past due, still accruing	1,479	1,442	1,210
Restructured loans and leases still accruing	21,502	26,147	25,099
Total non-performing loans and leases	$ 144,334	$ 247,327	$ 233,550

The Bank's policy for all loan classifications provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless such loan or lease is both well-secured and in the process of collection. At September 30, 2013, the Company's geographic NPL distribution was concentrated primarily in its Alabama, Mississippi and Tennessee markets, including the greater Memphis, Tennessee area, a portion of which is in northwest Mississippi and Arkansas. The following table presents the Company's nonaccrual loans and leases by segment and class as of the dates indicated:

	September 30, 2013	September 30, 2012	December 31, 2012
	(In thousands)		
Commercial and industrial	$ 5,498	$ 8,674	$ 9,311
Real estate			
Consumer mortgages	30,569	35,599	36,133
Home equity	3,287	3,471	3,497
Agricultural	4,086	7,190	7,587
Commercial and industrial-owner occupied	18,138	27,059	20,910
Construction, acquisition and development	26,127	92,351	66,635
Commercial real estate	31,468	40,514	57,656
Credit cards	196	465	415
All other	1,984	4,415	5,097

Total	$ 121,353	$ 219,738	$ 207,241

In the normal course of business, management will sometimes grant concessions, which would not otherwise be considered, to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. Other conditions that warrant a loan being considered a TDR include reductions in interest rates to below market rates due to bankruptcy plans or by the bank in an attempt to assist the borrower in working through liquidity problems. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. TDRs recorded as nonaccrual loans may generally be returned to accrual status in periods after the restructure if there has been at least a six-month period of sustained repayment performance by the borrower in accordance with the terms of the restructured loan and the interest rate at the time of restructure was at or above market for a comparable loan. During the third quarter of 2013, the most common concessions that were granted involved rescheduling payments of principal and interest over a longer amortization period, granting a period of reduced principal payment or interest only payment for a limited time period, or the rescheduling of payments in accordance with a bankruptcy plan.

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

	Three months ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Commercial and industrial	1	$ 835	$ 835
Real estate			
Consumer mortgages	10	452	451
Commercial and industrial-owner occupied	2	2,234	2,231
Commercial real estate	3	1,406	1,403
All other	3	1,112	1,112
Total	19	$ 6,039	$ 6,032

	Nine months ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)		
Commercial and industrial	3	$ 919	$ 919
Real estate			
Consumer mortgages	16	1,233	1,231
Home equity	1	15	-
Commercial and industrial-owner occupied	7	3,361	3,358
Construction, acquisition and development	12	2,568	2,546
Commercial real estate	4	1,574	1,570
All other	3	1,112	1,112
Total	46	$ 10,782	$ 10,736

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

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

	Three months ended September 30, 2013		
	Number of Contracts	Recorded Investment	
	(Dollars in thousands)		
Real estate			
Consumer mortgages	2	$	129
Commercial and industrial-owner occupied	2	464	
Construction, acquisition and development	1	351	
Total	5	$	944

	Nine months ended September 30, 2013		
	Number of Contracts	Recorded Investment	
	(Dollars in thousands)		
Commercial and industrial	3	$	129
Real estate			
Consumer mortgages	7	580	
Commercial and industrial-owner occupied	5	730	
Construction, acquisition and development	3	1,874	
Commercial real estate	3	3,534	
All other	1	1	
Total	22	$	6,848

Year ended December 31, 2012

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

NOTE 3 – ALLOWANCE FOR CREDIT LOSSES

The following tables summarize the changes in the allowance for credit losses by segment and class for the periods indicated:

	Nine months ended September 30, 2013				
	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	$ 23,286	$ (3,835)	$ 2,156	$ (2,275)	$ 19,332
Real estate					
Consumer mortgages	35,966	(7,724)	3,332	4,793	36,367
Home equity	6,005	(1,182)	510	327	5,660
Agricultural	3,301	(498)	181	(182)	2,802
Commercial and industrial-owner occupied	20,178	(2,814)	1,990	(1,640)	17,714
Construction, acquisition and development	21,905	(4,961)	2,199	(6,218)	12,925
Commercial real estate	40,081	(9,302)	4,194	9,815	44,788
Credit cards	3,611	(1,757)	496	1,232	3,582
All other	10,133	(1,791)	814	1,648	10,804
Total	$ 164,466	$ (33,864)	$ 15,872	$ 7,500	$ 153,974

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

Nine months ended
September 30, 2012

	Balance, Beginning of Period	Charge-offs	Recoveries	Provision	Balance, End of Period
	(In thousands)				
Commercial and industrial	$ 20,724	$ (10,188)	$ 3,589	$ 7,580	$ 21,705
Real estate					
Consumer mortgages	36,529	(9,333)	1,017	3	28,216
Home equity	8,630	(1,657)	430	(1,482)	5,921
Agricultural	3,921	(784)	116	(599)	2,654
Commercial and industrial-owner occupied	21,929	(7,594)	2,135	2,849	19,319
Construction, acquisition and development	45,562	(27,799)	6,786	7,993	32,542
Commercial real estate	39,444	(8,702)	6,330	5,099	42,171
Credit cards	4,021	(1,690)	383	455	3,169
All other	14,358	(1,927)	789	102	13,322
Total	$ 195,118	$ (69,674)	$ 21,575	$ 22,000	$ 169,019

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

	September 30, 2013			
	Recorded Balance of Impaired Loans	Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	Total Allowance
	(In thousands)			
Commercial and industrial	$ 2,861	$ 283	$ 19,049	$ 19,332
Real estate				
Consumer mortgages	9,660	489	35,878	36,367
Home equity	1,305	23	5,637	5,660
Agricultural	3,622	-	2,802	2,802
Commercial and industrial-owner occupied	12,742	1,119	16,595	17,714
Construction, acquisition and development	23,186	1,637	11,288	12,925
Commercial real estate	25,886	292	44,496	44,788
Credit cards	-	-	3,582	3,582
All other	483	-	10,804	10,804
Total	$ 79,745	$ 3,843	$ 150,131	$ 153,974

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

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

NOTE 4 – OTHER REAL ESTATE OWNED

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

	Nine months ended September 30, 2013	2012	Year ended December 31, 2012
	(In thousands)		
Balance at beginning of period	$ 103,248	$ 173,805	$ 173,805
Additions to foreclosed properties			
New foreclosed properties	21,397	23,938	32,389
Reductions in foreclosed properties			
Sales	(42,785)	(53,328)	(81,220)
Writedowns	(5,007)	(16,204)	(21,726)
Balance at end of period	$ 76,853	$ 128,211	$ 103,248

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

	September 30, 2013 Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other
	(In thousands)							
Commercial and industrial	$ 251	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate								
Consumer mortgages	1,886	634	1,876	-	543	186	60	108
Home equity	442	58	-	-	-	175	-	-
Agricultural	907	-	216	-	1,153	1,835	-	-
Commercial and industrial-owner occupied	246	112	1,118	-	348	-	105	-
Construction, acquisition and development	15,820	741	11,749	400	24,941	7,680	57	242
	352	316	569	-	980	150	140	-

Commercial real estate																
All other		-		58		132		98		28		14		94		33
Total	$	19,904	$	1,919	$	15,660	$	498	$	27,993	$	10,040	$	456	$	383

* Excludes the Greater Memphis Area.

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	December 31, 2012 Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other
Commercial and industrial	$ 395	$ -	$ 106	$ -	$ -	$ -	$ -	$ -
Real estate								
Consumer mortgages	1,714	173	2,220	-	961	624	760	3,665
Home equity	-	-	-	-	-	-	-	-
Agricultural	856	-	99	-	1,089	2,169	212	-
Commercial and industrial-owner occupied	155	146	1,602	-	2,630	66	146	-
Construction, acquisition and development	13,610	1,430	15,659	734	35,717	9,535	1,844	448
Commercial real estate	478	1,420	3	263	819	76	176	-
All other	46	16	227	92	734	12	89	32
Total	$ 17,254	$ 3,185	$ 19,916	$ 1,089	$ 41,950	$ 12,482	$ 3,227	$ 4,14

* Excludes the Greater Memphis Area.

	September 30, 2012 Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other
Commercial and industrial	$ 411	$ 94	$ 105	$ -	$ 797	$ -	$ -	$
Real estate								
Consumer mortgages	2,621	251	2,645	71	1,350	634	290	4,084
Home equity	-	-	216	-	-	-	-	-
Agricultural	876	-	-	-	1,130	2,303	-	-
Commercial and industrial-owner occupied	533	69	1,510	-	375	50	146	-
Construction, acquisition and development	16,953	1,647	15,800	880	41,732	13,929	2,163	523
Commercial real estate	826	1,548	2,219	362	7,014	245	226	-
All other	46	16	224	113	1,152	-	-	32
Total	$ 22,266	$ 3,625	$ 22,719	$ 1,426	$ 53,550	$ 17,161	$ 2,825	$ 4,6

* Excludes the Greater Memphis Area.

The Company incurred total foreclosed property expenses of $3.3 million and $8.8 million for the three months ended September 30, 2013 and 2012, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were $2.1 million and $7.0 million for the three months ended September 30, 2013 and 2012, respectively. The Company incurred total foreclosed property expenses of $8.9 million and $27.4 million for the nine months ended September 30, 2013 and 2012, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were $5.3 million and $20.4 million for the nine months ended September 30, 2013 and 2012, respectively.

NOTE 5 – SECURITIES

A comparison of amortized cost and estimated fair values of available-for-sale securities as of September 30, 2013 and December 31, 2012 follows:

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government agencies	$ 1,512,554	$ 11,921	$ 5,016	$ 1,519,459
Government agency issued residential mortgage-backed securities	265,163	4,673	1,469	268,367
Government agency issued commercial mortgage-backed securities	238,489	2,026	11,103	229,412
Obligations of states and political subdivisions	516,784	14,749	2,644	528,889
Other	6,935	1,094	-	8,029
Total	$ 2,539,925	$ 34,463	$ 20,232	$ 2,554,156

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

Total	$ 2,365,962	$ 68,644	$ 574	$ 2,434,032

Gross gains of approximately $43,000 and gross losses of approximately $26,000 were recognized on available-for-sale securities during the first nine months of 2013, while gross gains of approximately $329,000 and gross losses of approximately $39,000 were recognized during the first nine months of 2012.

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2013 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities are considered as maturing after ten years.

	September 30, 2013		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
	(Dollars in thousands)		
Maturing in one year or less	$ 518,661	$ 521,825	1.62 %
Maturing after one year through five years	1,132,003	1,138,516	1.33
Maturing after five years through ten years	161,230	165,642	5.74
Maturing after ten years	224,379	230,394	5.92
Mortgage-backed securities	503,652	497,779	2.04
Total	$ 2,539,925	$ 2,554,156	

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The following tables summarize information pertaining to temporarily impaired available-for-sale securities with continuous unrealized loss positions at September 30, 2013 and December 31, 2012:

	September 30, 2013					
	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government agencies	$ 396,667	$ 5,016	$ -	$ -	$ 396,667	$ 5,016
Government agency issued residential mortgage-backed securities	74,939	1,319	4,749	150	79,688	1,469
Government agency issued commercial mortgage-backed securities	190,975	10,900	10,606	203	201,581	11,103
Obligations of states and political subdivisions	102,323	2,597	773	47	103,096	2,644
Other	-	-	-	-	-	-
Total	$ 764,904	$ 19,832	$ 16,128	$ 400	$ 781,032	$ 20,232

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

Government agency issued commercial mortgage-backed securities	26,239	135	-	-	26,239	135
Obligations of states and political subdivisions	9,247	73	313	43	9,560	116
Other	-	-	-	-	-	-
Total	$ 138,820	$ 417	$ 3,152	$ 157	$ 141,972	$ 574

Based upon a review of the credit quality of these securities, and considering that the issuers were in compliance with the terms of the securities, management has no intent to sell these securities, and it is more likely than not that the Company would not be required to sell the securities prior to recovery of costs. Therefore, the impairments related to these securities were determined to be temporary. No other-than-temporary impairment was recorded during the first nine months of 2013.

NOTE 6 – PER SHARE DATA

Basic earnings per share ("EPS") are calculated using the two-class method. The two-class method provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic

EPS. Diluted EPS is computed using the weighted-average number of shares determined for the basic EPS computation plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method. Weighted-average antidilutive stock options to purchase 1.6 million and 1.8 million shares of Company common stock with a weighted average exercise price of $23.42 and $23.40 per share for the three months and nine months ended September 30, 2013, respectively, were excluded from diluted shares. There were no antidilutive other equity awards for the three months and nine months ended September 30, 2013. Weighted-average antidilutive stock options to purchase 2.9 million shares of Company common stock for both the three months and nine months ended September 30, 2012, with a weighted average exercise price of $20.59 and $20.67 per share for the three months and nine months ended September 30, 2012, respectively, were excluded from diluted shares. Antidilutive other equity awards of approximately 50,000 and 17,000 shares of Company common stock for the three months and nine months ended September 30, 2012, respectively, were also excluded from diluted shares. The following tables provide a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

	Three months ended September 30,								
	2013				2012				
	Income (Numerator)		Shares (Denominator)	Per Share Amount		Income (Numerator)		Shares (Denominator)	Per Share Amount	
Basic EPS	(In thousands, except per share amounts)									
Income available to common shareholders	$	24,857	95,201	$	0.26	$	23,825	94,438	$	0.25
Effect of dilutive share-based awards		-	318				-	91		
Diluted EPS										
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	$	24,857	95,519	$	0.26	$	23,825	94,529	$	0.25

	Nine months ended September 30,									
	2013					2012				
	Income (Numerator)		Shares (Denominator)	Per Share Amount		Income (Numerator)		Shares (Denominator)	Per Share Amount	

Basic EPS	(In thousands, except per share amounts)										
Income available to common shareholders	$	66,417	94,991	$	0.70	$	67,315	93,534	$	0.72
Effect of dilutive share-based awards		-	236				-	79		
Diluted EPS										
Income available to common shareholders plus assumed exercise of all outstanding share-based awards	$	66,417	95,227	$	0.70	$	67,315	93,613	$	0.72

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NOTE 7 – COMPREHENSIVE INCOME

The following tables present the components of other comprehensive (loss) income and the related tax effects allocated to each component for the periods indicated:

	Three months ended September 30,					
	2013			2012		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Net unrealized (losses) gains on available-for-sale securities:	(In thousands)					
Unrealized (losses) gains arising during holding period	$ (1,439)	$ 554	$ (885)	$ 6,820	$ (2,613)	$ 4,207
Reclassification adjustment for net losses (gains) realized in net income (1)	5	(1)	4	(39)	15	(24)
Recognized employee benefit plan net periodic benefit cost (2)	1,337	(512)	825	704	(269)	435
Other comprehensive (loss) income	$ (97)	$ 41	$ (56)	$ 7,485	$ (2,867)	$ 4,618
Net income			24,857			23,825
Comprehensive income			$ 24,801			$ 28,443

	Nine months ended September 30,					
	2013			2012		

	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Net unrealized (losses) gains on available-for-sale securities:	(In thousands)					
Unrealized (losses) gains arising during holding period	$ (53,820)	$ 20,610	$ (33,210)	$ 10,519	$ (4,034)	$ 6,485
Reclassification adjustment for net gains realized in net income (1)	(17)	7	(10)	(290)	111	(179)
Recognized employee benefit plan net periodic benefit cost (2)	4,011	(1,534)	2,477	3,088	(1,181)	1,907
Other comprehensive (loss) income	$ (49,826)	$ 19,083	$ (30,743)	$ 13,317	$ (5,104)	$ 8,213
Net income			66,417			67,315
Comprehensive income			$ 35,674			$ 75,528

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

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

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amounts of goodwill by operating segment for the nine months ended September 30, 2013 were as follows:

	Community Banking		Insurance Agencies		Total	
	(In thousands)					
Balance as of December 31, 2012	$	217,618	$	57,555	$	275,173
Goodwill recorded during the period	-		-		-	
Purchase accounting adjustments	-		-		-	
Balance as of September 30, 2013	$	217,618	$	57,555	$	275,173

The Company's policy is to assess goodwill for impairment at the reporting segment level on an annual basis or sooner if an event occurs or circumstances change which indicate that the fair value of a reporting segment is below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting segment in assessing impairment at least annually. The Company's annual assessment date is during the Company's fourth quarter. No events occurred during the first nine months of 2013 that indicated the necessity of an earlier goodwill impairment assessment.

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

The following tables present information regarding the components of the Company's identifiable intangible assets for the dates and periods indicated:

	As of	As of

	September 30, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:	(In thousands)			
Core deposit intangibles	$ 27,801	$ 22,115	$ 27,801	$ 21,674
Customer relationship intangibles	36,239	27,695	36,239	26,098
Non-solicitation intangibles	525	264	525	151
Total	$ 64,565	$ 50,074	$ 64,565	$ 47,923
Unamortized intangible assets:				
Trade names	$ 688	$ -	$ 688	$ -

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Aggregate amortization expense for:	(In thousands)			
Core deposit intangibles	$ 141	$ 235	$ 441	$ 712
Customer relationship intangibles	507	579	1,597	1,588
Non-solicitation intangibles	38	47	113	66
Total	$ 686	$ 861	$ 2,151	$ 2,366

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

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

NOTE 9 – PENSION BENEFITS

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$ 2,684	$ 2,068	$ 8,052	$ 7,252
Interest cost	2,053	1,934	6,159	6,078
Expected return on assets	(2,743)	(2,765)	(8,229)	(8,447)
Amortization of unrecognized transition amount	5	3	15	13
Recognized prior service cost	(192)	(192)	(576)	(576)
Recognized net loss	1,524	893	4,572	3,651
Net periodic benefit costs	$ 3,331	$ 1,941	$ 9,993	$ 7,971

NOTE 10 – RECENT PRONOUNCEMENTS

In April 2011, the FASB issued an accounting standards update ("ASU") regarding reconsideration of effective control for repurchase agreements. This ASU removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by this ASU. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of this ASU did not have a material impact on the financial position and results of operations of the Company.

In May 2011, the FASB issued an ASU regarding amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). This ASU provides amendments to ensure that fair value has the same meaning in U.S. GAAP and IFRS and that their respective fair value measurements and disclosure requirements are the same. The ASU is effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The adoption of this ASU did not have a material impact on the financial position and results of operations of the Company.

In June 2011, the FASB issued an ASU regarding the presentation of comprehensive income. This ASU amends existing guidance and eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. This ASU requires that comprehensive income be presented in either a single continuous statement or in two separate but consecutive statements. This ASU is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this ASU changed the manner in which the Company's other comprehensive income is disclosed and did not have an impact on the financial position and results of operations of the Company.

In September 2011, the FASB issued an ASU regarding goodwill impairment. This ASU gives companies the option to perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This ASU is effective for interim and annual periods beginning after December 15, 2011. The adoption of this ASU did not have an impact on the financial position and results of operations of the Company.

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

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

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

NOTE 11 - SEGMENT REPORTING

The Company is a financial holding company with subsidiaries engaged in the business of banking and activities closely related to banking. The Company determines reportable segments based upon the services offered, the significance of those services to the Company's financial condition and operating results and management's regular review of the operating results of those services. The Company's primary segment is Community Banking, which includes providing a full range of deposit products, commercial loans and consumer loans. The Company has also designated two additional reportable segments -- Insurance Agencies and General Corporate and Other. The

Company's insurance agencies serve as agents in the sale of commercial lines of insurance and full lines of property and casualty, life, health and employee benefits products and services. The General Corporate and Other operating segment includes mortgage lending, trust services, credit card activities, investment services and other activities not allocated to the Community Banking or Insurance Agencies operating segments.

Results of operations and selected financial information by operating segment for the three-month and nine-month periods ended September 30, 2013 and 2012 were as follows:

	Community Banking (In thousands)	Insurance Agencies	General Corporate and Other	Total
Three months ended September 30, 2013:				
Results of Operations				
Net interest revenue	$ 93,404	$ 41	$ 6,796	$ 100,241
Provision for credit losses	95	-	405	500
Net interest revenue after provision for credit losses	93,309	41	6,391	99,741
Noninterest revenue	27,443	24,878	10,193	62,514
Noninterest expense	80,733	21,515	27,149	129,397
Income (loss) before income taxes	40,019	3,404	(10,565)	32,858
Income tax expense (benefit)	10,180	1,542	(3,721)	8,001
Net income (loss)	$ 29,839	$ 1,862	$ (6,844)	$ 24,857
Selected Financial Information				
Total assets at end of period	$ 9,773,134	$ 186,003	$ 2,957,016	$ 12,916,153
Depreciation and amortization	5,658	858	$ 728	7,244
Three months ended September 30, 2012:				
Results of Operations				
Net interest revenue	$ 96,981	$ 62	$ 6,336	$ 103,379
Provision for credit losses	5,726	-	274	6,000
Net interest revenue after provision for credit losses	91,255	62	6,062	97,379
Noninterest revenue	28,826	23,461	18,133	70,420
Noninterest expense	84,672	20,721	28,395	133,788
Income (loss) before income taxes	35,409	2,802	(4,200)	34,011
Income tax expense (benefit)	11,150	1,147	(2,111)	10,186
Net income (loss)	$ 24,259	$ 1,655	$ (2,089)	$ 23,825
Selected Financial Information				
Total assets at end of period	$ 10,085,948	$ 176,027	$ 2,973,762	$ 13,235,737
Depreciation and amortization	5,973	953	732	7,658

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
Nine months ended September 30, 2013				
Results of Operations				
Net interest revenue	$ 278,373	$ 131	$ 18,028	$ 296,532
Provision for credit losses	6,334	-	1,166	7,500
Net interest revenue after provision for credit losses	272,039	131	16,862	289,032
Noninterest revenue	80,670	77,202	52,069	209,941
Noninterest expense	248,494	64,913	93,612	407,019
Income (loss) before income taxes	104,215	12,420	(24,681)	91,954
Income tax expense (benefit)	33,830	3,619	(11,912)	25,537
Net income (loss)	$ 70,385	$ 8,801	$ (12,769)	$ 66,417
Selected Financial Information				
Total assets at end of period	$ 9,773,134	$ 186,003	$ 2,957,016	$ 12,916,153
Depreciation and amortization	17,174	2,637	2,214	22,025
Nine months ended September 30, 2012				
Results of Operations				
Net interest revenue	$ 294,720	$ 211	$ 18,799	$ 313,730
Provision for credit losses	20,242	-	1,758	22,000
Net interest revenue after provision for credit losses	274,478	211	17,041	291,730
Noninterest revenue	85,536	69,516	54,196	209,248
Noninterest expense	263,236	58,882	83,856	405,974
Income (loss) before income taxes	96,778	10,845	(12,619)	95,004
Income tax expense (benefit)	30,054	4,370	(6,735)	27,689
Net income (loss)	$ 66,724	$ 6,475	$ (5,884)	$ 67,315
Selected Financial Information				
Total assets at end of period	$ 10,085,948	$ 176,027	$ 2,973,762	$ 13,235,737
Depreciation and amortization	17,835	2,669	2,198	22,702

NOTE 12 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs"), which are recognized as a separate asset on the date the corresponding mortgage loan is sold, are recorded at fair value as determined at each accounting period end. An estimate of the fair value of the Company's MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Data and assumptions used in the fair value calculation related to MSRs as of the dates indicated were as follows:

	September 30, 2013	September 30, 2012	December 31, 2012
	(Dollars in thousands)		
Unpaid principal balance	$ 5,543,619	$ 4,841,075	$ 5,058,912
Weighted-average prepayment speed (CPR)	11.4	18.4	17.1
Discount rate (annual percentage)	10.3	10.8	10.8
Weighted-average coupon interest rate (percentage)	4.2	4.5	4.4
Weighted-average remaining maturity (months)	308.0	307.0	307.0
Weighted-average servicing fee (basis points)	26.7	27.4	27.1

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.

The Company has only one class of mortgage servicing asset comprised of closed end loans for one-to-four family residences, secured by first liens. The following table presents the activity in this class for the periods indicated:

	2013	2012
	(In thousands)	
Fair value as of January 1	$ 37,882	$ 30,174
Additions:		
Origination of servicing assets	12,106	13,385
Changes in fair value:		
Due to payoffs/paydowns	(5,004)	(5,644)
Due to change in valuation inputs or assumptions used in the valuation model	6,049	(3,346)
Other changes in fair value	(8)	(7)
Fair value as of September 30	$ 51,025	$ 34,562

All of the changes to the fair value of the MSRs are recorded as part of mortgage lending noninterest revenue on the income statement. As part of mortgage lending noninterest revenue, the Company recorded contractual servicing fees of $3.7 million and $3.2 million and late and other ancillary fees of approximately $335,000 and $361,000 for the three months ended September 30, 2013 and 2012, respectively. The Company recorded contractual servicing fees of $10.8 million and $9.5 million and late and other ancillary fees of $1.0 million for both the nine months ended September 30, 2013 and 2012.

NOTE 13 – DERIVATIVE INSTRUMENTS AND OFFSETTING ASSETS AND LIABILITIES

The derivatives held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. The Company's objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges. At September 30, 2013, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $120.7 million with a carrying value and fair value reflecting a loss of $2.2 million. At September 30, 2012, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $220.9 million with a carrying value and fair value reflecting a loss of $4.4 million. At September 30, 2013, the notional amount of commitments to fund individual fixed-rate mortgage loans was $88.5 million with a carrying value and fair value reflecting a gain of approximately $2.3 million. At September 30, 2012, the notional amount of commitments to fund individual fixed-rate mortgage loans was $251.5 million with a carrying value and fair value reflecting a gain of $7.1 million.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of September 30, 2013, the notional amount of customer related derivative financial instruments was $438.0 million with an average maturity of 55 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.6%. As of September 30, 2012, the notional amount of customer related derivative financial instruments was $483.0 million with an average maturity of 60 months, an average interest receive rate of 2.5% and an average interest pay rate of 5.8%.

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

The following table presents components of financial instruments eligible for offsetting for the periods indicated:

	September 30, 2013			Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	$ 2,283	$ -	$ 2,283	$ -	$ -	$ 2,283
Loan/lease interest rate swaps	33,130	-	33,130	-	-	33,130
Total financial assets	$ 35,413	$ -	$ 35,413	$ -	$ -	$ 35,413
Financial liabilities:						
Derivatives:						
Forward commitments	$ 2,257	$ -	$ 2,257	$ -	$ -	$ 2,257
Loan/lease interest rate swaps	33,130	-	33,130	-	(33,130)	-
Repurchase arrangements	418,623	-	418,623	(418,623)	-	-
Total financial liabilities	$ 454,010	$ -	$ 454,010	$ (418,623)	$ (33,130)	$ 2,257

	December 31, 2012			Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	$ 4,168	$ -	$ 4,168	$ -	$ -	$ 4,168
Loan/lease interest rate swaps	52,154	-	52,154	-	-	52,154
Total financial assets	$ 56,322	$ -	$ 56,322	$ -	$ -	$ 56,322
Financial liabilities:						
Derivatives:						
Forward commitments	$ 622	$ -	$ 622	$ -	$ -	$ 622
Loan/lease interest rate swaps	52,154	-	52,154	-	(52,154)	-
Repurchase arrangements	414,611	-	414,611	(414,611)	-	-
Total financial liabilities	$ 467,387	$ -	$ 467,387	$ (414,611)	$ (52,154)	$ 622

	September 30, 2012			Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	$ 7,065	$ -	$ 7,065	$ -	$ -	$ 7,065
Loan/lease interest rate swaps	55,706	-	55,706	-	-	55,706
Total financial assets	$ 62,771	$ -	$ 62,771	$ -	$ -	$ 62,771
Financial liabilities:						
Derivatives:						
Forward commitments	$ 4,371	$ -	$ 4,371	$ -	$ -	$ 4,371
Loan/lease interest rate swaps	55,706	-	55,706	-	(55,706)	-
Repurchase arrangements	377,676	-	377,676	(377,676)	-	-
Total financial liabilities	$ 437,753	$ -	$ 437,753	$ (377,676)	$ (55,706)	$ 4,371

NOTE 14 – FAIR VALUE DISCLOSURES

“Fair value” is defined by FASB ASC 820, Fair Value Measurements and Disclosure (“FASB ASC 820”), as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Determination of Fair Value

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Available-for-sale securities. Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The Company's available-for-sale securities that are traded on an active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. Available-for-sale securities valued using matrix pricing that has been adjusted to compensate for the present value of expected cash flows, market liquidity, credit quality and volatility are classified as Level 3.

Mortgage servicing rights. The Company records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value. An estimate of the fair value of the Company's MSRs is determined by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of the Company's MSRs are classified as Level 3. For additional information about the Company's valuation of MSRs, see Note 12, Mortgage Servicing Rights.

Derivative instruments. The Company's derivative instruments consist of commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. Fair value of these derivative instruments is measured on a recurring basis using recent observable market prices. The Company also enters into interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. The fair value of these instruments is either an observable market price or a discounted cash flow valuation using the terms of swap agreements but substituting original interest rates with prevailing interest rates ranging from 1.53% to 3.7%. The Company also considers the associated counterparty credit risk when determining the fair value of these instruments. The Company's interest rate swaps, commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans are classified as Level 3.

Loans held for sale. Loans held for sale are carried at the lower of cost or estimated fair value and are subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of existing commitments or the current market value of similar loans. All of the Company's loans held for sale are classified as Level 2.

Impaired loans. Loans considered impaired under FASB ASC 310 are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company's impaired loans are classified as Level 3.

Other real estate owned. OREO is carried at the lower of cost or estimated fair value, less estimated selling costs and is subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals and other relevant factors less an average of 7% for estimated selling costs. All of the Company's OREO is classified as Level 3.

Off-Balance sheet financial instruments. The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. The Company has reviewed the unfunded portion of commitments to extend credit as well as standby and other letters of credit, and has determined that the fair value of such financial instruments is not material. The Company classifies the estimated fair value of credit-related financial instruments as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and 2012:

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets:	(In thousands)			
Available-for-sale securities:				
U.S. Government agencies	$ -	$ 1,519,459	$ -	$ 1,519,459
Government agency issued residential mortgage-backed securities	-	268,367	-	268,367
Government agency issued commercial mortgage-backed securities	-	229,412	-	229,412
Obligations of states and political subdivisions	-	528,889	-	528,889
Other	1,048	6,981	-	8,029
Mortgage servicing rights	-	-	51,025	51,025
Derivative instruments	-	-	35,004	35,004
Total	$ 1,048	$ 2,553,108	$ 86,029	$ 2,640,185
Liabilities:				
Derivative instruments	$ -	$ -	$ 35,386	$ 35,386

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:	(In thousands)			
Available-for-sale securities:				
U.S. Government agencies	$ -	$ 1,472,747	$ -	$ 1,472,747
Government agency issued residential mortgage-backed securities	-	338,230	-	338,230
Government agency issued commercial mortgage-backed securities	-	90,306	-	90,306
Obligations of states and political subdivisions	-	574,559	-	574,559
Other	672	7,092	-	7,764
Mortgage servicing rights	-	-	34,562	34,562
Derivative instruments	-	-	62,088	62,088
Total	$ 672	$ 2,482,934	$ 96,650	$ 2,580,256
Liabilities:				
Derivative instruments	$ -	$ -	$ 60,077	$ 60,077

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The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine-month periods ended September 30, 2013 and 2012:

	Mortgage Servicing Rights	Derivative Instruments	Available-for-sale Securities
	(In thousands)		
Balance at December 31, 2012	$ 37,882	$ 2,911	$ -
Year to date net gains (losses) included in:			
Net income (loss)	1,037	(3,293)	-
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	12,106	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at September 30, 2013	$ 51,025	$ (382)	$ -
Net unrealized losses included in net income for the quarter relating to assets and liabilities held at September 30, 2013	$ (240)	$ (7,245)	$ -

	Mortgage Servicing Rights	Derivative Instruments	Available-for-sale Securities
	(In thousands)		
Balance at December 31, 2011	$ 30,174	$ 342	$ -
Year to date net gains (losses) included in:			
Net (loss) income	(8,997)	1,669	-
Other comprehensive income	-	-	-
Purchases, sales, issuances and settlements, net	13,385	-	-
Transfers in and/or out of Level 3	-	-	-
Balance at September 30, 2012	$ 34,562	$ 2,011	$ -
Net unrealized losses included in net income for the quarter relating to assets and liabilities held at September 30, 2012	$ (3,206)	$ (811)	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following tables present the balances of assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2013 and 2012:

	September 30, 2013				
	Level 1	Level 2	Level 3	Total	Total Losses
Assets:	(In thousands)				
Loans held for sale	$ -	$ 77,114	$ -	$ 77,114	$ -
Impaired loans	-	-	79,745	79,745	(3,843)
Other real estate owned	-	-	76,853	76,853	(20,332)

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	September 30, 2012				
	Level 1	Level 2	Level 3	Total	Total Losses
Assets:	(In thousands)				
Loans held for sale	$ -	$ 129,408	$ -	$ 129,408	$ -
Impaired loans	-	-	176,139	176,139	(18,205)
Other real estate owned	-	-	128,211	128,211	(26,216)

Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments (“FASB ASC 825”), requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Loans and Leases. Fair values are estimated for portfolios of loans and leases with similar financial characteristics. The fair value of loans and leases is calculated by discounting scheduled cash flows through the estimated maturity using rates the Company would currently offer customers based on the credit and interest rate risk inherent in the loan or lease. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market and borrower information. Estimated maturity represents the expected average cash flow period, which in some instances is different than the stated maturity. This entrance price approach results in a calculated fair value that would be different than an exit or estimated actual sales price approach and such differences could be significant. All of the Company’s loans and leases are classified as Level 3.

Deposit Liabilities. Under FASB ASC 825, the fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, interest bearing demand deposits and savings, is equal to the amount payable on demand as of the reporting date. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the prevailing rates offered for deposits of similar maturities. The Company’s noninterest bearing demand deposits, interest bearing demand deposits and savings are classified as Level 1. Certificates of deposit are classified as Level 2.

Debt. The carrying amounts for federal funds purchased and repurchase agreements approximate fair value because of their short-term maturity. The fair value of the Company’s fixed-term Federal Home Loan Bank (“FHLB”) advances is based on the discounted value of contractual cash flows. The discount rate is estimated using the prevailing rates available for advances of similar maturities. The fair value of the Company’s junior subordinated debt is based on market prices or dealer quotes. The Company’s federal funds purchased, repurchase agreements and junior subordinated debt are classified as Level 1. FHLB advances are classified as Level 2.

Lending Commitments. The Company's lending commitments are negotiated at prevailing market rates and are relatively short-term in nature. As a matter of policy, the Company generally makes commitments for fixed-rate loans for relatively short periods of time. Therefore, the estimated value of the Company's lending commitments approximates the carrying amount and is immaterial to the financial statements. The Company's lending commitments are classified as Level 1.

The Company's off-balance sheet commitments including letters of credit, which totaled $105.4 million at September 30, 2013, are funded at current market rates at the date they are drawn upon. It is management's opinion that the fair value of these commitments would approximate their carrying value, if drawn upon.

The following table presents carrying and fair value information of financial instruments at September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:	(In thousands)			
Cash and due from banks	$ 199,464	$ 199,464	$ 223,814	$ 223,814
Interest bearing deposits with other banks	361,401	361,401	979,800	979,800
Available-for-sale securities	2,554,156	2,554,156	2,434,032	2,434,032
Net loans and leases	8,619,141	8,851,004	8,472,523	8,546,810
Loans held for sale	77,114	78,143	129,138	129,230
Liabilities:				
Noninterest bearing deposits	2,597,762	2,597,762	2,545,169	2,545,169
Savings and interest bearing deposits	5,713,586	5,713,586	5,945,281	5,945,281
Other time deposits	2,406,598	2,430,422	2,597,696	2,634,099
Federal funds purchased and securities sold under agreement to repurchase and other short-term borrowings	418,623	412,724	414,611	414,399
Long-term debt and other borrowings	114,990	116,433	193,867	205,072
Derivative instruments:				
Forward commitments to sell fixed rate mortgage loans	(2,250)	(2,250)	(536)	(536)
Commitments to fund fixed rate mortgage loans	2,276	2,276	4,081	4,081
Interest rate swap position to receive	32,720	32,720	51,517	51,517
Interest rate swap position to pay	(33,130)	(33,130)	(52,154)	(52,154)

NOTE 15 – OTHER NONINTEREST REVENUE AND EXPENSE

The following table details other noninterest revenue for the three months and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Annuity fees	$ 719	$ 548	$ 1,745	$ 1,825
Brokerage commissions and fees	2,005	1,782	6,166	4,999
Bank-owned life insurance	1,954	1,750	5,849	6,175
Other miscellaneous income	3,062	3,673	10,739	11,488
Total other noninterest income	$ 7,740	$ 7,753	$ 24,499	$ 24,487

The following table details other noninterest expense for the three months and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Advertising	$ 1,210	$ 1,081	$ 3,122	$ 2,824
Foreclosed property expense	3,298	8,794	8,897	27,415
Telecommunications	2,227	2,118	6,510	6,347
Public relations	1,105	1,309	3,285	4,130
Data processing	2,772	2,312	8,023	7,520
Computer software	2,190	1,856	6,299	5,445
Amortization of intangibles	686	861	2,151	2,366
Legal fees	4,626	3,004	17,888	6,201
Postage and shipping	1,027	1,060	3,236	3,348
Other miscellaneous expense	15,577	16,501	48,215	52,431
Total other noninterest expense	$ 34,718	$ 38,896	$ 107,626	$ 118,027

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

The nature of the Company’s business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative cases and proceedings. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, and endeavored to provide reasonable insurance coverage, litigation and regulatory actions present an ongoing risk.

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions and potential transactions with numerous customers or applicants. From time to time, borrowers, customers, former employees and other third parties have brought actions against the Company or its subsidiaries, in some cases claiming substantial damages. Financial services companies are subject to the risk of class action litigation and, from time to time, the Company and its subsidiaries are subject to such actions brought against it. Additionally, the Bank is, and management expects it to be, engaged in a number of foreclosure proceedings and other collection actions as part of its lending and leasing collections activities, which, from time to time, have resulted in counterclaims against the Bank. Various legal proceedings have arisen and may arise in the future out of claims against entities to which the Company is a successor as a result of business combinations. The Company’s insurance has deductibles, and will likely not cover all such litigation or other proceedings or the costs of defense. The Company and its subsidiaries may also be subject to enforcement actions by federal or state regulators, including the Securities and Exchange Commission, the Federal Reserve, the FDIC, the Consumer Financial Protection Bureau, the Department of Justice, state attorneys general and the Mississippi Department of Banking and Consumer Finance.

When and as the Company determines it has meritorious defenses to the claims asserted, it vigorously defends against such claims. The Company will consider settlement of claims when, in management's judgment and in consultation with counsel, it is in the best interests of the Company to do so.

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest and most reliable information available. For matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, the Company’s insurance will not cover all such litigation, other proceedings or claims, or the costs of defense.

While the final outcome of any legal proceedings, including those disclosed below, is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense of $11.4 million accrued as of September 30, 2013 is adequate and that any incremental liability arising from the Company’s legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company’s results of operations for a given fiscal period.

On August 16, 2011, a shareholder filed a putative derivative action purportedly on behalf of the Company in the Circuit Court of Lee County, Mississippi, against certain current and past executive officers and the members of the Board of Directors of the Company. The plaintiff in this shareholder derivative lawsuit asserts that the individual defendants violated their fiduciary duties based upon allegations that the defendants issued materially false and misleading statements regarding the Company’s business and financial results. In particular, the allegations relate to the Company’s recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal control over financial reporting leading up to the filing of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. The plaintiff is seeking to recover alleged damages to the Company in an unspecified amount, equitable and/or injunctive relief, and attorney’s fees. 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. In August 2013, the Company was informed that this investigation had been completed as to the Company and that the Atlanta Regional Office does not intend to recommend any enforcement action by the SEC.

On May 18, 2010, the Bank was named as a defendant in a class action lawsuit filed by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenges the manner in which overdraft fees were charged and the policies related to posting order of debit card and ATM transactions. The suit also makes a claim under Arkansas’ consumer protection statute. The plaintiff is seeking to recover damages in an unspecified amount and equitable relief. The case was transferred to pending multi-district litigation in the U.S. District Court for the Southern District of Florida wherein an order was entered certifying a class in this case. The consolidated pretrial proceedings in the multi-district litigation court are close to completion and the case will then be remanded to the U.S. District Court for the Northern District of Florida for further proceedings. There are significant uncertainties involved in any purported class action litigation. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company’s business, consolidated financial position or results of operations. However, there can be no assurance that an adverse outcome or settlement would not have a material adverse effect on the Company’s consolidated results of operations for a given fiscal period.

NOTE 17 – LONG-TERM DEBT

In 2002, the Company issued $128.9 million in 8.15% Junior Subordinated Debt Securities to BancorpSouth Capital Trust I (the "Trust"), a business trust. The Trust used the proceeds from the issuance of five million shares of 8.15% trust preferred securities, $25 face value per share, to acquire the 8.15% Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on January 28, 2032, and are callable at the option of the Company. The Company redeemed the Junior Subordinated Debt Securities and the related trust preferred securities at par on August 12, 2013. As a result of the redemption, a pre-tax charge of $2.9 million was recorded during the third quarter of 2013 to write-off unamortized issuance costs.

On August 8, 2013, the Company entered into a Credit Agreement with U.S. Bank National Association ("U.S. Bank") as a lender and administrative agent, and First Tennessee Bank, National Association, as a lender. The Credit Agreement includes an unsecured revolving loan of up to $25.0 million that terminates and the outstanding balance of which is payable in full on August 8, 2015, and an unsecured multi-draw term loan of up to $60.0 million, which commitment terminates on February 28, 2014 and the outstanding balance of which is payable in full on August 8, 2018. The proceeds from the term loan may be used to repurchase trust preferred securities, and the proceeds from the revolving loan may be used for working capital, capital expenditures and other lawful corporate purposes. Borrowings under the Credit Agreement bear interest at a Eurocurrency or base rate plus, in each case, an applicable interest rate margin. On August 8, 2013, the Company borrowed $50.0 million under the term loan for which the principal balance is payable in full on August 8, 2018.

NOTE 18 – CORRECTION OF IMMATERIAL ERROR

During the quarter ended March 31, 2013, the Company identified an immaterial error in its cash flow statements for prior periods. The Company improperly reported losses on the sale and writedowns of OREO as Investing Activities instead of as a reconciling item within Operating Activities, as well as reported unsettled trade liabilities for investment purchases as Operating Activities instead of Investing Activities. These changes had no impact to the overall total of cash inflows and outflows within the cash flow statements for prior periods. The Company has deemed these changes immaterial to its consolidated financial statement taken as a whole. Please see BancorpSouth's Form 10-Q for the period ended March 31, 2013 for changes made in cash flow statements for the years ended December 31, 2012 and December 31, 2011, as well as the period ended March 31, 2012. Also, the changes to the cash flow statement for the six months ended June 30, 2012 can be found in BancorpSouth's Form 10Q for the period ended June 30, 2013. The following table reflects the changes in the cash flow statements for the nine months ended September 30, 2012:

	As Originally Reported	Adjustment	As Adjusted
Nine months ended September 30, 2012	(In thousands)		
Net cash provided by operating activities	$ 100,290	$ 9,306	109,596
Net cash provided by investing activities	206,518	(9,306)	197,212
Net cash provided by financing activities	127,584	-	127,584
Increase in cash and cash equivalents	434,392	-	434,392
Cash and cash equivalents at beginning of period	499,344	-	499,344
Cash and cash equivalents at end of period	$ 933,736	$ -	$ 933,736

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “may, “might,” “will,” “intend,” “indicated,” “could,” or “would,” or future or conditional verb tenses, and variations or negatives of terms. These forward-looking statements include, without limitation, those relating to amortization expense for intangible assets, goodwill impairments, loan impairment, utilization of appraisals and inspections for real estate loans, maturity, renewal or extension of construction, acquisition and development loans, net interest revenue, fair value determinations, the amount of the Company’s non-performing loans and leases, credit quality, credit losses, liquidity, off-balance sheet commitments and arrangements, valuation

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of mortgage servicing rights, allowance and provision for credit losses, continued weakness in the economic environment, early identification and resolution of credit issues, utilization of non-GAAP financial measures, the ability of the Company to collect all amounts due according to the contractual terms of loan agreements, the Company's reserve for losses from representation and warranty obligations, the Company's foreclosure process related to mortgage loans, the resolution of non-performing loans that are collaterally dependent, real estate values, fully-indexed interest rates, interest rate risk, interest rate sensitivity, calculation of economic value of equity, impaired loan charge-offs, troubled debt restructurings, diversification of the Company's revenue stream, liquidity needs and strategies, sources of funding, net interest margin, declaration and payment of dividends, future acquisitions and consideration to be used therefore, the use of proceeds from the Company's underwritten public offering, the impact of litigation regarding debit card fees and the impact of certain claims, and pending litigation. We caution you not to place undue reliance on the forward-looking statements contained in this report, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors. These factors may include, but are not limited to, conditions in the financial markets and economic conditions generally, the adequacy of the Company's provision and allowance for credit losses to cover actual credit losses, the credit risk associated with real estate construction, acquisition and development loans, losses resulting from the significant amount of the Company's other real estate owned, limitations on the Company's ability to declare and pay dividends, the impact of legal proceedings, the availability of capital on favorable terms if and when needed, liquidity risk, governmental regulation, including the Dodd Frank Act, and supervision of the Company's operations, the short-term and long-term impact of changes to banking capital standards on the Company's regulatory capital and liquidity, the impact of regulations on service charges on the Company's core deposit accounts, the susceptibility of the Company's business to local economic and environmental conditions, the soundness of other financial institutions, changes in interest rates, the impact of monetary policies and economic factors on the Company's ability to attract deposits or make loans, volatility in capital and credit markets, reputational risk, the impact of hurricanes or other adverse weather events, any requirement that the Company write down goodwill or other intangible assets, diversification in the types of financial services the Company offers, the Company's ability to adapt its products and services to evolving industry standards and consumer preferences, competition with other financial services companies, risks in connection with completed or potential acquisitions, the Company's growth strategy, interruptions or breaches in the Company's information system security, the failure of certain third party vendors to perform, unfavorable ratings by ratings agencies, dilution caused by the Company's issuance of any additional shares of its common stock to raise capital or acquire other banks, bank holding companies, financial holding companies and insurance agencies, other factors generally understood to affect the financial results of financial services companies and other factors detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

OVERVIEW

BancorpSouth, Inc. (the "Company") is a regional financial holding company headquartered in Tupelo, Mississippi with $12.9 billion in assets at September 30, 2013. BancorpSouth Bank (the "Bank"), the Company's wholly-owned banking subsidiary, has commercial banking operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. The Bank's insurance agency subsidiary also operates an office in Illinois. The Bank and its insurance agency and brokerage subsidiaries provide commercial banking, leasing, mortgage origination and servicing, insurance, brokerage and trust services to corporate customers, local governments, individuals and other financial institutions through an extensive network of branches and offices.

Management's discussion and analysis provides a narrative discussion of the Company's financial condition and results of operations. For a complete understanding of the following discussion, please refer to the unaudited consolidated financial statements for the three-month and nine-month periods ended September 30, 2013 and 2012 and the notes to such financial statements found under “Part I, Item 1. Financial Statements” of this report. This discussion and analysis is based on reported financial information. The information that follows is provided to enhance comparability of financial information between years and to provide a better understanding of the Company’s operations.

As a financial holding company, the financial condition and operating results of the Company are heavily influenced by economic trends nationally and in the specific markets in which the Company’s subsidiaries provide financial services. Generally, during the past several years, the pressures of the national and regional economic cycle have created a difficult operating environment for the financial services industry. The Company is not immune to such pressures and the continuing economic downturn has had a negative impact on the Company and its customers in all of the markets that it serves. While this impact was reflected in the credit quality measures during 2010 and 2011, the Company's financial condition improved during 2012 as reflected by decreases in the allowance for credit losses, net charge-offs, total NPLs and total non-performing assets ("NPAs"), when compared to 2011 and 2010. The Company's financial condition continued to improve during the first nine months of 2013, as the allowance for credit losses, net charge-offs, total NPLs and total NPAs decreased at September 30, 2013 compared to December 31, 2012 and September 30, 2012. Management believes that the Company is better positioned with respect to overall credit quality as evidenced by this improvement in credit quality metrics at September 30, 2013 compared to December 31, 2012 and September 30, 2012. Management believes, however, that future weakness in the economic environment could adversely affect the strength of the credit quality of the Company's assets overall. Therefore, management will continue to focus on early identification and resolution of any credit issues.

The largest source of the Company's revenue is derived from the operation of its principal operating subsidiary, the Bank. The financial condition and operating results of the Bank are affected by the level and volatility of interest rates on loans, investment securities, deposits and other borrowed funds, and the impact of economic downturns on loan demand, collateral value and creditworthiness of existing borrowers. The financial services industry is highly competitive and heavily regulated. The Company's success depends on its ability to compete aggressively within its markets while maintaining sufficient asset quality and cost controls to generate net income.

The Company's debit card revenue remains relatively stable for the comparable three-month and nine-month periods. During 2012, the Company's debit card revenue decreased as a result of the Federal Reserve's final rule implementing the Durbin Debt Interchange Amendment to the Dodd-Frank Act (the "Durbin Amendment"). The Federal Reserve's final rule implementing the Durbin Amendment has been challenged in court, including a lower court ruling adverse to the Federal Reserve's implementation of the final rule. The effect of this litigation, appeals therefrom, or any subsequent rule changes by the Federal Reserve are uncertain, but may impact debit card revenue in future reporting periods.

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

SELECTED FINANCIAL DATA

	Three months ended September 30, 2013	2012	Nine months ended September 30, 2013	2012
	(Dollars in thousands, except per share data)			
Earnings Summary:				
Total interest revenue	$ 111,961	$ 120,750	$ 336,997	$ 369,329
Total interest expense	11,720	17,371	40,465	55,599
Net interest income	100,241	103,379	296,532	313,730
Provision for credit losses	500	6,000	7,500	22,000
Noninterest income	62,514	70,420	209,941	209,248
Noninterest expense	129,397	133,788	407,019	405,974
Income before income taxes	32,858	34,011	91,954	95,004
Income tax expense	8,001	10,186	25,537	27,689
Net income	$ 24,857	$ 23,825	$ 66,417	$ 67,315
Balance Sheet - Period-end balances:				
Total assets	$ 12,916,153	$ 13,235,737	$ 12,916,153	$ 13,235,737
Total securities	2,554,156	2,483,606	2,554,156	2,483,606
Loans and leases, net of unearned income	8,773,115	8,679,969	8,773,115	8,679,969
Total deposits	10,717,946	10,974,640	10,717,946	10,974,640
Long-term debt	83,500	33,500	83,500	33,500
Total shareholders' equity	1,480,611	1,446,703	1,480,611	1,446,703
Balance Sheet-Average Balances:				
Total assets	$ 12,928,505	$ 13,019,016	$ 13,106,798	$ 13,041,785
Total securities	2,598,786	2,481,201	2,578,778	2,503,278
Loans and leases, net of unearned income	8,682,966	8,716,646	8,617,699	8,747,690
Total deposits	10,745,945	10,856,524	10,923,877	10,936,173
Long-term debt	62,848	33,500	43,390	33,500
Total shareholders' equity	1,474,047	1,432,157	1,470,510	1,399,984
Common Share Data:				
Basic earnings per share	$ 0.26	$ 0.25	$ 0.70	$ 0.72
Diluted earnings per share	0.26	0.25	0.70	0.72
Cash dividends per share	0.05	0.01	0.07	0.03
Book value per share	15.55	15.32	15.55	15.32
Tangible book value per share	12.50	12.22	12.50	12.22
Dividend payout ratio	19.15 %	3.96 %	10.03 %	4.17 %

Financial Ratios (Annualized):								
Return on average assets	0.76	%	0.73	%	0.68	%	0.69	%
Return on average shareholders' equity	6.69		6.62		6.04		6.42	
Total shareholders' equity to total assets	11.46		10.93		11.46		10.93	
Tangible shareholders' equity to tangible assets	9.43		8.91		9.43		8.91	
Net interest margin-fully taxable equivalent	3.45		3.55		3.40		3.62	
Credit Quality Ratios (Annualized):								
Net charge-offs to average loans and leases	0.35	%	0.59	%	0.28	%	0.73	%
Provision for credit losses to average loans and leases	0.02		0.28		0.12		0.34	
Allowance for credit losses to net loans and leases	1.76		1.95		1.76		1.95	
Allowance for credit losses to NPLs	106.68		68.34		106.68		68.34	
Allowance for credit losses to NPAs	69.61		45.01		69.61		45.01	
NPLs to net loans and leases	1.65		2.85		1.65		2.85	
NPAs to net loans and leases	2.52		4.33		2.52		4.33	
Captial Adequacy:								
Tier 1 capital	13.25	%	13.55	%	13.25	%	13.55	%
Total capital	14.50		14.81		14.50		14.81	
Tier 1 leverage capital	9.93		10.21		9.93		10.21	

In addition to financial ratios based on measures defined by accounting principles generally accepted in the United States ("U.S. GAAP"), the Company utilizes tangible shareholders' equity, tangible asset and tangible book value per share measures when evaluating the performance of the Company. Tangible shareholders' equity is defined by the Company as total shareholders' equity less goodwill and identifiable intangible assets. Tangible assets are defined by the Company as total assets less goodwill and identifiable intangible assets. Management believes the ratio of tangible shareholders' equity to tangible assets to be important to investors who are interested in evaluating the adequacy of the Company’s capital levels. Tangible book value per share is defined by the Company as tangible shareholders’ equity divided by total common shares outstanding. Management believes that tangible book value per share is important to investors who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. The following table reconciles tangible shareholders’ equity, tangible assets and tangible book value per share as presented above to U.S. GAAP financial measures as reflected in the Company’s unaudited consolidated financial statements:

	September 30, 2013	2012
	(Dollars in thousands, except per share data)	
Tangible Assets:		
Total assets	$ 12,916,153	$ 13,235,737
Less: Goodwill	275,173	275,173
Other identifiable intangible assets	15,179	17,932
Total tangible assets	$ 12,625,801	$ 12,942,632
Tangible Shareholders' Equity:		
Total shareholders' equity	$ 1,480,611	$ 1,446,703
Less: Goodwill	275,173	275,173
Other identifiable intangible assets	15,179	17,932
Total tangible shareholders' equity	$ 1,190,259	$ 1,153,598
Total shares outstanding	95,211,602	94,440,710
Tangible shareholders' equity to tangible assets	9.43 %	8.91 %
Tangible book value per share	$ 12.50	$ 12.22

FINANCIAL HIGHLIGHTS

The Company reported net income of $24.9 million for the third quarter of 2013, compared to net income of $23.8 million for the same quarter of 2012. For the first nine months of 2013, the Company reported net income of $66.4 million compared to net income of $67.3 million for the first nine months of 2012. A factor contributing to the decrease in net income for the nine months ended September 30, 2013 was the decrease in net interest income, as net interest revenue was $100.2 million for the third quarter of 2013, compared to $103.4 million for the third quarter of 2012 and was $296.5 million for the first nine months of 2013 compared to $313.7 million for the first nine months of 2012. The decrease in net interest revenue was offset by the decrease in the provision for credit losses, as the provision in the third quarter of 2013 was $0.5 million, compared to a provision of $6.0 million for the third quarter of 2012. The provision was $7.5 million for the first nine months of 2013 compared to $22.0 million for the first nine months of 2012. The decrease in the provision for credit losses reflected the impact of a decrease in NPL formation during the first nine months of 2013, as NPLs decreased from $233.6 million at December 31, 2012 to $144.3 million at September 30, 2013. Net charge-offs decreased to $7.6 million, or 0.35% of average loans and leases, during the third quarter of 2013, compared to $12.8 million, or 0.59% of average loans and leases, during the third quarter of 2012 and decreased to $18.0 million, or 0.28% of average loans and leases, for the first nine months of 2013 compared to $48.1 million, or 0.73% of average loans and leases, for the first nine months of 2012.

The impact of the economic environment continues to be evident on real estate construction, acquisition and development loans and more particularly on residential construction, acquisition and development loans. Prior to 2012, many of these loans had become collateral-dependent, requiring recognition of an impairment loss to reflect the decline in real estate values. During 2012 and the first nine months of 2013, the Company continued its focus on improving credit quality and reducing NPLs, especially in the real estate construction, acquisition and development loan portfolio as evidenced by the decrease in that portfolio's nonaccrual loans by $40.5 million to $26.1 million at September 30, 2013 from $66.6 million at December 31, 2012 and a decrease of $66.2 million from $92.4 million at September 30, 2012.

The primary source of revenue for the Company is the net interest revenue earned by the Bank. Net interest revenue is the difference between interest earned on loans, investments and other earning assets and interest paid on deposits and other obligations. Net interest revenue was $100.2 million for the third quarter of 2013, a decrease of $3.1 million, or 3.0%, from $103.4 million for the third quarter of 2012. Net interest revenue was $296.5 million for the first nine months of 2013, a decrease of $17.2 million, or 5.5%, from $313.7 million for the first nine months of 2012. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. The Company's objective is to manage those assets and liabilities to maximize net interest revenue, while balancing interest rate, credit, liquidity and capital risks. The decrease in net interest revenue for the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012 was primarily a result of the larger decrease in interest revenue than the decrease in interest expense as the yield on earning assets declined by a greater amount than that of interest-bearing liabilities. The decline in earning asset yields was primarily a result of the balance in short-term investments which is the lowest yielding earning asset. Yields on interest-bearing liabilities decreased as a result of the redemption of the 8.15% trust preferred securities.

Interest revenue decreased $8.8 million, or 7.3%, in the third quarter of 2013 compared to the third quarter of 2012 and decreased $32.3 million, or 8.8%, for the first nine months of 2013 compared to the first nine months of 2012. The Company has managed to replace some loan runoff with new loan production, primarily in its Alabama, Greater Memphis Area, Texas and Louisiana markets. The decrease in interest revenue was somewhat offset by the decrease in interest expense, as the Company experienced an increase in lower rate savings deposits and noninterest demand deposits and a decrease in higher rate other time deposits, which resulted in a decrease in interest expense of $5.7 million, or 32.5%, in the third quarter of 2013 compared to the third quarter of 2012 and a decrease of $15.1 million, or 27.2%, for the first nine months of 2013 compared to the first nine months of 2012. The Company also redeemed the 8.15% trust preferred securities during the third quarter of 2013, which contributed to the reduction in interest expense for the third quarter and first nine months of 2013.

The Company attempts to diversify its revenue stream by increasing the amount of revenue received from mortgage lending operations, insurance agency activities, brokerage and securities activities and other activities that generate fee income. Management believes this diversification is important to reduce the impact of fluctuations in net interest revenue on the overall operating results of the Company. Noninterest revenue decreased $7.9 million, or 11.2%, for the third quarter of 2013 compared to the third quarter of 2012 and remained relatively stable for the first nine months of 2013 compared to the first nine months of 2012. One of the primary contributors to the decrease in noninterest revenue for the third quarter of 2013 compared to the third quarter of 2012 was the decrease in mortgage lending revenue to $5.1 million for the third quarter of 2013 compared to $13.5 million for the third quarter of 2012. Mortgage lending revenue also decreased to $35.4 million for the first nine months of 2013 compared to $39.7 million for the first nine months of 2012. The decrease in mortgage lending revenue for these periods was primarily related to the decrease in mortgage origination revenue. Mortgage origination volume decreased 43.8% to $341.9 million for the third quarter of 2013 compared to $607.9 million for the third quarter of 2012 and decreased 16.9% to $1.2 billion for the first nine months of 2013 compared to $1.4 billion for the first nine months of 2012. The decrease in mortgage lending revenue was somewhat offset by the change in fair value of MSRs. The fair value of MSRs decreased approximately $240,000 during the third quarter of 2013 compared to a decrease of $3.2 million during the third quarter of 2012 and increased $6.0 million for the first nine months of 2013 compared to a decrease of $3.3 million for the first nine months of 2012. The decrease in mortgage lending revenue for the first nine months of 2013 compared to the first nine months of 2012 was more than offset by the increase in insurance commissions, which increased 9.6% to $76.3 million for the first nine months of 2013 compared to $69.6 million for the first nine months of 2012. The increase in insurance commissions was primarily a result of policies written for and growth from existing customers. There were no significant non-recurring noninterest revenue items during the first nine months of 2013 or 2012.

Total noninterest expense decreased 3.3% to $129.4 million for the third quarter of 2013 compared to $133.8 million for the third quarter of 2012 and increased 0.3% to $407.0 million for the first nine months of 2013 compared to

$406.0 million for the first nine months of 2012. Salaries and employee benefits expense decreased to $73.5 million for the third quarter of 2013 compared to $74.8 million for the third quarter of 2012 and increased to $231.2 million for the first nine months of 2013 compared to $227.4 million for the first nine months of 2012. The decrease in salaries and employee benefits for the third quarter of 2013 compared to the third quarter of 2012 was primarily related to decreases in employee salaries resulting from a reduction in workforce after the voluntary early retirement program was accepted by certain employees that met job classification, age and years-of-service criteria in the second quarter of 2013. The increase in salaries and employee benefits for the first nine months of 2013 compared to the first nine months of 2012 was primarily related to increases in employee benefits and commissions during the first and second quarter of 2013 compared to the same period in 2012. A pre-tax charge of $10.9 million was recorded during the second quarter of 2013 related to additional benefits offered under the voluntary early retirement program previously mentioned, and a pre-tax charge of $2.9 million was recorded during the third quarter of 2013 to write-off unamortized issuance costs related to the redemption of the 8.15% trust preferred securities. No such voluntary early retirement program or redemption and resulting write-off of unamortized issuance costs were recorded in 2012.

Legal expense increased to $4.6 million in the third quarter of 2013 from $3.0 million in the third quarter of 2012 and increased to $17.9 million for the first nine months of 2013 compared to $6.2 million for the first nine months of 2012. The increase in legal expense was primarily a result of a charge of $10.7 million to legal expense during the first nine months of 2013 that was recorded to increase the litigation accrual related to various legal matters.

Noninterest expense was also impacted by the decrease in foreclosed property expense. Foreclosed property expense decreased 62.5% to $3.3 million for the third quarter of 2013 compared to $8.8 million for the third quarter of 2012 and decreased 67.5% to $8.9 million for the first nine months of 2013 compared to $27.4 million for the first nine months of 2012. Foreclosed property expense decreased primarily as a result of the Company experiencing lower losses on the sale and smaller writedowns of OREO. The Company continues to focus attention on controlling noninterest expense. The major components of net income are discussed in more detail below.

RESULTS OF OPERATIONS

Net Interest Revenue

Net interest revenue is the difference between interest revenue earned on assets, such as loans, leases and securities, and interest expense paid on liabilities, such as deposits and borrowings, and continues to provide the Company with its principal source of revenue. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest bearing liabilities. The Company's long-term objective is to manage interest-earning assets and interest-bearing liabilities to maximize net interest revenue, while balancing interest rate, credit and liquidity risk. Net interest margin is determined by dividing fully taxable equivalent net interest revenue by average earning assets. For purposes of the following discussion, revenue from tax-exempt loans and investment securities has been adjusted to a fully taxable equivalent ("FTE") basis, using an effective tax rate of 35%. The following table presents average interest earning assets, average interest bearing liabilities, net interest revenue-FTE, net interest margin-FTE and net interest rate spread for the three months and nine months ended September 30, 2013 and 2012:

	Three months ended September 30, 2013 Average Balance	Interest	Yield/ Rate	2012 Average Balance	Interest	Yield/ Rate
ASSETS	(Dollars in millions, yields on taxable equivalent basis)					
Loans and leases (net of unearned income) (1)(2)	$ 8,683.0	$ 99.7	4.55%	$ 8,716.7	$ 106.8	4.87%
Loans held for sale	78.0	0.7	3.72%	118.9	1.0	3.26%
Available-for-sale securities:						
Taxable (3)	2,178.2	8.2	1.50%	2,022.3	9.4	1.86%
Non-taxable (4)	420.6	6.0	5.61%	458.9	6.3	5.48%
Federal funds sold, securities purchased under agreement to resell and short-term investments	487.0	0.3	0.25%	608.0	0.4	0.26%
Total interest earning assets and revenue	11,846.8	114.9	3.85%	11,924.8	123.9	4.13%
Other assets	1,242.3			1,273.5		
Less: Allowance for credit losses	(160.6)			(179.3)		
Total	$ 12,928.5			$ 13,019.0		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits:						
Demand - interest bearing	$ 4,530.2	$ 2.0	0.18%	$ 4,704.9	$ 3.9	0.33%
Savings	1,216.6	0.4	0.12%	1,092.8	0.7	0.25%
Other time	2,447.3	7.3	1.18%	2,729.9	9.5	1.38%
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings	441.9	0.1	0.07%	390.1	0.1	0.09%
Junior subordinated debt securities	86.1	1.4	6.57%	160.3	2.9	7.13%
Long-term FHLB borrowings	62.8	0.5	3.19%	33.5	0.3	4.14%
Total interest bearing liabilities and expense	8,784.9	11.7	0.53%	9,111.5	17.4	0.76%
Demand deposits - noninterest bearing	2,551.8			2,328.9		
Other liabilities	117.7			146.4		
Total liabilities	11,454.4			11,586.8		
Shareholders' equity	1,474.1			1,432.2		
Total	$ 12,928.5			$ 13,019.0		
Net interest revenue-FTE		$ 103.2			$ 106.5	
Net interest margin-FTE			3.45%			3.55%
Net interest rate spread			3.32%			3.37%
Interest bearing liabilities to						

interest earning assets	74.15%	76.41%

(1) Includes taxable equivalent adjustment to interest of \$0.8 million and \$0.9 million for the three months ended September 30, 2013 and 2012, respectively, using an effective tax rate of 35%.

(2) Includes non-accrual loans.

(3) Includes taxable equivalent adjustment to interest of \$0.1 million for the three months ended September 30, 2012, using an effective tax rate of 35%.

(4) Includes taxable equivalent adjustment to interest of \$2.1 million and \$2.2 million for the three months ended September 30, 2013 and 2012, respectively, using an effective tax rate of 35%.

	Nine months ended September 30,					
	2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS	(Dollars in millions, yields on taxable equivalent basis)					
Loans and leases (net of unearned income) (1)(2)	$ 8,617.7	$ 298.9	4.64%	$ 8,747.7	$ 325.2	4.97%
Loans held for sale	85.9	2.1	3.25%	86.1	2.2	3.42%
Available-for-sale securities:						
Taxable (3)	2,142.9	25.3	1.58%	2,049.9	31.0	2.02%
Non-taxable (4)	435.9	18.1	5.54%	453.4	19.4	5.70%
Federal funds sold, securities purchased under agreement to resell and short-term investments	737.0	1.4	0.25%	595.5	1.2	0.27%
Total interest earning assets and revenue	12,019.4	345.8	3.85%	11,932.6	379.0	4.24%
Other assets	1,250.7			1,298.0		
Less: allowance for credit losses	(163.3)			(188.8)		
Total	$ 13,106.8			$ 13,041.8		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits:						
Demand - interest bearing	$ 4,708.3	$ 7.6	0.22%	$ 4,811.1	$ 12.5	0.35%
Savings	1,199.7	1.3	0.15%	1,065.2	2.1	0.26%
Other time	2,502.9	23.0	1.23%	2,820.5	31.0	1.47%
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short term borrowings	401.0	0.2	0.07%	375.5	0.3	0.09%
Junior subordinated debt securities	135.3	7.2	7.06%	160.3	8.6	7.19%
Long-term FHLB borrowings	43.4	1.2	3.71%	33.5	1.1	4.18%
Total interest bearing liabilities and expense	8,990.6	40.5	0.60%	9,266.1	55.6	0.80%
Demand deposits - noninterest bearing	2,512.9			2,239.4		
Other liabilities	132.8			136.3		
Total liabilities	11,636.3			11,641.8		
Shareholders' equity	1,470.5			1,400.0		
Total	$ 13,106.8			$ 13,041.8		
Net interest revenue-FTE		$ 305.3			$ 323.4	
Net interest margin-FTE			3.40%			3.62%
Net interest rate spread			3.24%			3.44%
Interest bearing liabilities to interest earning assets			74.80%			77.65%

(1) Includes taxable equivalent adjustment to interest of $2.5 million for both the nine months ended September 30, 2013 and 2012 using an effective tax rate of 35%.

(2) Includes non-accrual loans.

(3) Includes taxable equivalent adjustments to interest of $0.1 million for the nine months ended September 30, 2012, using an effective tax rate of 35%

(4) Includes taxable equivalent adjustment to interest of $6.3 million and $6.8 million for the nine months ended September 30, 2013 and 2012, respectively, using an effective tax rate of 35%.

Net interest revenue-FTE for the three-month period ended September 30, 2013 decreased $3.3 million, or 3.1%, compared to the same period in 2012. Net interest revenue-FTE for the nine-month period ended September 30, 2013 decreased $18.1 million, or 5.6%, compared to the same period in 2012. The decrease in net interest revenue-FTE was primarily a result of the larger decrease in interest revenue-FTE than the decrease in interest expense as the yield on earning assets declined by a greater amount than that of interest-bearing liabilities. The decline in earning asset yields was primarily a result of the balance in short-term investments which is the lowest yielding earning asset, although yields on time deposits and interest-bearing liabilities decreased. Yields on interest-bearing liabilities decreased as a result of the redemption of the 8.15% trust preferred securities.

Interest revenue-FTE for the three-month period ended September 30, 2013 decreased $9.1 million, or 7.3%, compared to the same period in 2012. Interest revenue-FTE for the nine-month period ended September 30, 2013 decreased $33.2 million, or 8.8%, compared to the same period in 2012. The decrease in interest revenue-FTE for these periods was a result of the increase in lower rate securities combined with the declining loan yields, as interest rates continued to be at historically low levels resulting in a decrease in the yield on average interest-earning assets of 28 basis points for the third quarter of 2013 compared to the same period in 2012 and 39 basis points for the first nine months of 2013 compared to the same period in 2012. Average interest-earning assets decreased $78.0 million, or 0.7%, for the three-month period ended September 30, 2013, compared to the same period in 2012. Average interest-earning assets increased $86.8 million, or 0.7%, for the nine-month period ended September 30, 2013, compared to the same period in 2012. While average interest-earning assets increased for the nine-month period ended September 30, 2013, compared to the same period in 2012 as a result of the larger increase in short-term investments resulting from excess liquidity than the decrease in net loans and leases, average interest-earning assets decreased for the third quarter of 2013 compared to the third quarter of 2012 as short-term investments were utilized in the redemption of the 8.15% trust preferred securities during the third quarter of 2013 resulting in a decrease in the quarterly average balance for short-term investments.

Interest expense for the three-month period ended September 30, 2013 decreased $5.7 million, or 32.5%, compared to the same period in 2012. Interest expense for the nine-month period ended September 30, 2013 decreased $15.1 million, or 27.2%, compared to the same period in 2012. The decrease in interest expense for these periods was a result of the increase in average lower cost savings deposits combined with the decrease in interest bearing and other time deposit and their corresponding rates. Also, 8.15% trust preferred securities were redeemed during the third quarter of 2013 resulting in a decrease in interest expense related to junior subordinated debt securities, as well as in the rates paid on those securities. This combined activity resulted in an overall decrease in the average rate paid of 23 basis points for the third quarter of 2013 compared to the third quarter of 2012 and 20 basis points for the first nine months of 2013 compared to the first nine months of 2012. Average interest bearing liabilities decreased $326.6 million, or 3.6%, for the three-month period ended September 30, 2013 compared to the same period in 2012. Average interest bearing liabilities decreased $275.5 million, or 3.0%, for the nine-month period ended September 30, 2013 compared to the same period in 2012. The decrease in average interest bearing liabilities for these periods was a result of increases in average lower cost savings deposits being more than offset by decreases in average interest bearing demand deposits and other time deposits, as well as decreases in average junior subordinated debt resulting from the redemption of the 8.15% trust preferred securities during the third quarter of 2013.

Net interest margin was 3.45% for the three months ended September 30, 2013, a decrease of 10 basis points from 3.55% for the three months ended September 30, 2012. Net interest margin was 3.40% for the nine months ended September 30, 2013, a decrease of 22 basis points from 3.62% for the nine months ended September 30, 2012. The decrease in the net interest margin for these periods was due to the yield on earning assets declining by a greater amount than that of interest-bearing liabilities with this decline in earning asset yield primarily a result of the increase in the balance in short-term investments, the lowest yielding earning asset. The decrease in net interest margin is somewhat offset by the redemption of the trust preferred securities.

Interest Rate Sensitivity

The interest rate sensitivity gap is the difference between the maturity or re-pricing opportunities of interest sensitive assets and interest sensitive liabilities for a given period of time. A prime objective of the Company's 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 September 30, 2013:

	Interest Rate Sensitivity - Maturing or Repricing Opportunities			
	0 to 90 Days	91 Days to One Year	Over One Year to Five Years	Over Five Years
	(In thousands)			
Interest earning assets:				
Interest bearing deposits with banks	$ 361,401	$ -	$ -	$ -
Available-for-sale and trading securities	221,871	525,507	1,374,564	432,214
Loans and leases, net of unearned income	3,356,464	1,839,031	3,265,246	312,374
Loans held for sale	50,293	572	3,296	22,953
Total interest earning assets	3,990,029	2,365,110	4,643,106	767,541
Interest bearing liabilities:				
Interest bearing demand deposits and savings	5,713,586	-	-	-
Other time deposits	484,658	1,070,033	851,702	205
Federal funds purchased and securities sold under agreement to repurchase, short-term FHLB borrowings and other short-term borrowings	418,623	-	-	-
Long-term debt and junior subordinated debt securities	-	-	53,500	61,446
Other	-	-	45	-
Total interest bearing liabilities	6,616,867	1,070,033	905,247	61,651
Interest rate sensitivity gap	$ (2,626,838)	$ 1,295,077	$ 3,737,859	$ 705,890
Cumulative interest sensitivity gap	$ (2,626,838)	$ (1,331,761)	$ 2,406,098	$ 3,111,988

In the event interest rates increase after September 30, 2013, based on this interest rate sensitivity gap, the Company could experience decreased net interest revenue in the following one-year period, as the cost of funds could increase at a more rapid rate than interest revenue on interest-earning assets. However, the Company's historical repricing sensitivity on interest-bearing demand deposits and savings suggests that these deposits, while having the ability to reprice in conjunction with rising market rates, often exhibit less repricing sensitivity to a change in market rates, thereby somewhat reducing the exposure to rising interest rates. In the event interest rates decline after September 30, 2013, based on this interest rate sensitivity gap, it is possible that the Company could experience slightly increased net interest revenue in the following one-year period. However, any potential benefit to net interest revenue in a falling rate environment is mitigated by implied rate floors on interest-bearing demand deposits and savings resulting from the historically low interest rate environment. It should be noted that the balances shown in the table above are at September 30, 2013 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 elevated 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.

As of September 30, 2013, the Bank had $1.7 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 4.32%, an average maturity of 47 months and a fully-indexed interest rate of 3.77% at September 30, 2013. 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 Bank's prime rate, the Wall Street Journal prime rate and the London Interbank Offering Rate. At September 30, 2013, the Company had $666.7 million, $1.2 billion and $658.5 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 in the tables 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 September 30, 2013 and 2012 was not considered meaningful because of the historically low interest rate environment. However, the risk exposure should be mitigated by any downward rate shifts. Variances were calculated from the base case scenario, which reflected prevailing market rates, and the net interest income forecasts used in the calculations spanned 12 months for each scenario.

For the tables below, average life assumptions and beta values for non-maturity deposits were estimated based on the historical behavior rather than assuming an average life of one day and a beta value of 1, or 100%. Historical behavior suggests that non-maturity deposits have longer average lives for which to discount expected cash flows and lower beta values for which to re-price expected cash flows. The former results in a higher premium derived from the present value calculation, while the latter results in a slower rate of change and lower change in interest rate paid given a change in market rates. Both have a positive impact on the EVE calculation for rising rate shocks. Calculations using these assumptions are designed to delineate more precise risk exposure under the various shock scenarios. While the falling rate shocks are not considered meaningful in the historically low interest rate environment, the risk profile would be negatively impacted by downward rate shifts under these assumptions.

	Net Interest Income	
	% Variance from Base Case Scenario	
Rate Shock	September 30, 2013	September 30, 2012
+400 basis points	7.4%	21.1%
+300 basis points	9.1%	18.9%
+200 basis points	10.3%	14.9%
+100 basis points	4.9%	6.9%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

	Economic Value of Equity	
	% Variance from Base Case Scenario	
Rate Shock	September 30, 2013	September 30, 2012
+400 basis points	23.9%	24.5%
+300 basis points	19.3%	22.7%
+200 basis points	13.4%	18.7%
+100 basis points	7.1%	9.7%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

	Net Interest Income	
	% Variance from Base Case Scenario	
Rate Ramp	September 30, 2013	September 30, 2012
+200 basis points	4.1%	7.1%
-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 Board of Directors has appointed a Credit Committee, composed of senior management and loan administration staff which meets on a quarterly basis to review the recommendations of several internal working groups developed for specific purposes including the allowance for loans and lease losses, impairments and charge-offs. The allowance for loan and lease losses group ("ALLL group") 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 ALLL group is responsible for ensuring that the allowance for credit losses provides coverage of both known and inherent losses. The ALLL group meets at least quarterly to determine the amount of adjustments to the allowance for credit losses. The ALLL group 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 group. 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 impairment group 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 or her credit administrator is required to prepare an impairment analysis to be reviewed by the impairment group. The impairment group deems that a loan is impaired if it is probable that the Company will be unable to collect all the contractual principal and interest on the loan. The impairment group 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 group 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 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 $500,000 or more that become 60 or more days past due are identified for review by the impairment group, which decides whether an impairment exists and to what extent a specific allowance for credit loss should be made. Loans that do not meet these requirements may also be identified by management for impairment review, particularly if the loan is a small loan that is part of a larger relationship. 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 group 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 $500,000 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 September 30, 2013, impaired loans totaled $79.7 million, which was net of cumulative charge-offs of $27.2 million. Additionally, the Company had specific reserves for impaired loans of $3.8 million included in the allowance for credit losses. Impaired loans at September 30, 2013 were primarily from the Company's commercial real estate and construction, acquisition and development 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 180-360 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, OREO 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.

The following table provides an analysis of the allowance for credit losses for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Balance, beginning of period	$ 161,047	$ 175,847	$ 164,466	$ 195,118
Loans and leases charged off:				
Commercial and industrial	(889)	(4,334)	(3,835)	(10,188)
Real estate				
Consumer mortgages	(2,996)	(2,299)	(7,724)	(9,333)
Home equity	(379)	(270)	(1,182)	(1,657)
Agricultural	(169)	(302)	(498)	(784)
Commercial and industrial-owner occupied	(1,684)	(994)	(2,814)	(7,594)
Construction, acquisition and development	(1,727)	(6,845)	(4,961)	(27,799)
Commercial real estate	(2,441)	(2,633)	(9,302)	(8,702)
Credit cards	(750)	(540)	(1,757)	(1,690)
All other	(837)	(731)	(1,791)	(1,927)
Total loans charged off	(11,872)	(18,948)	(33,864)	(69,674)
Recoveries:				
Commercial and industrial	820	1,007	2,156	3,589
Real estate				
Consumer mortgages	1,516	256	3,332	1,017
Home equity	66	37	510	430
Agricultural	48	53	181	116
Commercial and industrial-owner occupied	297	270	1,990	2,135
Construction, acquisition and development	953	2,676	2,199	6,786
Commercial real estate	221	1,443	4,194	6,330
Credit cards	164	144	496	383
All other	214	234	814	789
Total recoveries	4,299	6,120	15,872	21,575
Net charge-offs	(7,573)	(12,828)	(17,992)	(48,099)
Provision charged to operating expense	500	6,000	7,500	22,000

Balance, end of period	$ 153,974	$ 169,019	$ 153,974	$ 169,019
Average loans for period	$ 8,682,966	$ 8,716,646	$ 8,617,699	$ 8,747,690
Ratios:				
Net charge-offs to average loans (annualized)	0.35%	0.59%	0.28%	0.73%
Provision for credit losses to average loans and leases, net of unearned income (annualized)	0.02%	0.28%	0.12%	0.34%
Allowance for credit losses to loans and leases, net of unearned income	1.76%	1.95%	1.76%	1.95%

Net charge-offs decreased $5.3 million, or 41.0%, in the third quarter of 2013 compared to the third quarter of 2012 and decreased $30.1 million, or 62.6%, in the first nine months of 2013 compared to the first nine months of 2012. Decreases in net charge-offs in the third quarter and first nine months of 2013, coupled with a decline in NPLs and nonaccrual loan formation, contributed to a lower provision for credit losses of $0.5 million and $7.5 million during the third quarter and first nine months of 2013, respectively, compared to a provision of $6.0 million and $22.0 million in the same periods of 2012.

Annualized net charge-offs as a percentage of average loans and leases decreased to 0.35% and 0.28% for

the third quarter and first nine months of 2013, respectively, compared to 0.59% and 0.73% for the third quarter and first nine months of 2012, respectively. These decreases were primarily a result of decreased losses within the real estate construction, acquisition and development segment of the Company’s loan and lease portfolio. The losses experienced in this segment 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. This process resulted in the decreased level of charge-offs in the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012, as updated appraisals came in closer to loan carrying values. Total recoveries were $4.3 million and $15.9 million for the three-month and nine-month periods ended September 30, 2013, respectively, compared to $6.1 million and $21.6 million for the three-month and nine-month periods ended September 30, 2012, respectively.

The provision for credit losses decreased to $0.5 million and $7.5 million for the third quarter and first nine months of 2013, respectively, compared to $6.0 million and $22.0 million for the third quarter and first nine months of 2012, respectively. The decrease in the provision for credit losses for these periods was a result of the 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. As of September 30, 2013 and 2012, 65.7% and 80.2%, 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 71% and 70% of their contractual principal balance at September 30, 2013 and 2012, respectively. Non-accrual loans not impaired are loans that either fall below the impairment threshold or are not determined to be collaterally dependant.

The allowance for credit losses decreased $15.0 million to $154.0 million at September 30, 2013 compared to $169.0 million at September 30, 2012. The decrease was a result of improving credit metrics since September 30, 2012, including reductions in classified, non-performing and impaired loans and lower net charge-off levels.

The breakdown of the allowance by loan and lease category 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 or losses. The following table presents (i) the breakdown of the allowance for credit losses by 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 indicated:

	September 30, 2013		2012		December 31, 2012	
	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases
	(Dollars in thousands)					
Commercial and industrial	$ 19,332	17.1%	$ 21,705	16.9%	$ 23,286	17.1%
Real estate						
Consumer mortgages	36,367	21.9%	28,216	21.7%	35,966	21.6%
Home equity	5,660	5.6%	5,921	5.7%	6,005	5.6%
Agricultural	2,802	2.7%	2,654	2.9%	3,301	3.0%
Commercial and industrial-owner occupied	17,714	16.1%	19,319	15.0%	20,178	15.4%
	12,925	8.2%	32,542	9.4%	21,905	8.5%

Construction, acquisition and development						
Commercial real estate	44,788	20.4%	42,171	19.9%	40,081	20.2%
Credit cards	3,582	1.2%	3,169	1.2%	3,611	1.2%
All other	10,804	6.8%	13,322	7.3%	10,133	7.4%
Total	$ 153,974	100.0%	$ 169,019	100.0%	$ 164,466	100.0%

Noninterest Revenue

The components of noninterest revenue for the three months and nine months ended September 30, 2013 and 2012 and the corresponding percentage changes are shown in the following tables:

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	Three months ended September 30, 2013	2012	% Change
	(Dollars in thousands)		
Mortgage lending	$ 5,134	$ 13,549	(62.1) %
Credit card, debit card and merchant fees	8,834	8,270	6.8
Deposit service charges	13,679	14,189	(3.6)
Trust income	3,332	3,101	7.4
Securities gains, net	(5)	39	(112.8)
Insurance commissions	23,800	23,519	1.2
Annuity fees	719	548	31.2
Brokerage commissions and fees	2,005	1,782	12.5
Bank-owned life insurance	1,954	1,750	11.7
Other miscellaneous income	3,062	3,673	(16.6)
Total noninterest revenue	$ 62,514	$ 70,420	(11.2) %

	Nine months ended September 30, 2013	2012	% Change
	(Dollars in thousands)		
Mortgage lending	$ 35,372	$ 39,731	(11.0) %
Credit card, debit card and merchant fees	24,681	23,580	4.7
Deposit service charge	39,335	43,002	(8.5)
Trust income	9,734	8,522	14.2
Securities gains, net	17	290	(94.1)
Insurance commissions	76,303	69,636	9.6
Annuity fees	1,745	1,825	(4.4)
Brokerage commissions and fees	6,166	4,999	23.3
Bank-owned life insurance	5,849	6,175	(5.3)
Other miscellaneous income	10,739	11,488	(6.5)
Total noninterest revenue	$ 209,941	$ 209,248	0.3 %

The Company’s revenue from mortgage lending typically fluctuates as mortgage interest rates change and is primarily attributable to two activities - origination and sale of new mortgage loans and servicing mortgage loans. Since the Company does not hedge the change in fair value of its MSRs, mortgage revenue can be significantly affected by changes in the valuation of MSRs in changing interest rate environments. The Company’s normal practice is to originate mortgage loans for sale in the secondary market and to either retain or release the associated MSRs with the loan sold. 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 FASB ASC 860, Transfers and Servicing.

In the course of conducting the Company's mortgage lending activities of originating mortgage loans and selling those loans in the secondary market, various representations and warranties are made to the purchasers of the mortgage loans. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (i.e., make whole requests) if such failure cannot be cured by the Company within the specified period following discovery. During the first nine months of 2013, 15 mortgage loans totaling approximately $750,000 were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. A loss of approximately $597,000 was recognized related to these repurchased or make whole loans. During the first nine months of 2012, 14 mortgage loans totaling $2.3 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. A loss of approximately $449,000 was recognized related to these repurchased or make whole loans.

At September 30, 2013, the Company had accrued approximately $911,000 for its estimate of losses from representation and warranty obligations. The reserve was based on the Company's repurchase and loss trends, and quantitative and qualitative factors that may result in anticipated losses different than historical loss trends, including loan vintage, underwriting characteristics and macroeconomic trends.

Management believes that the Company's foreclosure process related to mortgage loans continues to operate effectively. Before beginning the foreclosure process, a mortgage loan foreclosure working group of the Bank reviews the identified delinquent loan. All documents and activities related to the foreclosure process are executed in-house by mortgage department personnel.

Origination revenue, a component of mortgage lending revenue, is comprised of gains or losses from the sale of the mortgage loans originated, origination fees, underwriting fees and other fees associated with the origination of loans. Mortgage loan origination volumes of $341.9 million and $607.9 million produced origination revenue of $2.9 million and $15.3 million for the quarters ended September 30, 2013 and 2012, respectively. Mortgage loan origination volumes of $1.2 billion and $1.4 billion produced origination revenue of $22.5 million and $38.2 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease in mortgage origination revenue at September 30, 2013 compared to September 30, 2012 is primarily a result of interest rate volatility during the quarter, as well as the decrease in origination volume.

Revenue from the servicing process, another component of mortgage lending revenue, includes fees from the actual servicing of loans. Revenue from the servicing of loans was $4.1 million and $3.6 million for the quarters ended September 30, 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, revenue from the servicing of loans was $11.8 million and $10.6 million, respectively.

Changes in the fair value of the Company's MSRs are generally a result of changes in mortgage interest rates from the previous reporting date. An increase in mortgage interest rates typically results in an increase in the fair value of the MSRs while a decrease in mortgage interest rates typically results in a decrease in the fair value of MSRs. The fair value of MSRs is also impacted by principal payments, prepayments and payoffs on loans in the servicing portfolio. Decreases in value from principal payments, prepayments and payoffs were $1.6 million and $2.2 million for the third quarter of 2013 and 2012, respectively. Decreases in value from principal payments, prepayments and payoffs were $5.0 million and $5.6 million for the nine months ended September 30, 2013 and 2012, respectively. The Company does not hedge the change in fair value of its MSRs and is susceptible to significant fluctuations in their value in a changing interest rate environment. Reflecting this sensitivity to interest rates, the fair value of MSRs decreased approximately $240,000 and $3.2 million for the third quarter of 2013 and 2012, respectively, and increased $6.0 million and decreased $3.3 million for the first nine months of 2013 and 2012, respectively.

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	Three months ended September 30,		
	2013	2012	% Change
	(Dollars in thousands)		
Mortgage revenue:			

Origination	$ 2,862	$ 15,326	(81.3)%
Servicing	4,072	3,610	12.8
Payoffs/Paydowns	(1,560)	(2,181)	(28.5)
MSR market value adjustment	(240)	(3,206)	NM
Mortgage lending revenue	$ 5,134	$ 13,549	(62.1)%
	(Dollars in millions)		
Origination volume	$ 342	$ 608	(43.8)%

NM=Not meaningful

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	Nine months ended September 30,		
	2013	2012	% Change
	(Dollars in thousands)		
Mortgage revenue:			
Origination	$ 22,520	$ 38,165	(41.0)%
Servicing	11,807	10,556	11.9
Payoffs/Paydowns	(5,004)	(5,644)	(11.3)
MSR market value adjustment	6,049	(3,346)	NM
Mortgage lending revenue	$ 35,372	$ 39,731	(11.0)
	(Dollars in millions)		
Origination volume	$ 1,203	$ 1,447	(16.9)
Mortgage loans serviced at period-end	$ 5,544	$ 4,841	14.5

NM=Not meaningful

Credit card, debit card and merchant fees, as well as deposit service charges, remained relatively stable for the comparable three-month and nine-month periods. Changes in banking regulations and, in particular, the Federal Reserve's rules pertaining to certain overdraft payments on consumer accounts and the FDIC's Overdraft Payment Programs and Consumer Protection Final Overdraft Payment Supervisory Guidance, resulted in continued decreases in insufficient fund fees during the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012. As a result, deposit service charges, which include insufficient fund fees, decreased for the three-month and nine-month periods ended September 30, 2013 compared to the same period in 2012. The Company has taken steps to mitigate the impact of these regulations on the Company's service charge revenue by offering new deposit products to customers.

Trust income increased during the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012 primarily as a result of increases in the assets under management or in custody combined with fees generated by customers added during 2012 and the first nine months of 2013. Net security losses of approximately $5,000 and gains of approximately $17,000 for the three-month and nine-month periods ended September 30, 2013, respectively, and gains of approximately $39,000 and $290,000 for the three-month and nine-month periods ended September 30, 2012, respectively, were a result of calls and sales of available-for-sale securities.

Insurance commissions increased for the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012 as a result of new policies and growth from existing customers coupled with the revenue contributed by the acquisition of certain assets of The Securance Group, Inc. on July 2, 2012. While annuity fees increased 31.2% during the third quarter of 2013 compared to the third quarter of 2012, annuity fees decreased 4.4% for the comparable nine-month periods as a result of fewer annuity sales combined with reduced commissions on those sales. Brokerage commissions and fees increased by 12.5% and 23.3% for the comparable three-month and nine-month periods, respectively, as a result of the increase in sales of real estate investment trust products. While bank-owned life insurance revenue increased 11.7% for the third quarter of 2013 compared to the third quarter of 2012, bank-owned life insurance revenue decreased 5.3% for the first nine months of 2013 compared to the first nine months of 2012 as a result of the Company recording life insurance proceeds of approximately $872,000 during the first three months of 2012 with no life insurance proceeds recorded during the first nine months of 2013. Other miscellaneous income, which includes safe deposit box rental income, gain or loss on disposal of assets, and other non-recurring revenue items, remained relatively stable for the comparable three-month and nine-months periods of 2013 and 2012.

Noninterest Expense

The components of noninterest expense for the three months and nine months ended September 30, 2013 and 2012 and the corresponding percentage changes are shown in the following tables:

	Three months ended September 30,			
	2013	2012	% Change	
	(Dollars in thousands)			
Salaries and employee benefits	$ 73,532	$ 74,829	(1.7)	%
Occupancy, net	10,360	10,944	(5.3)	
Equipment	4,555	5,083	(10.4)	
Deposit insurance assessments	3,325	3,998	(16.8)	
Voluntary early retirement expense	-	-	-	
Write-off and amortization of bond issue cost	2,907	38	7,550.0	
Advertising	1,210	1,081	11.9	
Foreclosed property expense	3,298	8,794	(62.5)	
Telecommunications	2,227	2,118	5.1	
Public relations	1,105	1,309	(15.6)	
Data processing	2,772	2,312	19.9	
Computer software	2,190	1,856	18.0	
Amortization of intangibles	686	861	(20.3)	
Legal fees	4,626	3,004	54.0	
Postage and shipping	1,027	1,060	(3.1)	
Other miscellaneous expense	15,577	16,501	(5.6)	
Total noninterest expense	$ 129,397	$ 133,788	(3.3)	%

	Nine months ended September 30,			
	2013	2012	% Change	
	(Dollars in thousands)			
Salaries and employee benefits	$ 231,230	$ 227,421	1.7	%
Occupancy, net of rental income	31,174	31,497	(1.0)	
Equipment	14,088	15,540	(9.3)	
Deposit insurance assessments	9,068	13,375	(32.2)	
Voluntary early retirement expense	10,850	-	NM	

Write-off and amortization of bond issue cost	2,983	114	2,516.7
Advertising	3,122	2,824	10.6
Foreclosed property expense	8,897	27,415	(67.5)
Telecommunications	6,510	6,347	2.6
Public relations	3,285	4,130	(20.5)
Data processing	8,023	7,520	6.7
Computer software	6,299	5,445	15.7
Amortization of intangibles	2,151	2,366	(9.1)
Legal fees	17,888	6,201	188.5
Postage and shipping	3,236	3,348	(3.3)
Other miscellaneous expense	48,215	52,431	(8.0)
Total noninterest expense	$ 407,019	$ 405,974	0.3 %

NM=Not Meaningful

Salaries and employee benefits expense, as well as occupancy expense, for the three months and nine months ended September 30, 2013 remained stable compared to the same periods in 2012. Equipment expense decreased for the comparable three-month and nine-month periods primarily because of decreased depreciation. Deposit insurance assessments decreased for the comparable three-month and nine-month periods as a result of improvement evidenced in several variables utilized by the FDIC in calculating the deposit insurance assessment.

A pre-tax charge of $10.9 million was recorded during the second quarter of 2013 related to additional benefits offered under the voluntary early retirement program that was offered to certain employees that met job classification, age and years-of-service criteria. No such expenses were recorded during 2012.

A pre-tax charge of $2.9 million was recorded during the third quarter to write-off unamortized issuance costs related to the redemption of the 8.15% trust preferred securities. No such redemption and resulting unamortized issuance costs were recorded in 2012.

Foreclosed property expense decreased for the three months and nine months ended September 30, 2013 compared to the same periods in 2012, as the Company experienced lower losses on the sales and smaller writedowns of OREO as a result of smaller declines in property values attributable to the prevailing economic environment combined with decreased other foreclosed property expenses as a result of the decrease in the number of properties owned. During the first nine months of 2013, the Company added $21.4 million to OREO through foreclosures. Sales of OREO in the first nine months of 2013 were $42.8 million, resulting in a net loss of approximately $318,000. The components of foreclosed property expense for the three months and nine months ended September 30, 2013 and 2012 and the percentage change between periods are shown in the following tables:

	Three months ended September 30,		
	2013	2012	% Change
	(Dollars in thousands)		
Loss on sale of other real estate owned	$ 352	$ 765	(54.0)%
Writedown of other real estate owned	1,788	6,280	(71.5)
Other foreclosed property expense	1,158	1,749	(33.8)
Total foreclosed property expense	$ 3,298	$ 8,794	(62.5)%

	Nine months ended September 30,		
	2013	2012	% Change
	(Dollars in thousands)		
Loss on sale of other real estate owned	$ 318	$ 4,243	(92.5)%
Writedown of other real estate owned	5,007	16,204	(69.1)
Other foreclosed property expense	3,572	6,968	(48.7)
Total foreclosed property expense	$ 8,897	$ 27,415	(67.5)%

While the Company experienced some fluctuations in various components of other noninterest expense, including advertising, public relations and data processing, total legal expense increased for the three months and nine months ended September 30, 2013 compared to the same periods in 2012 primarily as a result of increased litigation reserves related to various legal matters.

Income Tax

The Company recorded income tax expense of $8.0 million for the third quarter of 2013, compared to an income tax expense of $10.2 million for the third quarter of 2012. Income tax expense was $25.5 million for the nine month period ended September 30, 2013 and $27.7 million for the nine month period ended September 30, 2012. Because of the volatility on the Company's earnings, the Company's tax calculations were based on actual results of operations, including tax preference items through September 30, 2013. The primary differences between the Company's recorded expense for the first nine months of 2013 and the expense that would have resulted from applying the U.S. statutory tax rate of 35% to the Company's pre-tax income were primarily the effects of tax-exempt income, other tax preference items and uncertain tax positions. During the third quarter of 2013, a $1.3 million tax benefit was recorded as a result of the resolution of an uncertain tax position. The uncertain tax position related to the review of the tax treatment of items during the tax years 2007 through 2009. The review was resolved in our favor during the third quarter, resulting in the reversal of the FASB Interpretation Number 48 reserve for the matter.

FINANCIAL CONDITION

The percentage of earning assets to total assets measures the effectiveness of management's efforts to invest available funds into the most efficient and profitable uses. Earning assets at September 30, 2013 were $11.8 billion, or 91.1% of total assets, compared with $12.2 billion, or 90.9% of total assets, at December 31, 2012.

Loans and Leases

The Bank's loan and lease portfolio represents the largest single component of the Company's earning asset base, comprising 73.3% of average earning assets during the third quarter of 2013. The Bank's lending activities include both commercial and consumer loans and leases. Loan and lease 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 and leases that vary depending on the size and nature of the loan or lease, and applies these procedures in a disciplined manner. The Company's loans and leases are widely diversified by borrower and industry. Loans and leases, net of unearned income, totaled $8.8 billion and $8.6 billion at September 30, 2013 and December 31, 2012, respectively.

The following table shows the composition of the Company's gross loans and leases by segment and class at the dates indicated:

	September 30, 2013	2012	December 31, 2012
	(In thousands)		
Commercial and industrial	$ 1,510,035	$ 1,471,563	$ 1,484,788
Real estate			
Consumer mortgages	1,931,171	1,888,783	1,873,875
Home equity	490,361	492,833	486,074
Agricultural	234,547	257,733	256,196

Commercial and industrial-owner occupied	1,422,077	1,309,631	1,333,103
Construction, acquisition and development	723,609	823,692	735,808
Commercial real estate	1,795,352	1,738,516	1,748,881
Credit cards	105,112	101,405	104,884
All other	594,128	632,559	649,143
Total	$ 8,806,392	$ 8,716,715	$ 8,672,752

The following table shows the Company's loans and leases, net of unearned income by segment, class and geographical location as of September 30, 2013:

	Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas an Louisian
Commercial and industrial	$ 82,158	$ 167,672	$ 280,961	$ 30,080	$ 22,350	$ 81,512	$ 25
Real estate							
Consumer mortgages	119,583	254,133	696,396	61,622	97,748	156,788	484,890
Home equity	64,712	39,351	164,095	21,443	67,668	68,951	61,879
Agricultural	8,570	74,355	55,503	3,918	15,212	11,869	60,186
Commercial and industrial-owner occupied	165,153	174,315	471,711	60,402	96,102	86,582	277,303
Construction, acquisition and development	91,974	67,271	185,174	26,834	79,615	104,400	135,489
Commercial real estate	264,623	303,769	276,522	195,627	101,268	96,988	408,417
Credit cards	-	-	-	-	-	-	-
All other	35,094	60,041	154,391	2,661	48,839	40,976	88,651
Total	$ 831,867	$ 1,140,907	$ 2,284,753	$ 402,587	$ 528,802	$ 648,066	$ 1,77

* Excludes the Greater Memphis Area.

The maturity distribution of the Bank's loan portfolio is one factor in management's evaluation by collateral type of the risk characteristics of the loan and lease portfolio. The following table shows the maturity distribution of the Company's loans and leases, net of unearned income, as of September 30, 2013:

	Past Due	One Year or Less	One to Five Years	After Five Years	Total
	(In thousands)				
Commercial and industrial	$ 2,320	$ 893,215	$ 425,987	$ 182,287	$ 1,503,809
Real estate					
Consumer mortgages	4,842	381,784	1,004,975	539,570	1,931,171
Home equity	176	239,069	250,975	141	490,361

Agricultural	2,810	56,906	112,330	62,501	234,547
Commercial and industrial-owner occupied	831	201,523	609,833	609,890	1,422,077
Construction, acquisition and development	11,541	418,260	223,847	69,961	723,609
Commercial real estate	12,197	368,793	882,259	532,103	1,795,352
Credit cards	-	105,112	-	-	105,112
All other	813	208,713	277,506	80,045	567,077
Total	$ 35,530	$ 2,873,375	$ 3,787,712	$ 2,076,498	$ 8,773,115

Commercial and Industrial - Commercial and industrial loans are loans and leases to finance business operations, equipment and owner-occupied facilities primarily for small and medium-sized enterprises. These include both lines of credit for terms of one year or less and term loans which are amortized over the useful life of the assets financed. Personal guarantees are generally required for these loans. Also included in this category are loans to finance agricultural production. Commercial and industrial loans outstanding increased 1.8% from December 31, 2012 to September 30, 2013.

Real Estate – Consumer Mortgages - Consumer mortgages are first- or second-lien loans to consumers secured by a primary residence or second home. These loans are generally amortized over terms up to 15 or 20 years with maturities of three to five years. The loans are generally secured by properties located within the local market area of the community bank which originates and services the loan. These loans are underwritten in accordance with the Bank's general loan policies and procedures which require, among other things, proper documentation of each borrower's financial condition, satisfactory credit history and property value. Consumer mortgages outstanding increased 3.1% at September 30, 2013 compared to December 31, 2012. In addition to loans originated through the Bank's branches, the Bank originates and services consumer mortgages sold in the secondary market which are underwritten and closed pursuant to investor and agency guidelines. The Bank's exposure to sub-prime mortgages is minimal.

Real Estate – Home Equity - Home equity loans include revolving credit lines which are secured by a first or second lien on a borrower's residence. Each loan is underwritten individually by lenders who specialize in home equity lending and must conform to Bank lending policies and procedures for consumer loans as to borrower's financial condition, ability to repay, satisfactory credit history and the condition and value of collateral. Properties securing home equity loans are generally located in the local market area of the Bank branch or office originating and servicing the loan. The Bank has not purchased home equity loans from brokers or other lending institutions. Home equity loans outstanding remained stable during the first nine months of 2013, decreasing by 0.9% at September 30, 2013 compared to December 31, 2012.

Real Estate – Agricultural - Agricultural loans include loans to purchase agricultural land and production lines secured by farm land. Agricultural loans outstanding decreased 8.5% from December 31, 2012 to September 30, 2013.

Real Estate – Commercial and Industrial-Owner Occupied - Commercial and industrial-owner occupied loans include loans secured by business facilities to finance business operations, equipment and owner-occupied facilities primarily for small and medium-sized enterprises. These include both lines of credit for terms of one year or less and term loans which are amortized over the useful life of the assets financed. Personal guarantees are generally required for these loans. Commercial and industrial-owner occupied loans increased 6.7% from December 31, 2012 to September 30, 2013.

Real Estate – Construction, Acquisition and Development - Construction, acquisition and development loans include both loans and credit lines for the purpose of purchasing, carrying and developing land into commercial developments or residential subdivisions. Also included are loans and lines for construction of residential, multi-family and commercial buildings. Prior to March 2010, these loans were often structured with interest reserves to fund interest costs during the construction and development period. Additionally, certain loans are structured with interest only terms. The Bank primarily engages in construction and development lending only in local markets served by its branches. The weakened economy and housing market has negatively impacted builders and developers in particular. Sales of finished houses slowed during 2009 and activity has remained slow since then, which has resulted in lower demand for residential lots and development land. The Company curtailed the origination of new construction, acquisition and development loans significantly during 2009 and the Company has continued to maintain that strategy. Although a slight increase in construction, acquisition and development loans was noticed during the third quarter of 2013, construction, acquisition and development loans decreased 1.7% from December 31, 2012 to September 30, 2013.

The underwriting process for construction, acquisition and development loans with interest reserves is essentially the same as that for a loan without interest reserves and may include analysis of borrower and guarantor financial strength, market demand for the proposed project, experience and success with similar projects, property values, time horizon for project completion and the availability of permanent financing once the project is completed. The

Company’s loan policy generally prohibits the use of interest reserves on loans originated after March 2010. Construction, acquisition and development loans, with or without interest reserves, are inspected periodically to ensure that the project is on schedule and eligible for requested draws. Inspections may be performed by construction inspectors hired by the Company or by appropriate loan officers and are done periodically to monitor the progress of a particular project. These inspections may also include discussions with project managers and engineers. For performing construction, acquisition and development loans, interest is generally recognized as interest income as it is earned. Non-performing construction, acquisition and development loans are placed on non-accrual status and interest income is not recognized, except in those situations where principal is expected to be received in full. In such situations, interest income is recognized as payment is received.

At September 30, 2013, the Company had $12.2 million in construction, acquisition and development loans that provided for the use of interest reserves with approximately $121,000 and $267,000 recognized as interest income during the third quarter and first nine months of 2013, respectively. The amount of construction, acquisition and development loans with interest reserves that were on non-accrual status was approximately $190,000 at September 30, 2013. Interest income is not recognized on construction, acquisition and development loans with interest reserves that are in non-accrual status. Loans with interest reserves normally have a budget that includes the various cost components involved in the project. Interest is such a cost, along with hard and other soft costs. The Company’s policy is to allow interest reserves only during the construction phase.

So that interest capitalization is appropriate, interest reserves are not included for any renewal period after construction is completed or otherwise ceases, requiring borrowers to make interest payments no less than quarterly. Loans for which construction is complete, or has ceased, and where interest payments are not made on a timely basis are usually considered non-performing and are placed in nonaccrual status. Procedures are in place to restrict the structuring of a loan with terms that do not require performance until the end of the loan term, as well as to restrict the advancement of funds to keep a loan from becoming non-performing with any such advancement identified as a TDR.

On a case-by-case basis, a construction, acquisition and development loan may be extended, renewed or restructured. Loans are sometimes extended for a short period of time (generally 90 days or less) beyond the contractual maturity to facilitate negotiations or allow the borrower to gain other financing or acquire more recent note-related information, such as appraisals or borrower financial statements. These short-term extensions are not ordinarily accounted for as TDRs if the loan and project are performing in accordance with the terms of the loan agreement and/or promissory note. Construction, acquisition and development loans may be renewed when the borrower has satisfied the terms and conditions of the original loan, including payment of interest, and when management believes that the borrower is able to continue to meet the terms of the renewed note during the renewal period. Many loans are structured to mature at the conclusion of the construction or development period or at least annually. If concessions are granted to a borrower as a result of its financial difficulties, the loan is classified as a TDR and analyzed for impairment.

The Bank’s real estate risk management group is responsible for reviewing and approving the structure and classification of all construction, acquisition and development loan renewals and modifications above a threshold of $500,000. The analysis performed by the real estate risk management group may include the review of updated appraisals, borrower and guarantor financial condition, construction status and proposed loan structure. If the new terms of the loan meet the criteria of a TDR as set out in FASB ASC 310, the loan is identified as such.

Each construction, acquisition and development loan is underwritten to address: (i) the desirability of the project, its market viability and projected absorption period; (ii) the creditworthiness of the borrower and the guarantor as to liquidity, cash flow and assets available to ensure performance of the loan; (iii) equity contribution to the project; (iv) the developer’s experience and success with similar projects; and (v) the value of the collateral.

The construction, acquisition and development portfolio may be further categorized by risk characteristics into the following nine categories: commercial acquisition and development, residential acquisition and development, multi-family construction, one-to-four family construction, commercial construction and recreation and all other loans. Construction, acquisition and development loans were $723.6 million at September 30, 2013 and $735.8 million at December 31, 2012. The following table shows the Company’s construction, acquisition and development portfolio by geographical location and performing status at September 30, 2013:

Real Estate Construction, Acquisition and Development	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	C
Performing:	(In thousands)							
Multi-family construction	$ -	$ -	$ 7	$ 289	$ -	$ 5,868	$ 1,810	$
One-to-four family construction	34,914	12,409	45,867	6,725	9,283	56,562	33,202	7
Recreation and all other loans	1,421	8,082	12,490	653	3,937	807	13,575	-
Commercial construction	14,598	16,850	26,692	4,597	11,323	12,986	25,634	2
Commercial acquisition and development	9,225	15,013	36,984	4,342	20,617	11,994	22,959	1
Residential acquisition and development	25,120	13,660	57,534	7,305	22,527	14,458	36,806	4
Total	$ 85,278	$ 66,014	$ 179,574	$ 23,911	$ 67,687	$ 102,675	$ 133,986	$
Non-performing:								
Multi-family construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
One-to-four family construction	1,827	383	904	215	902	-	46	-
Recreation and all other loans	-	15	38	-	744	-	-	-
Commercial construction	35	5	75	90	348	1,461	20	-
Commercial acquisition and development	2,875	39	1,958	1,601	6,435	-	252	-
Residential acquisition and development	1,959	815	2,625	1,017	3,499	264	1,185	1
Total	$ 6,696	$ 1,257	$ 5,600	$ 2,923	$ 11,928	$ 1,725	$ 1,503	$
Total:								
Multi-family construction	$ -	$ -	$ 7	$ 289	$ -	$ 5,868	$ 1,810	$
One-to-four family	36,741	12,792	46,771	6,940	10,185	56,562	33,248	7

construction								
Recreation and all other loans	1,421	8,097	12,528	653	4,681	807	13,575	-
Commercial construction	14,633	16,855	26,767	4,687	11,671	14,447	25,654	2
Commercial acquisition and development	12,100	15,052	38,942	5,943	27,052	11,994	23,211	1
Residential acquisition and development	27,079	14,475	60,159	8,322	26,026	14,722	37,991	5
Total	$ 91,974	$ 67,271	$ 185,174	$ 26,834	$ 79,615	$ 104,400	$ 135,489	$

* Excludes the Greater Memphis Area.

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The following table shows the maturity distribution of the Company's construction, acquisition and development portfolio as of September 30, 2013:

Real Estate Construction, Acquisition and Development	Past Due	One Year or Less	One to Five Years	After Five Years	Total
Outstanding loan balances:	(In thousands)				
Multi-family construction	$ -	$ 5,432	$ 2,542	$ -	$ 7,974
One-to-four family construction	2,649	168,553	30,258	2,528	203,988
Recreation and all other loans	54	11,647	22,366	7,695	41,762
Commercial construction	91	77,884	27,809	33,257	139,041
Commercial acquisition and development	6,718	44,862	71,142	13,484	136,206
Residential acquisition and development	2,029	109,882	69,730	12,997	194,638
Total	$ 11,541	$ 418,260	$ 223,847	$ 69,961	$ 723,609
Non-accrual loans:					
Multi-family construction	$ -	$ -	$ -	$ -	$ -
One-to-four family construction	507	1,891	670	181	3,249
Recreation and all other loans	-	744	38	-	782
Commercial construction	91	1,515	80	-	1,686
Commercial acquisition and development	5,936	2,429	2,785	-	11,150
Residential acquisition and development	1,948	5,927	1,252	133	9,260
Total	$ 8,482	$ 12,506	$ 4,825	$ 314	$ 26,127

As of September 30, 2013, 57.8% of the loans included in the construction, acquisition and development portfolio were scheduled to mature within one year. Many of these maturities are expected to occur prior to the completion of the related projects, and management expects that these loans will likely be renewed for an additional period of time. The Company's loan policy requires that updated appraisals from qualified third party appraisers be obtained for any real estate loan over $250,000 that is renewed. If the borrower is experiencing financial difficulties, and the renewal is made with concessions, the loan is considered to be a TDR. These TDRs are tested for impairment by assessing the estimated disposal value of the collateral from the recent appraisal or by assessing the present value of the discounted cash flows expected on these loans.

The following table presents the activity in the construction, acquisition and development nonaccrual loans for the nine months ended September 30, 2013:

	(In thousands)
Balance at December 31, 2012	$ 66,635
Additions to construction, acquisition and development nonaccruals:	
Formation of new nonaccrual loans	5,513

Reductions in construction, acquisition and development nonaccruals:	
Charge-offs	(3,840)
Foreclosures to OREO	(7,922)
Payments	(22,104)
Transfers to accrual status	(10,642)
Transfer to other loan category	(1,513)
Balance at September 30, 2013	$ 26,127

The five largest credits that made up the construction, acquisition and development nonaccrual loan balance at September 30, 2013 were primarily loans for land for future development located throughout the Company's geographical locations and in various stages of maturity. The five largest credits made up 32.5% of the total construction, acquisition and development nonaccrual loan balance at September 30, 2013.

Real Estate – Commercial - Commercial loans include loans to finance income-producing commercial and multi-family properties. Lending in this category is generally limited to properties located in the Bank's trade area with only limited exposure to properties located elsewhere but owned by in-market borrowers. Loans in this category include loans for neighborhood retail centers, medical and professional offices, single retail stores, warehouses and apartments leased generally to local businesses and residents. The underwriting of these loans takes into consideration the occupancy and rental rates as well as the financial health of the borrower. The Bank's exposure to national retail tenants is minimal. The Bank has not purchased commercial real estate loans from brokers or third-party originators. Commercial loans increased 2.7% from December 31, 2012 to September 30, 2013.

Credit Cards - Credit cards include consumer and business MasterCard and Visa accounts. The Bank offers credit cards primarily to its deposit and loan customers. Credit card balances remained stable during the first nine months of 2013, increasing 0.2% from December 31, 2012 to September 30, 2013.

All Other - All other loans and leases include consumer installment loans and loans and leases to state, county and municipal governments and non-profit agencies. Consumer installment loans and leases include term loans of up to five years secured by automobiles, boats and recreational vehicles. The Bank offers lease financing for vehicles and heavy equipment to state, county and municipal governments and medical equipment to healthcare providers across the southern states. All other loan and lease balances decreased 8.8% from December 31, 2012 to September 30, 2013.

NPLs consist of non-accrual loans and leases, loans and leases 90 days or more past due, still accruing, and accruing loans and leases that have been restructured (primarily in the form of reduced interest rates and modified payment terms) because of the borrower's or guarantor's weakened financial condition or bankruptcy proceedings. The Bank's policy provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless the loan or lease is both well-secured and in the process of collection. NPAs consist of NPLs and OREO, which consists of foreclosed properties. NPAs, which are carried either in the loan account or OREO on the Company's consolidated balance sheets, depending on foreclosure status, were as follows as of the dates presented:

	September 30, 2013	2012	December 31, 2012
	(Dollars in thousands)		
Non-accrual loans and leases	$ 121,353	$ 219,738	$ 207,241
Loans 90 days or more past due, still accruing	1,479	1,442	1,210
Restructured loans and leases, still accruing	21,502	26,147	25,099
Total NPLs	144,334	247,327	233,550
Other real estate owned	76,853	128,211	103,248
Total NPAs	$ 221,187	$ 375,538	$ 336,798
NPLs to net loans and leases	1.65%	2.85%	2.70%
NPAs to net loans and leases	2.52%	4.33%	3.90%

NPLs decreased 38.2% to $144.3 million at September 30, 2013 compared to $233.6 million at December 31, 2012 and decreased 41.6% compared to $247.3 million at September 30, 2012. Included in NPLs at September 30, 2013 were $79.7 million of loans that were impaired. These impaired loans had a specific reserve of $3.8 million included in the allowance for credit losses of $154.0 million at September 30, 2013, and were net of $27.2 million in partial charge-downs previously taken on these impaired loans. NPLs at December 31, 2012 included $156.7 million of loans that were impaired. These impaired loans had a specific reserve of $10.5 million included in the allowance for credit losses of $164.5 million at December 31, 2012. NPLs at September 30, 2012 included $176.1 million of loans that were impaired. These impaired loans had a specific reserve of $18.2 million included in the allowance for credit losses of $169.0 million at September 30, 2012.

The following table provides additional details related to the Company's NPLs and the allowance for credits losses at the dates indicated:

	September 30, 2013	2012	December 31, 2012
	(Dollars in thousands)		
Unpaid principal balance of impaired loans	$ 106,955	$ 225,581	$ 206,072
Cumulative charge offs on impaired loans	27,210	49,442	49,344
Outstanding balance of impaired loans	79,745	176,139	156,728
Other non-accrual loans and leases not impaired	41,608	43,599	50,513
Total non-accrual loans and leases	$ 121,353	$ 219,738	$ 207,241
Allowance for impaired loans	3,843	18,205	10,541
Nonaccrual loans and leases, net of specific reserves	$ 117,510	$ 201,533	$ 196,700
Loans and leases 90 days or more past due, still accruing	1,479	1,442	1,210
Restructured loans and leases, still accruing	21,502	26,147	25,099
Total non-performing loans and leases	$ 144,334	$ 247,327	$ 233,550
Allowance for impaired loans	$ 3,843	$ 18,205	$ 10,541
Allowance for all other loans and leases	150,131	150,814	153,925
Total allowance for credit losses	$ 153,974	$ 169,019	$ 164,466
Outstanding balance of impaired loans	$ 79,745	$ 176,139	$ 156,728
Allowance for impaired loans	3,843	18,205	10,541
Net book value of impaired loans	$ 75,902	$ 157,934	$ 146,187
Net book value of impaired loans as a % of unpaid principal balance	71%	70%	71%
Coverage of other non-accrual loans and leases not impaired by the allowance for all other loans and leases	361%	346%	305%
Coverage of non-performing loans and leases not impaired by the allowance for all other loans and leases	232%	212%	200%

Non-accrual loans at September 30, 2013 reflected a decrease of $85.9 million, or 41.4%, compared to December 31, 2012 and a decrease of $98.4 million, or 44.8%, compared to September 30, 2012. The Bank's NPL levels over the past several years have been reflective of the continuing effects of the prevailing economic environment on the Bank's loan portfolio, as a significant portion of the prior increases in the Bank's NPLs was attributable to problems developing for established customers with real estate related loans, particularly residential construction and development loans, primarily in the Bank's more urban markets. These problems resulted primarily from the decreased liquidity of certain borrowers and third party guarantors, as well as the declines in appraised real estate values for loans which became collateral dependent during the past two years and certain other borrower specific factors. The decrease in non-accrual loans was primarily recognized in the real estate construction, acquisition and development portfolio as non-accrual loans related to this portfolio decreased $40.5 million, or 60.8%, to $26.1 million at September 30, 2013 compared to $66.6 million at December 31, 2012 and decreased $66.2 million, or 71.7%, compared to $92.4 million at September 30, 2012.

Of the Bank's construction, acquisition and development loans, which totaled $723.6 million at September 30, 2013, $461.2 million represented loans made by the Bank's locations in Alabama, Mississippi and Tennessee, including the greater Memphis, Tennessee area, a portion of which is in northwest Mississippi and Arkansas. One-to-four family construction loans were the largest component of the Bank's construction, acquisition and development loans and totaled $204.0 million at September 30, 2013, with 73.7% of such loans made by the Bank's locations in Alabama, Mississippi and Tennessee. These areas have experienced a higher incidence of NPLs, primarily as a result of a severe downturn in the housing market in these regions. Of the Bank's total NPLs of $144.3 million at September 30, 2013, $83.8 million, or 58.0%, were loans made within these markets. These markets continue to be affected by high inventories of unsold homes, unsold lots and undeveloped land intended for use as housing developments. The following table presents the NPLs by geographical location at September 30, 2013:

	Outstanding	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, still accruing	NPLs	NPLs as a % of Outstanding
	(Dollars in thousands)					
Alabama and Florida Panhandle	$ 831,867	$ 5	$ 17,790	$ 459	$ 18,254	2.2 %
Arkansas*	1,140,907	-	14,965	2,886	17,851	1.6
Mississippi*	2,284,753	173	27,063	4,015	31,251	1.4
Missouri	402,587	-	11,003	2,958	13,961	3.5
Greater Memphis Area	528,802	-	17,907	5,407	23,314	4.4
Tennessee*	648,066	10	8,937	1,992	10,939	1.7
Texas and Louisiana	1,775,415	54	11,856	1,340	13,250	0.7
Other	1,160,718	1,237	11,832	2,445	15,514	1.3
Total	$ 8,773,115	$ 1,479	$ 121,353	$ 21,502	$ 144,334	1.6 %

* Excludes the Greater Memphis Area.

OREO decreased by $51.4 million to $76.9 million at September 30, 2013 compared to $128.2 million at September 30, 2012 and decreased by $26.4 million compared to $103.2 million at December 31, 2012. OREO decreased as a result of sales of foreclosed properties exceeding new foreclosures. Writedowns were the result of continuing processes to value these properties at fair value. The Bank recorded losses from the loans that were secured by these foreclosed properties in the allowance for credit losses at the time of foreclosure.

The ultimate impact of the economic downturn on the Company's financial condition and results of operations will depend on its severity and duration. Continued weakness in the economy could adversely affect the Bank's volume of NPLs. The Bank will continue to focus on improving and enhancing existing processes related to the early identification and resolution of potential credit problems. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and/or interest for a specified time, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In most cases, the conditions of the credit also warrant non-accrual status, even after the restructure occurs. TDR loans may be returned to accrual status in years after the restructure if there has been at least a nine-month sustained period of repayment performance under the restructured loan terms by the borrower and the interest rate at the time of restructure was at or above market for a comparable loan. For reporting purposes, if a restructured loan is 90 days or more past due or has been placed in non-accrual status, the restructured loan is included in the loans 90 days or more past due category or the non-accrual loan category of NPAs. Total restructured loans were $52.3 million and $81.4 million at September 30, 2013 and December 31, 2012, respectively. Restructured loans of $30.7 million and $56.2 million were included in the non-accrual loan category at September 30, 2013 and December 31, 2012, respectively.

At September 30, 2013, the Company did not have any concentration of loans or leases in excess of 10% of total loans and leases outstanding which were not otherwise disclosed as a category of loans or leases. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Bank conducts business in a geographically concentrated area and has a significant amount of loans secured by real estate to borrowers in varying activities and businesses, but does not consider these factors alone in identifying loan concentrations. The ability of the Bank's borrowers to repay loans is somewhat dependent upon the economic conditions prevailing in the Bank's market areas.

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 following table provides details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at September 30, 2013:

	September 30, 2013						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	$ 1,461,578	$ 7,774	$ 31,596	$ -	$ -	$ 2,861	$ 1,503,809
Real estate							
Consumer mortgages	1,794,492	22,114	103,987	918	-	9,660	1,931,171
Home equity	471,418	2,569	15,069	-	-	1,305	490,361
Agricultural	210,065	3,044	17,816	-	-	3,622	234,547
Commercial and industrial-owner occupied	1,343,131	12,632	52,992	475	105	12,742	1,422,077
Construction, acquisition and development	637,448	8,450	53,498	1,027	-	23,186	723,609
Commercial real estate	1,668,562	17,266	83,226	412	-	25,886	1,795,352
Credit cards	105,112	-	-	-	-	-	105,112
All other	548,402	4,497	13,695	-	-	483	567,077
Total	$ 8,240,208	$ 78,346	$ 371,879	$ 2,832	$ 105	$ 79,745	$ 8,773,115

In the normal course of business, management becomes aware of possible credit problems in which borrowers exhibit potential for the inability to comply with the contractual terms of their loans and leases, but which currently do not yet meet the criteria for disclosure as NPLs. However, based upon past experiences, some of these loans and leases with potential weaknesses will ultimately be restructured or placed in non-accrual status. At September 30, 2013, the Bank had $3.6 million of potential problem loans or leases or loans and leases with potential weaknesses that were not included in the non-accrual loans and leases or in the loans 90 days or more past due categories. These loans or leases are included in the above rated categories. Loans with identified weaknesses based upon analysis of the credit quality indicators are included in the loans 90 days or more past due category or in the non-accrual loan and lease category which would include impaired loans.

The following table provides details regarding the aging of the Company's loan and lease portfolio, net of unearned income, by internally assigned grade at September 30, 2013:

	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
	(In thousands)				
Pass	$ 8,235,405	$ 4,803	$ -	$ -	$ 8,240,208
Special Mention	78,305	41	-	-	78,346
Substandard	327,857	22,061	6,061	15,900	371,879
Doubtful	1,904	-	112	816	2,832
Loss	-	-	-	105	105
Impaired	51,536	3,825	2,768	21,616	79,745
Total	$ 8,695,007	$ 30,730	$ 8,941	$ 38,437	$ 8,773,115

All loan categories decreased at September 30, 2013 compared to December 31, 2012 with the exception of the pass loan grade category, which increased 5.6% at September 30, 2013 compared to December 31, 2012. Of the

$78.3 million of Special Mention loans and leases, 99.9% remained current as to scheduled repayment of principal and interest, with none of such loans or leases having outstanding balances that were 90 days or more past due at September 30, 2013. Of the $371.9 million of Substandard loans and leases, 88.2% remained current as to scheduled repayment of principal and interest, with only 4.3% having outstanding balances that were 90 days or more past due at September 30, 2013. Of the $79.7 million of impaired loans and leases, 64.6% remained current as to scheduled repayment of principal and/or interest, with 27.1% having outstanding balances that were 90 days or more past due at September 30, 2013.

Collateral for some of the Bank's loans and leases is subject to fair value evaluations that fluctuate with market conditions and other external factors. In addition, while the Bank has certain underwriting obligations related to such evaluations, the evaluations of some real property and other collateral are dependent upon third-party independent appraisers employed either by the Bank's customers or as independent contractors of the Bank. During the current economic cycle, some subsequent fair value appraisals have reported lower values than were originally reported. These declining collateral values could impact future losses and recoveries.

The following table provides additional details related to the make-up of the Company's loan and lease portfolio, net of unearned income, and the distribution of NPLs at September 30, 2013:

Loans and leases, net of unearned income	Outstanding	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, still accruing	NPLs	NPLs as a % of Outstanding
	(Dollars in thousands)					
Commercial and industrial	$ 1,503,809	$ 15	$ 5,498	$ 1,122	$ 6,635	0.4 %
Real estate						
Consumer mortgages	1,931,171	1,178	30,569	2,425	34,172	1.8
Home equity	490,361	-	3,287	-	3,287	0.7
Agricultural	234,547	-	4,086	436	4,522	1.9
Commercial and industrial-owner occupied	1,422,077	-	18,138	4,922	23,060	1.6
Construction, acquisition and development	723,609	-	26,127	6,563	32,690	4.5
Commercial real estate	1,795,352	-	31,468	3,334	34,802	1.9
Credit cards	105,112	263	196	1,573	2,032	1.9
All other	567,077	23	1,984	1,127	3,134	0.6
Total	$ 8,773,115	$ 1,479	$ 121,353	$ 21,502	$ 144,334	1.6 %

The following table provides additional details related to the make-up of the Company's real estate construction, acquisition and development loan class and the distribution of NPLs at September 30, 2013:

Real Estate Construction, Acquisition and Development	Outstanding	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, still accruing	NPLs	NPLs as a % of Outstanding
	(Dollars in thousands)					
Multi-family construction	$ 7,974	$ -	$ -	$ -	$ -	- %
One-to-four family construction	203,988	-	3,249	1,028	4,277	2.1
Recreation and all other loans	41,762	-	782	15	797	1.9
Commercial construction	139,041	-	1,686	348	2,034	1.5
Commercial acquisition and development	136,206	-	11,150	2,010	13,160	9.7
Residential acquisition and development	194,638	-	9,260	3,162	12,422	6.4
Total	$ 723,609	$ -	$ 26,127	$ 6,563	$ 32,690	4.5 %

Securities

The Company uses the Bank's securities portfolios to make various term investments, to provide a source of liquidity and to serve as collateral to secure certain types of deposits. Available-for-sale securities were $2.6 billion at September 30, 2013 compared to $2.4 billion at December 31, 2012. Available-for-sale securities, which are subject to possible sale, are recorded at fair value. At September 30, 2013, the Company held no securities whose decline in fair value was considered other than temporary.

The following table shows the available-for-sale securities portfolio by credit rating as obtained from Moody's rating service as of September 30, 2013:

	Amortized Cost		Estimated Fair Value	
	Amount	%	Amount	%
Available-for-sale Securities:	(Dollars in thousands)			
Aaa	$ 2,058,963	81.1%	$ 2,059,929	80.7%
Aa1 to Aa3	182,672	7.2%	188,488	7.4%
A1 to A3	54,858	2.2%	55,670	2.2%
Baa1 to Baa2	1,530	0.1%	1,532	0.1%
Not rated (1)	241,902	9.4%	248,537	9.6%
Total	$ 2,539,925	100.0%	$ 2,554,156	100.0%

(1) Not rated securities primarily consist of Mississippi and Arkansas municipal bonds.

Of the securities not rated by Moody's, bonds with a book value of $59.1 million and a market value of $60.8 million were rated A- or better by Standard and Poor's.

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 segment is below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting segment in assessing impairment at least annually. The Company's annual assessment date is during the Company's fourth quarter. No events occurred during the third quarter of 2013 that indicated the necessity of an earlier goodwill impairment assessment.

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. As market conditions continue to be volatile and unpredictable, impairment of goodwill related to the Company's reporting segments may be necessary in future periods. Goodwill was $275.2 million at both September 30, 2013 and December 31, 2012.

Other Real Estate Owned

OREO totaled $76.9 million and $103.2 million at September 30, 2013 and December 31, 2012, respectively. OREO at September 30, 2013 had aggregate loan balances at the time of foreclosure of $168.6 million. OREO at December 31, 2012 had aggregate loan balances at the time of foreclosure of $234.8 million. The following table presents the OREO by segment, class and geographical location at September 30, 2013:

	September 30, 2013							
	Alabama and Florida Panhandle	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas and Louisiana	Other
	(In thousands)							
Commercial and industrial	$ 251	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate								
Consumer mortgages	1,886	634	1,876	-	543	186	60	108
Home equity	442	58	-	-	-	175	-	-
Agricultural	907	-	216	-	1,153	1,835	-	-
Commercial and industrial-owner occupied	246	112	1,118	-	348	-	105	-
Construction, acquisition and development	15,820	741	11,749	400	24,941	7,680	57	242
Commercial real estate	352	316	569	-	980	150	140	-
All other	-	58	132	98	28	14	94	33
Total	$ 19,904	$ 1,919	$ 15,660	$ 498	$ 27,993	$ 10,040	$ 456	$ 383

*Excludes the Greater Memphis Area

Because of the relatively high number of the Bank's NPLs that have been determined to be collaterally dependent, management expects the resolution of a significant number of these loans to necessitate foreclosure proceedings resulting in further additions to OREO. While management expects future foreclosure activity in virtually all loan categories, the magnitude of NPLs in the consumer mortgage, commercial real estate and construction, acquisition and development portfolios at September 30, 2013 suggested that a majority of additions to OREO in the near-term might be from these categories.

At the time of foreclosure, the fair value of construction, acquisition and development properties is typically determined by an appraisal performed by a third party appraiser holding professional certifications. Such appraisals are then reviewed and evaluated by the Company's internal appraisal group. A disposition value appraisal using a 180-360 day marketing period is typically ordered and the OREO is recorded at the time of foreclosure at its disposition value less estimated selling costs. For residential subdivisions that are not completed, the appraisals reflect the uncompleted status of the subdivision.

To attempt to ensure that OREO is carried at the lower of cost or fair value less estimated selling costs on an ongoing basis, new appraisals are obtained on at least an annual basis and the OREO carrying values are adjusted accordingly. The type of appraisals typically used for these periodic reappraisals are "Restricted Use Appraisals," meaning the appraisal is for client use only. Other indications of fair value are also used to attempt to ensure that OREO is carried at the lower of cost or fair value. These include listing the property with a broker and acceptance of an offer to purchase from a third party. If an OREO property is listed with a broker at an amount less than the current carrying value, the carrying value is immediately adjusted to reflect the list price less estimated selling costs and if an offer to purchase is accepted at a price less that the current carrying value, the carrying value is immediately adjusted to reflect that sales price, less estimated selling costs. The majority of the properties in OREO are actively marketed using a combination of real estate brokers, bank staff who are familiar with the particular properties and/or third parties.

Deposits and Other Interest-Bearing Liabilities

Deposits originating within the communities served by the Bank continue to be the Bank's primary source of funding its earning assets. The Company has been able to compete effectively for deposits in its primary market areas, while continuing to manage the exposure to rising interest rates. The distribution and market share of deposits by type of deposit and by type of depositor are important considerations in the Company's assessment of the stability of its fund sources and its access to additional funds. Furthermore, management shifts the mix and maturity of the deposits depending on economic conditions and loan and investment policies in an attempt, within set policies, to minimize cost and maximize net interest margin.

The following table presents the Company’s noninterest bearing, interest bearing, savings and other time deposits as of the dates indicated and the percentage change between dates:

	September 30, 2013	December 31, 2012	% Change
	(Dollars in millions)		
Noninterest bearing demand	$ 2,598	$ 2,545	2.1 %
Interest bearing demand	4,493	4,799	(6.4)
Savings	1,220	1,146	6.5
Other time	2,407	2,598	(7.4)
Total deposits	$ 10,718	$ 11,088	(3.3) %

The 3.3% decrease in deposits at September 30, 2013 compared to December 31, 2012 was primarily a result of the decrease in interest bearing deposits of $306.1 million, or 6.4%, to $4.5 billion at September 30, 2013 from $4.8 billion at December 31, 2012. The average maturity of time deposits at September 30, 2013 was 13.5 months, compared to 15 months at December 31, 2012.

Liquidity and Capital Resources

One of the Company's goals is to provide adequate funds to meet increases in loan demand or any potential increase in the normal level of deposit withdrawals. This goal is accomplished primarily by generating cash from the Bank’s operating activities and maintaining sufficient short-term liquid assets. These sources, coupled with a stable deposit base and a historically strong reputation in the capital markets, allow the Company to fund earning assets and maintain the availability of funds. Management believes that the Bank’s traditional sources of maturing loans and investment securities, sales of loans held for sale, cash from operating activities and a strong base of core deposits are adequate to meet the Company's liquidity needs for normal operations over both the short-term and the long-term.

To provide additional liquidity, the Company utilizes short-term financing through the purchase of federal funds and securities sold under agreement to repurchase. All securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. Further, the Company maintains a borrowing relationship with the FHLB which provides access to short-term and long-term borrowings. The Company also has access to the Federal Reserve discount window and other bank lines. The Company had no short-term borrowings from the FHLB at September 30, 2013 or December 31, 2012. The Company had federal funds purchased and securities sold under agreement to repurchase of $418.6 million and $414.6 million at September 30, 2013 and December 31, 2012, respectively.

On August 8, 2013, the Company entered into a Credit Agreement with U.S. Bank National Association ("U.S. Bank") as a lender and administrative agent, and First Tennessee Bank, National Association, as a lender. The Credit Agreement includes an unsecured revolving loan of up to $25.0 million that terminates and the outstanding balance of which is payable in full on August 8, 2015, and an unsecured multi-draw term loan of up to $60.0 million, which commitment terminates on February 28, 2014 and the outstanding balance of which is payable in full on August 8, 2018. The proceeds from the term loan may be used to repurchase trust preferred securities, and the proceeds from the revolving loan may be used for working capital, capital expenditures and other lawful corporate purposes. Borrowings under the Credit Agreement bear interest at a Eurocurrency or base rate plus, in each case, an applicable interest rate margin.

On August 8, 2013, the Company borrowed $50.0 million under the term loan for which the principal balance is payable in full on August 8, 2018. As a result, the Company had long-term borrowings from the FHLB and U.S. Bank totaling $83.5 million at September 30, 2013 and long term borrowings from FHLB totaling $33.5 million at December 31, 2012. The Company has pledged eligible mortgage loans to secure the FHLB borrowings and had $2.8 billion in additional borrowing capacity under the existing FHLB borrowing agreement at September 30, 2013.

The Company had non-binding federal funds borrowing arrangements with other banks aggregating $615.0 million at September 30, 2013. Secured borrowing arrangements utilizing the Company's securities portfolio provide substantial additional liquidity to the Company. Such arrangements typically provide for borrowings of

95% to 98% of the unencumbered fair value of the Company's federal government and government agencies securities portfolio. The ability of the Company to obtain funding from these or other sources could be negatively affected should the Company experience a substantial deterioration in its financial condition or its debt rating, or should the availability of short-term funding become restricted as a result of disruption in the financial markets. Management does not anticipate any short- or long-term changes to its liquidity strategies and believes that the Company has ample sources to meet the liquidity challenges caused by current economic conditions. The Company utilizes, among other tools, maturity gap tables, interest rate shock scenarios and an active asset and liability management committee to analyze, manage and plan asset growth and to assist in managing the Company's net interest margin and overall level of liquidity.

Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into various off-balance sheet commitments and other arrangements to extend credit that are not reflected in the consolidated balance sheets of the Company. The business purpose of these off-balance sheet commitments is the routine extension of credit. While most of the commitments to extend credit are made at variable rates, included in these commitments are forward commitments to fund individual fixed-rate mortgage loans. Fixed-rate lending commitments expose the Company to risks associated with increases in interest rates. As a method to manage these risks, the Company enters into forward commitments to sell individual fixed-rate mortgage loans. The Company also faces the risk of deteriorating credit quality of borrowers to whom a commitment to extend credit has been made; however, no significant credit losses are expected from these commitments and arrangements.

Regulatory Requirements for Capital

The Company is required to comply with the risk based capital guidelines established by the Board of Governors of the Federal Reserve System. These guidelines apply a variety of weighting factors that vary according to the level of risk associated with the assets. Capital is measured in two "Tiers": Tier 1 consists of common shareholders' equity, qualifying non-cumulative perpetual preferred stock and minority interest in consolidated subsidiaries, less goodwill and certain other intangible assets; and Tier 2 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 remaining term to maturity. Total capital is the sum of Tier 1 and Tier 2 capital. The required minimum ratio levels to be considered "well capitalized" for the Company's Tier 1 capital, total capital, as a percentage of total risk-adjusted assets, and Tier 1 leverage capital (Tier 1 capital divided by total assets, less goodwill) are 6%, 10% and 5%, respectively. The Company exceeded the required minimum levels for these ratios at September 30, 2013 and December 31, 2012 as follows:

	September 30, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
BancorpSouth, Inc.				
Tier 1 capital (to risk-weighted assets)	$ 1,255,045	13.25%	$ 1,316,905	13.77%
Total capital (to risk-weighted assets)	1,374,388	14.50	1,437,320	15.03
Tier 1 leverage capital (to average assets)	1,255,045	9.93	1,316,905	10.25

The FDIC's capital based supervisory system for insured financial institutions categorizes the capital position for banks into five categories, ranging from "well capitalized" to "critically undercapitalized." For a bank to be classified as "well capitalized," the Tier 1 capital, total capital and leverage capital ratios must be at least 6%, 10% and 5%, respectively. The Bank met the criteria for the "well capitalized" category at September 30, 2013 and December 31, 2012 as follows:

	September 30, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
BancorpSouth Bank				
Tier 1 capital (to risk-weighted assets)	$ 1,242,448	13.12%	$ 1,191,567	12.48%
Total capital (to risk-weighted assets)	1,361,714	14.38	1,311,840	13.74
Tier 1 leverage capital (to average assets)	1,242,448	9.85	1,191,567	9.34

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends that the Company may declare and pay. For example, under guidance issued by the Federal Reserve, as a bank holding company, the Company is required to consult with the Federal Reserve before declaring dividends and is to consider eliminating, deferring or reducing dividends if (i) the Company's 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) the Company's prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition, or (iii) the Company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Uses of Capital

Subject to pre-approval of the Federal Reserve and other banking regulators, the Company may pursue acquisitions of depository institutions and businesses closely related to banking that further the Company's business strategies, including FDIC-assisted transactions. Management anticipates that consideration for any transactions other than FDIC-assisted transactions would include shares of the Company's common stock, cash or a combination thereof.

On January 24, 2012, the Company completed an underwritten public offering of 10,952,381 shares of Company common stock at a public offering price of $10.50 per share. The gross proceeds from the offering, before expenses, were $109.3 million. Offering expenses were approximately $575,000. The proceeds from the offering have been and will be used by the Company for general corporate purposes, including to maintain certain capital levels and liquidity at the Company, potentially provide equity capital to the Bank, fund growth either organically or through the acquisition of other financial institutions, insurance agencies, or other businesses that are closely aligned to the operations of the Company, and fund investments in its subsidiaries.

In 2002, the Company issued $128.9 million in 8.15% Junior Subordinated Debt Securities to BancorpSouth Capital Trust I (the "Trust"), a business trust. The Trust used the proceeds from the issuance of five million shares of 8.15% trust preferred securities, $25 face value per share, to acquire the 8.15% Junior Subordinated Debt Securities. The Company redeemed the Junior Subordinated Debt Securities and the related trust preferred securities at par on August 12, 2013.

Certain Litigation Contingencies

The nature of the Company’s business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative cases and proceedings. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, and endeavored to provide reasonable insurance coverage, litigation and regulatory actions present an ongoing risk.

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions and potential transactions with numerous customers or applicants. From time to time, borrowers, customers, former employees and other third parties have brought actions against the Company or its subsidiaries, in some cases claiming substantial damages. Financial services companies are subject to the risk of class action litigation and, from time to time, the Company and its subsidiaries are subject to such actions brought against it. Additionally, the Bank is, and management expects it to be, engaged in a number of foreclosure proceedings and other collection actions as part of its lending and leasing collections activities, which, from time to time, have resulted in counterclaims against the Bank. Various legal proceedings have arisen and may arise in the future out of claims against entities to which the Company is a successor as a result of business combinations. The Company’s insurance has deductibles, and will likely not cover all such litigation or other proceedings or the costs of defense. The Company and its subsidiaries may also be subject to enforcement actions by federal or state regulators, including the Securities and Exchange Commission, the Federal Reserve, the FDIC, the Consumer

Financial Protection Bureau, the Department of Justice, state attorneys general and the Mississippi Department of Banking and Consumer Finance.

When and as the Company determines it has meritorious defenses to the claims asserted, it vigorously defends against such claims. The Company will consider settlement of claims when, in management’s judgment and in consultation with counsel, it is in the best interests of the Company to do so.

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest and most reliable information available. For matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, the Company’s insurance will not cover all such litigation, other proceedings or claims, or the costs of defense.

While the final outcome of any legal proceedings, including those disclosed below, is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense of $11.4 million accrued as of September 30, 2013 is adequate and that any incremental liability arising from the Company’s legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company’s results of operations for a given fiscal period.

On August 16, 2011, a shareholder filed a putative derivative action purportedly on behalf of the Company in the Circuit Court of Lee County, Mississippi, against certain current and past executive officers and the members of the Board of Directors of the Company. The plaintiff in this shareholder derivative lawsuit asserts that the individual defendants violated their fiduciary duties based upon allegations that the defendants issued materially false and misleading statements regarding the Company’s business and financial results. In particular, the allegations relate to the Company’s recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal control over financial reporting leading up to the filing of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. The plaintiff is seeking to recover alleged damages to the Company in an unspecified amount, equitable and/or injunctive relief, and attorney’s fees. 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. In August 2013, the Company was informed that this investigation had been completed as to the Company and that the Atlanta Regional Office does not intend to recommend any enforcement action by the SEC.

On May 18, 2010, the Bank was named as a defendant in a class action lawsuit filed by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenges the manner in which overdraft fees were charged and the policies related to posting order of debit card and ATM transactions. The suit also makes a claim under Arkansas’ consumer protection statute. The plaintiff is seeking to recover damages in an unspecified amount and equitable relief. The case was transferred to pending multi-district litigation in the U.S. District Court for the Southern District of Florida wherein an order was entered certifying a class in this case. The consolidated pretrial proceedings in the multi-district litigation court are close to completion and the case will then be remanded to the U.S. District Court for the Northern District of Florida for further proceedings. 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.

CRITICAL ACCOUNTING POLICIES

During the three months ended September 30, 2013, there was no significant change in the Company’s critical accounting policies and no significant change in the application of critical accounting policies as presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

During the three months ended September 30, 2013, there were no significant changes to the quantitative and qualitative disclosures about market risks presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES.

The Company, with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation and as of the end of the period covered by this report, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective to allow timely decisions regarding disclosure in its reports that the Company files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

There have been no changes in the Company’s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The nature of the Company's business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative cases and proceedings. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, and endeavored to provide reasonable insurance coverage, litigation and regulatory actions present an ongoing risk.

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions and potential transactions with numerous customers or applicants. From time to time, borrowers, customers, former employees and other third parties have brought actions against the Company or its subsidiaries, in some cases claiming substantial damages. Financial services companies are subject to the risk of class action litigation and, from time to time, the Company and its subsidiaries are subject to such actions brought against it. Additionally, the Bank is, and management expects it to be, engaged in a number of foreclosure proceedings and other collection actions as part of its lending and leasing collections activities, which, from time to time, have resulted in counterclaims against the Bank. Various legal proceedings have arisen and may arise in the future out of claims against entities to which the Company is a successor as a result of business combinations. The Company's insurance has deductibles, and will likely not cover all such litigation or other proceedings or the costs of defense. The Company and its subsidiaries may also be subject to enforcement actions by federal or state regulators, including the Securities and Exchange Commission, the Federal Reserve, the FDIC, the Consumer Financial Protection Bureau, the Department of Justice, state attorneys general and the Mississippi Department of Banking and Consumer Finance.

When and as the Company determines it has meritorious defenses to the claims asserted, it vigorously defends against such claims. The Company will consider settlement of claims when, in management's judgment and in consultation with counsel, it is in the best interests of the Company to do so.

On August 16, 2011, a shareholder filed a putative derivative action purportedly on behalf of the Company in the Circuit Court of Lee County, Mississippi, against certain current and past executive officers and the members of the Board of Directors of the Company. The plaintiff in this shareholder derivative lawsuit asserts that the individual defendants violated their fiduciary duties based upon allegations that the defendants issued materially false and misleading statements regarding the Company's business and financial results. In particular, the allegations relate to the Company's recording and reporting of its unaudited financial statements, including the allowance and provision for credit losses, and its internal control over financial reporting leading up to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The plaintiff is seeking to recover alleged damages to the Company in an unspecified amount, equitable and/or injunctive relief, and attorney's fees. 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.   In August 2013, the Company was informed that this investigation had been completed as to the Company and that the Atlanta Regional Office does not intend to recommend any enforcement action by the SEC.

On May 18, 2010, the Bank was named as a defendant in a class action lawsuit filed by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenges the manner in which overdraft fees were charged and the policies related to posting order of debit card and ATM transactions. The suit also makes a claim under Arkansas' consumer protection statute. The plaintiff is seeking to recover damages in an unspecified amount and equitable relief. The case was transferred to pending multi-district litigation in the U.S. District Court for the Southern District of Florida wherein an order was entered certifying a class in this case. The consolidated pretrial proceedings in the multi-district litigation court are close to completion and the case will then be remanded to the U.S. District Court for the Northern District of Florida for further proceedings.   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.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS.

(3)(a)Restated Articles of Incorporation, as amended. (1)

(b)Bylaws, as amended and restated. (2)

(c)Amendment No. 1 to Amended and Restated Bylaws. (3)

(d)Amendment No. 2 to Amended and Restated Bylaws. (4)

(e)Amendment No. 3 to Amended and Restated Bylaws. (4)

(4)(a)Specimen Common Stock Certificate. (5)

(b)Amended and Restated Certificate of Trust of BancorpSouth Capital Trust I. (6)

(c)Second Amended and Restated Trust Agreement of BancorpSouth Capital Trust I, dated as of

January 28, 2002, between BancorpSouth, Inc., The Bank of New York, The Bank of New York

(Delaware) and the Administrative Trustees named therein. (7)

(d)Junior Subordinated Indenture, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (7)

(e)Guarantee Agreement, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (7)

(f) Junior Subordinated Debt Security Specimen. (7)

(g)Trust Preferred Security Certificate for BancorpSouth Capital Trust I. (7)

(h)Certain instruments defining the rights of certain holders of long-term debt securities of the

Registrant are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.

(10.1)Credit Agreement, dated as of August 8, 2013, among BancorpSouth, Inc., U.S. Bank National Association, as a lender and administrative agent, and First Tennessee Bank, National Association, as a lender. (8)

(31.1)Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

(31.2)Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

(32.1)Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

(32.2)Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

(101)Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2013, is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of September 30, 2013 and 2012, and December 31, 2012, (ii) the Consolidated Statements of Income for the three-month and nine-month periods ended September 30, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the three-month and nine-month periods ended September 30, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2013 and 2012, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.**

(1)Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2009 (file number 1-12991) and incorporated by reference thereto.

(2)Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (file number 1-12991) and incorporated by reference thereto.

(3)Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (file number 1-12991) and incorporated by reference thereto.

(4)Filed as exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 26, 2007 (file number 1-12991) and incorporated by reference thereto.

(5)Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (file number 0-10826) and incorporated by reference thereto.

(6)Filed as exhibit 4.12 to the Company's registration statement on Form S-3 filed on November 2, 2001 (Registration No. 33-72712) and incorporated by reference thereto.

(7)Filed as an exhibit to the Company's Current Report on Form 8-K filed on January 28, 2002 (file number 1-12991) and incorporated by reference thereto.

(8)Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 8, 2013 (file number 001-12991) and incorporated by reference thereto.

*Filed herewith.

**As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	BancorpSouth, Inc. (Registrant)
DATE: November 7, 2013	/s/ William L Prater William L. Prater Treasurer and Chief Financial Officer

INDEX TO EXHIBITS

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