BANCORPSOUTH INC
Form 10-K
February 25, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ________________ to ________________

Commission File Number: 001-12991

BANCORPSOUTH, INC.

(Exact name of registrant as specified in its charter)

Mississippi	64-0659571
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Mississippi Plaza, 201 South Spring Street

Tupelo, Mississippi	38804
(Address of principal executive offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $2.50 par value	New York Stock Exchange

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

(Cover Page Continued on Next Page)

(Continued from Cover Page)

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

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

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). Yes [X] No [ ]

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

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

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

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant on June 30, 2013 was approximately $1,606,000,000, based on the last reported sale price per share of the registrant’s common stock as reported on the New York Stock Exchange on June 30, 2013.

As of February 17, 2014, the registrant had outstanding 95,581,336 shares of common stock, par value $2.50 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement used in connection with the registrant's 2014 Annual Meeting of Shareholders, to be held April 23, 2014, are incorporated by reference into Part III of this Report.

BANCORPSOUTH, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2013

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS.

GENERAL

BancorpSouth, Inc. (the "Company") is a financial holding company incorporated in 1982. Through its principal bank subsidiary, BancorpSouth Bank (the "Bank"), the Company conducts commercial banking and financial services operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. At December 31, 2013, the Company and its subsidiaries had total assets of $13.0 billion and total deposits of $10.8 billion. The Company's principal office is located at One Mississippi Plaza, 201 South Spring Street, Tupelo, Mississippi 38804 and its telephone number is (662) 680-2000.

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

DESCRIPTION OF BUSINESS

The Bank has its principal office in Tupelo, Lee County, Mississippi, and conducts a general commercial banking, trust and insurance business through 290 offices in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, Missouri and Illinois. The Bank has grown through the acquisition of other banks and insurance agencies and through the opening of new branches and offices.

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

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

COMPETITION

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

The principal areas of competition in the banking industry center on a financial institution's ability and willingness to provide credit on a timely and competitively priced basis, to offer a sufficient range of deposit and investment opportunities at competitive prices and maturities, and to offer personal and other services of sufficient quality and at competitive prices. Management believes that the Company and its subsidiaries can compete effectively in all these areas.

REGULATION AND SUPERVISION

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

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

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

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

The Company and the Bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). Among other things, FDICIA provides a framework for a system of supervisory actions based primarily on the capital levels of financial institutions. FDICIA identifies five capital categories for insured depository institutions ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized") and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. Capital is measured in two "Tiers" – Tier 1 capital consists of common shareholders' equity and qualifying non-cumulative perpetual preferred stock, less goodwill and certain other intangible assets, and Tier 2 capital consists of general allowance for losses on loans and leases, "hybrid" debt capital instruments and all or a portion of other subordinated capital debt, depending upon the remaining term to maturity. Total capital is the sum of Tier 1 and Tier 2 capital. For an insured financial institution to be classified as "well capitalized," the Tier 1 capital, total capital and Tier 1 leverage capital (Tier 1 capital divided by the difference of total assets less goodwill) ratios must be at least 6%, 10% and 5%, respectively. The Bank exceeded the criteria for the "well capitalized" category at December 31, 2013. The Company is required to comply with the risk-based capital guidelines established by the Federal Reserve and with other tests relating to capital adequacy that the Federal Reserve adopts from time to time. See Note 21 to the Company's Consolidated Financial Statements included in this Report for a discussion of the Company's capital amounts and ratios.

In July 2013, the Federal Reserve published final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules implement the Basel Committee on Banking Supervision’s December 2010 framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules increase minimum requirements for both the quantity and quality of capital held by banking organizations. The Basel III Capital Rules include a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The Basel III Capital Rules also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. Beginning January 1, 2015, the Company must be compliant with revised minimum regulatory capital ratios and will begin the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the Basel III Capital Rules.

Compliance with the risk-weighted asset calculations will be required on January 1, 2015. Management believes the Company's current capital ratios exceed those required in the final rule.

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

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

The Dodd-Frank Act eliminated many of the remaining regulations that limited the ability of a bank to open branches in different states. The Dodd-Frank Act included savings associations and industrial loan companies, as well as banks, in the nationwide deposit limitation. Consequently, no acquisition of any financial institution can be approved if the effect of the acquisition would be to increase the acquirer's nationwide deposits to more than 10% of all deposits. In addition, pursuant to the Durbin Debt Interchange Amendment to the Dodd-Frank Act (the "Durbin Amendment"), the Dodd-Frank Act requires fees charged for debit card transactions, commonly referred to as interchange fees, to be both "reasonable and proportional" to the cost incurred by the card issuer. Under the Durbin Amendment, the Federal Reserve's final rule set a base interchange rate of $0.21 per transaction, plus an additional five basis points of the transaction cost for fraud charges. An upward adjustment of no more than $0.01 on the debit interchange fee is also allowed for implementing certain fraud prevention standards. It should be noted that these pricing determinations are the subject of active litigation to which the Federal Reserve is a party. Additionally, issuers are required to include two unaffiliated networks for routing debit transactions, one that is signature-based and one that is personal identification number based.

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

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

The primary source of funds for dividends paid to the Company's shareholders has been dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the Company without regulatory approval. Under Mississippi law, the Bank must obtain approval of the Commissioner of the Mississippi Department of Banking and Consumer Finance prior to paying any dividend on the Bank's common stock. Under FDICIA, the Bank may not pay any dividends if, after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company if its actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement, Supervisory Release 09-4 ("SR 09-4"), on the payment of cash dividends by bank holding companies, which outlines the Federal Reserve's view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve has indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends. Further, in the current financial and economic environment, the Federal Reserve has indicated that bank and financial holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Community Reinvestment Act of 1977 (“CRA”) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving financial holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2013, the Company had a “satisfactory” rating under CRA.

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

The activities of the Company and its subsidiaries are also subject to regulation under various federal laws and regulations thereunder, including the Riegle-Neal Interstate Banking and Branching Efficiency Act, the Truth-in-Lending Act, the Truth-in-Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act, the Currency and Foreign Transactions Reporting Act, the National Flood Insurance Act, the Flood Protection Act, the Real Estate Settlement Procedures Act, the Bank Secrecy Act, laws and regulations governing unfair, deceptive, and/or abuse acts and practices, the Servicemembers Civil Relief Act, the Housing and Economic Recovery Act, and the Credit Card Accountability Act, among others, as well as various state laws.

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

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

BancorpSouth Investment Services, Inc., the Bank’s investment services subsidiary, is regulated as a registered investment adviser and a broker-dealer by federal and state securities regulatory and self-regulatory authorities.

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, the

Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) certification and related responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

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

LENDING ACTIVITIES

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

Commercial Lending

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

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

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

Residential Consumer Lending

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

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

In most cases, the Bank sells its mortgage loans with terms of 15 years or more in the secondary market and either retains or releases the right to service those loans. The sale of mortgage loans to the secondary market allows the

Bank to manage the interest rate risks related to such lending operations. Generally, after the sale of a loan with servicing retained, the Bank's only involvement is to act as a servicing agent. In certain cases, the Bank may be required to repurchase mortgage loans upon which customers have defaulted that were previously sold in the secondary market if these loans did not meet the underwriting standards of the entity that purchased the loans. Any such loans are held by the Bank in its mortgage loan portfolio.

Non-Residential Consumer Lending

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

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

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

OTHER FINANCIAL SERVICES

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

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

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

ASSET QUALITY

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

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

The Board of Directors of the Bank focuses much of its efforts and resources, and that of the Bank's management and lending officials, on loan underwriting and credit quality monitoring policies and practices. Loan status and monitoring is handled through the Bank's loan administration department. Also, an independent loan review department of the Bank is responsible for reviewing the credit rating and classification of individual credits and assessing trends in the portfolio, adherence to internal credit policies and procedures and other factors that may affect the overall adequacy of the allowance for credit losses. Weak financial performance is identified and monitored using past due reporting, the internal loan rating system, loan review reports, the various loan committee functions and periodic asset quality rating committee meetings. Senior loan officers have established a review process with the objective of identifying, evaluating and initiating necessary corrective action for problem loans. The results of loan reviews are reported to the Audit Committee of both the Company's and the Bank's Board of Directors. This process is an integral element of the Bank's loan program. Nonetheless, management maintains a cautious outlook in anticipating the potential effects of uncertain economic conditions (both locally and nationally) and the possibility of more stringent regulatory standards.

RECENT ACQUISITIONS

On December 18, 2013, the Company announced the purchase of certain assets of GEM Insurance Agencies, LP ("GEM"), an independent insurance agency located in Houston, Texas. Consideration paid to complete this transaction consisted of cash paid to GEM in the aggregate amount of $20.7 million. The provisions of the related purchase agreement also provide for additional aggregate consideration of up to $6.2 million in cash to be paid in three annual installments if certain performance criteria are met. This acquisition was not material to the financial position or results of operations of the Company.

EMPLOYEES

At December 31, 2013, the Company and its subsidiaries had approximately 4,005 full-time equivalent employees. The Company and its subsidiaries are not a party to any collective bargaining agreements and employee relations are considered to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information follows concerning the executive officers of the Company:

Name	Offices Held	Age
James D. Rollins III	Chief Executive Officer of the Company and the Bank; Director of the Company	55
James V. Kelley	President and Chief Operating Officer of the Company and the Bank; Director of the Company and the Bank	64
William L. Prater	Treasurer and Chief Financial Officer of the Company; Executive Vice President, Chief Financial Officer and Cashier of the Bank	53
W. James Threadgill, Jr.	Executive Vice President of the Company and Vice Chairman of the Bank	59
Gordon Lewis	Executive Vice President of the Company and Vice Chairman of the Bank	64
James Ronald Hodges	Executive Vice President of the Company and Vice Chairman and Chief Lending Officer of the Bank	61
Cathy S. Freeman	Executive Vice President and Corporate Secretary of the Company and the Bank	48
Carol Waddle	Executive Vice President of the Company and Executive Vice President, Audit and Loan Review of the Bank	52

None of the executive officers of the Company is related by blood, marriage or adoption to any other executive officer or to any of the Company's directors or nominees for election at the 2014 annual meeting of shareholders. There are no arrangements or understandings between any of the executive officers and any other person pursuant to which any individual was or is to be selected as an officer. The executive officers of the Company are appointed by the Board of Directors at its first meeting following the annual meeting of shareholders, and they hold office until the next annual meeting or until their successors are duly appointed and qualified.

Effective November 27, 2012, Mr. Rollins was appointed Chief Executive Officer of the Bank and the Company. Prior to joining the Company, Mr. Rollins served as President and Chief Operating Officer of Prosperity Bancshares, Inc. for at least the preceding four years.

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

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

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

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

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

Mrs. Freeman has served as Executive Vice President of the Company and the Bank for at least the past five years.

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

BOARD OF DIRECTORS OF THE REGISTRANT

Information follows concerning the Board of Directors of the Company:

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Name	Occupation
Gus J. Blass, III	General Partner Capital Properties, LLC Little Rock, AR
James E. Campbell, III	Chief Executive Officer H+M Company, Inc. Jackson, TN
Albert C. Clark	President and Chief Executive Officer C.C. Clark, Inc. Starkville, MS
Grace Clark	Retired Tupelo, MS

Hassell H. Franklin	Chief Executive Officer Franklin Corporation Houston, MS
W.G. “Mickey” Holliman, Jr.	Managing Member Five Star, LLC Tupelo, MS
Warren A. Hood, Jr.	Chairman and Chief Executive Officer Hood Companies, Inc. Hattiesburg, MS
Keith J. Jackson	President/Founder P.A.R.K. Little Rock, AR

James V. Kelley	President and Chief Operating Officer Bancorp South, Inc. and Bancorp South Bank Tupelo, MS
Larry G. Kirk	Retired Tupelo, MS
Turner O. Lashlee	Chairman Lashlee-Rich, Inc. Humboldt, TN
Guy W. Mitchell, III	Attorney at Law Mitchell, McNutt & Sams, PA Tupelo, MS
Robert C. Nolan	Chairman Deltic Timber Corporation El Dorado, AR
W. Cal Partee	Managing Partner P1 Oil and Gas, LLC Magnolia, AR
Aubrey B. Patterson	Chairman Bancorp South, Inc. and Bancorp South Bank Tupelo, MS
Alan W. Perry	Attorney at Law Forman, Perry, Watkins, Krutz, & Tardy, LLP Jackson, MS
James D. Rollins, III	Chief Executive Officer Bancorp South, Inc. and Bancorp South Bank Tupelo, MS
Thomas H. Turner	Vice Chairman and President Turner Industries Group, L.L.C. Baton Rouge, LA

CORPORATE INFORMATION

Corporate Headquarters

BancorpSouth

One Mississippi Plaza

201 South Spring Street

Tupelo, MS 38804

Annual Meeting

9:00 a.m. (local time), April 23, 2014

BancorpSouth Corporate Headquarters

Fourth Floor

One Mississippi Plaza

201 South Spring Street

Tupelo, MS 38804

Common Shares

Listed on the New York Stock Exchange

NYSE Symbol: BXS

Transfer Agent and Registrar

Registrar and Transfer Company

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ITEM 1A. RISK FACTORS.

Certain statements contained in this Annual Report may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as "anticipate," "believe," "estimate," "expect," "plan," "predict," "foresee," "may," "migh "would," "should," "could" or "intend," future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company's trademarks, the Company's ability to compete effectively, the effect of changes in laws, governmental regulations and legislative proposals affecting financial institutions, examinations by federal regulators, commercial loans, repurchase of mortgage loans, the impact of economic conditions in the Company's market area and the economic downturn, identification and resolution of credit issues, debit card revenues, the use of non-U.S. GAAP financial measures, the effect of certain claims, legal and administrative proceedings and pending litigation, reserves for troubled debt restructurings, diversification of revenue stream, the Company's policy regarding asset quality, the Company's policy regarding underwriting and lending practices, critical and significant accounting policies, allowance for credit losses, other real estate owned, impairment of goodwill, other-than-temporary impairment of securities, valuation of mortgage servicing rights, pension and other postretirement benefit amounts, net interest revenue, net interest margin, interest rate sensitivity, the impact of the historically low interest rate environment, credit quality, credit losses, determination of collateral fair value, analysis of guarantors, compliance with underwriting and/or appraisal standards, potential losses from representation and warranty obligations, the Company's foreclosure process, inspection and review of construction, acquisition and development loans, maturity and renewal of construction, acquisition and development loans, deferred tax assets, unrecognized tax benefits, junior subordinated debt securities, capital resources, sources of liquidity and liquidity strategies, sources of maturing loans and investment securities, the Company's ability to obtain funding, the ability to declare and/or pay dividends, credit losses from off-balance sheet commitments and arrangements, future acquisitions and consideration to be used therefor, the impact of recent accounting pronouncements, amortization expense of amortizable identifiable intangible assets, interest income, valuation of stock options, fair value of loans and leases, fair value of held-to-maturity and available-for-sale securities, maturities of available-for-sale securities, fair value of lending commitments, appraisal adjustments, concessions granted for troubled debt restructurings, value of investment securities, contributions to pension plans, related party transactions, impaired loans, nonperforming loans and leases, non-accrual loans and leases, economic value of equity, future lease payments, the use of proceeds from the underwritten public offering of the Company’s common stock, deposits, the Company’s operating results and financial condition, the terms and closing of the proposed transactions with each of Ouachita Bancshares Corp. and Central Community Corporation, and amendments to the Company’s code of business conduct and ethics or waiver of a provision thereof.

We caution you not to place undue reliance on the forward-looking statements contained in this Report in that actual results could differ materially from those indicated in such forward-looking statements due to a variety of factors. These factors include, but are not limited to, the following:

· Local, regional and national economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact;
· The ability of the Company to increase noninterest revenue and expand noninterest revenue business;
· Changes in general business or economic conditions or government fiscal and monetary policies;
· Fluctuations in prevailing interest rates and the effectiveness of the Company’s interest rate hedging strategies;

- The ability of the Company to maintain credit quality;
- The ability of the Company to provide and market competitive products and services;
- Changes in the Company's operating or expansion strategy;
- Geographic concentration of the Company's assets and susceptibility to economic downturns in that area;
- The availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity;
- Volatility and disruption in national and international financial markets;
- Government intervention in the U.S. financial system;
- Laws and regulations affecting financial institutions in general;
- The ability of the Company to operate and integrate new technology;
- The ability of the Company to manage its growth and effectively serve an expanding customer and market base;
- The ability of the Company to attract, train and retain qualified personnel;
- Changes in consumer preferences;
- The ability of the Company to collect amounts due under loan agreements and to attract deposits;
- Legislation and court decisions related to the amount of damages recoverable in legal proceedings;
- Possible adverse rulings, judgments, settlements and other outcomes of pending litigation; and
- Other factors generally understood to affect the financial results of financial services companies.

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

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

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

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

Since mid-2007, market conditions have led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Despite recent stabilization in market conditions, there remains a risk of continued asset and economic deterioration, which may increase the cost and decrease the availability of liquidity.

In addition, certain European nations continue to experience varying degrees of financial stress. Despite various assistance packages, market concerns over the direct and indirect exposure of European banks and insurers to these European nations and each other have resulted in a widening of credit spreads and increased costs of funding for some

European financial institutions. Risks related to the European economic crisis have had, and may continue to have, a negative impact on global economic activity and the financial markets.

There can be no assurance that global market and economic conditions will improve in the near term. Such conditions could adversely affect the credit quality of our loans, our results of operations and our financial condition.

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

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

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

At December 31, 2013, we had a balance of $741.5 million in real estate construction, acquisition and development loans, representing 8.3% of our total loan portfolio. These real estate construction, acquisition and development loans have certain risks that are not present in other types of loans. The primary credit risks associated with real estate construction, acquisition and development loans are underwriting, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk and environmental and other hazard risks. Market risks are risks associated with the sale of the completed residential and commercial units. They include affordability risk, which means the risk that borrowers cannot obtain affordable financing, product design risk, and risks posed by competing projects. Real estate construction, acquisition and development loans also involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, real estate construction, acquisition and development loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance and accrued interest on the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it. The adverse effects of the foregoing matters upon our real estate construction, acquisition and development portfolio could necessitate a further increase in non-performing loans related to this portfolio and these non-performing loans may result in a material level of charge-offs, which may have a material adverse effect on our financial condition and results of operations. At December 31, 2013, non-accrual real estate construction, acquisition and development loans totaled $17.6 million.

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

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

As our business necessitates, we foreclose on and take title to real estate serving as collateral for loans. At December 31, 2013, we had $69.3 million of other real estate owned, or OREO, compared to $103.2 million at December 31, 2012. At December 31, 2013, $52.4 million, or 75.6%, of the total OREO balance had been carried on the books for longer than one year. As the properties held continue to age, we expect that future writedowns will become more likely and increase in amount. Although declining over recent years, significant OREO balances have resulted in substantial noninterest expenses as we incur costs to manage, maintain and dispose of foreclosed properties. We expect that our earnings will continue to be negatively affected by various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with real property ownership, as well as by the funding costs associated with OREO assets and any unfavorable pricing in connection with the disposition of foreclosed properties. The expenses associated with holding a significant amount of OREO could have a material adverse effect on our results of operations and financial condition.

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

Our ability to declare and pay dividends is limited.

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

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay. For example, under guidance issued by the Federal Reserve Board, as a bank holding company, we are required to consult with the Federal Reserve before declaring dividends and are to consider eliminating, deferring or reducing dividends if (1) our net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (2) our prospective rate of earnings retention is not consistent with our capital needs and overall current and prospective financial condition, or (3) we will not meet, or are in danger of not meeting, our minimum regulatory capital adequacy ratios.

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

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

We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our directors, management or employees, including remedies or damage awards. On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of our business) utilizing the latest and most reliable information available. For matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable we will incur a loss and the amount can be reasonably estimated, we establish an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, our insurance will not cover all such litigation, other proceedings or claims, or the costs of defense. While the final outcome of any legal proceedings is inherently uncertain, based on the information available, advice of counsel and available insurance coverage, management believes that the litigation-related expense we have accrued is adequate and that any incremental liability arising from pending legal proceedings and threatened claims and those otherwise arising in the ordinary course of business, will not have a material adverse effect on our business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to our results of operations for one or more quarterly reporting periods. See "Item 3. Legal Proceedings" included herein for more information regarding material pending legal proceedings.

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

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

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on the liquidity of the Bank and/or the Company. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. A decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated could detrimentally impact our access to liquidity sources. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets.

Our operations are subject to extensive governmental regulation and supervision.

We elected to be a financial holding company pursuant to the GLBA and the Bank Holding Company Act. The Bank is a Mississippi state banking corporation. Both the Company and the Bank are subject to extensive governmental regulation, supervision, legislation and control. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not security holders. These laws and regulations limit the manner in which we operate, including the amount of loans we can originate, interest we can charge on loans and fees we can charge for certain services. See "Item 1. Regulation and Supervision" included herein for more information regarding regulatory burden and supervision.

The Company and the Bank are currently well capitalized under applicable guidelines. Our business could be negatively affected, however, if the Company or the Bank fails to remain well capitalized. For example, because the Bank and its subsidiaries are well capitalized and we qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status would require that we either cease these broader activities or divest certain of the Bank's subsidiaries if we desire to continue such activities.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. It is possible that there will be continued changes to the banking and financial institutions regulatory regimes in the future. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. We cannot predict the extent to which the government and governmental organizations may change any of these laws or controls. We also cannot predict how such changes would adversely affect our business and prospects.

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

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

· Creation of the Financial Stability Oversight Council that may recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
· Application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank and financial holding companies, such as the Company;
· Changes to deposit insurance assessments;

- Regulation of proprietary trading;
- Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Establishment of the CFPB with broad authority to implement new consumer protection regulations and, for bank and financial holding companies with $10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
- Implementation of risk retention rules for loans (excluding qualified residential mortgages) that are sold by a bank;
- Implementation of annual stress tests for all banks with assets exceeding $10 billion
- Regulation of debit-card interchange fees and
- Regulation of lending and the requirements for Qualified Mortgages, Qualified Residential Mortgages and the assessment of “ability to repay” requirements.

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

The short-term and long-term impact of changes to banking capital standards could negatively impact our regulatory capital and liquidity.

The Basel III Capital Rules, when implemented by U.S. banking agencies and fully phased-in, represent the most comprehensive overhaul of the U.S. banking capital framework in over two decades. These rules will require bank holding companies and their subsidiaries, such as the Company and the Bank, to dedicate more resources to capital planning and regulatory compliance, and maintain substantially more capital as a result of higher required capital levels and more demanding regulatory capital risk-weightings and calculations. The rules will also require all banks to change substantially the manner in which they collect and report information to calculate risk-weighted assets, and will likely increase risk-weighted assets at many banking organizations as a result of applying higher risk-weightings to certain types of loans and securities. As a result, we may be forced to limit originations of certain types of commercial and mortgage loans, thereby reducing the amount of credit available to borrowers and limiting opportunities to earn interest income from the loan portfolio, or change the way we manage past-due exposures. As a result of the changes to bank capital levels and the calculation of risk-weighted assets, many banks could be required to access the capital markets on short notice and in relatively weak economic conditions, which could result in banks raising capital that significantly dilutes existing shareholders. Additionally, many community banks could be forced to limit banking operations and activities, and growth of loan portfolios and interest income, in order to focus on retention of earnings to improve capital levels. If the Basel III Capital Rules require us to access the capital markets in this manner, or similarly limit the Bank's operations and activities, the Basel III Capital Rules would have a detrimental effect on our net income and return on equity and limit the products and services we provide to our customers. See “Item 1. Business - Regulation and Supervision” included herein for more information regarding the Basel III Capital Rules.

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

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

Because of the geographic concentration of our assets, our business is highly susceptible to local economic conditions.

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

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

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

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

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

Interest rates are highly sensitive to many factors including:

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

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

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

The monetary policies of federal regulatory authorities, particularly the Federal Reserve, and economic conditions in our service area and the United States generally, affect our ability to attract deposits and extend loans. We cannot predict either the nature or timing of any changes in these monetary policies and economic conditions, including the Federal Reserve's interest rate policies, or their impact on our financial performance. Adverse conditions in the economic environment could also lead to a potential decline in deposits and demand for loans.

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

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

Reputational risk may impact our results.

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

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

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

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

When we acquire a business, a portion of the purchase price of the acquisition is generally allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. At December 31, 2013, our goodwill and other identifiable intangible assets were $312.9 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired because, for example, the acquired business does not meet projected revenue targets or certain key employees leave, we are required to write down the carrying value of these assets. We conduct a review at least annually to determine whether goodwill is impaired. Our annual goodwill impairment evaluation performed during the fourth quarter of 2013 indicated no impairment of goodwill for our reporting segments. We cannot provide assurance, however, that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price.

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

As part of our business strategy, we may further diversify our lines of business into areas that are not traditionally associated with the banking business. As a result, we would need to manage the development of new business lines in which we have not previously participated. Each new business line would require the investment of additional capital and the significant involvement of our senior management to develop and integrate the service subsidiaries with our traditional banking operations. We can provide no assurances that we will be able to develop and integrate new services without adversely affecting our financial performance.

Maintaining or increasing our market share may depend upon our ability to adapt our products and services to evolving industry standards and consumer preferences.

Our success depends, in part, on our ability to adapt our products and services as well as our distribution of them to evolving industry standards and consumer preferences. Payment methods have evolved with the advancement of technology, such as consumer use of smart phones and PayPal accounts to pay bills, thereby increasing competitive pressure in the delivery of financial products and services. The development and adoption by us of new technologies could require us to make substantial expenditures to modify our existing products and services. Further, we might not be successful in developing or introducing new products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, or sufficiently maintaining and growing a loyal customer base. Our inability to adapt to evolving industry standards and consumer preferences could have an adverse impact on our financial condition and results of operations.

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

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

We face risks in connection with completed or potential acquisitions.

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

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

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

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

We may experience interruptions or breaches that may affect our information system security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. Third parties with which we do business or that facilitate our business activities could also be sources of operational and informational security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of these information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of these information systems could damage our reputation, result in a loss of customer business, cause us to expend significant additional resources to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

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

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

We and/or the holders of certain classes of our securities could be adversely affected by unfavorable ratings from rating agencies.

Our ability to access the capital markets is important to our overall funding profile. This access is affected by the ratings assigned by rating agencies to us, certain of our subsidiaries and particular classes of securities we issue. A downgrade to our or our subsidiaries' credit rating could affect our ability to access the capital markets, increase our borrowing costs and negatively impact our profitability. Additionally, a downgrade of the credit rating of any particular security issued by us or our subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

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

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

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

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

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

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

We may issue debt or equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

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

We are subject to environmental liability risk associated with our lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, results of operations and financial condition.

Our earnings could be adversely impacted by incidences of fraud and compliance failures that are not within our direct control.

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of the Bank, an employee, a vendor or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, automated clearing house transactions, ATM transactions and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. The compliance risk is that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures could adversely impact the performance of our loan portfolio.

We depend upon key personnel and we may not be able to retain them nor to attract, assimilate and retain highly qualified employees in the future.

Our success depends in significant part upon the continued service of our senior management team and our continuing ability to attract, assimilate and retain highly qualified and skilled managerial, product development, lending, marketing and other personnel. The loss of the services of any members of our senior management or other key personnel or the inability to hire or retain qualified personnel in the future could adversely affect our business, results of operations and financial condition.

Unfavorable results from ongoing stress test analyses conducted at or on the Company and the Bank may adversely affect our ability to retain customers or compete for new business opportunities.

Under final rules associated with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act and specifically section 165(i)(2) thereof, the Federal Reserve and other banking regulators require the Company and the Bank to perform, and in turn, the regulators themselves to conduct periodic stress tests and analysis of BancorpSouth to evaluate our ability to absorb losses in various economic and financial scenarios. This stress test analysis uses three economic and financial scenarios generated by the Federal Reserve, including a baseline, adverse and severely adverse scenarios. The regulators may also use, and require companies to use, additional components in the adverse and severely adverse scenarios or additional or more complex scenarios designed to capture salient risks to specific lines of business. The rules also require us to conduct our own periodic stress test analysis to assess the potential impact on the Company, including our consolidated earnings, losses and capital, under each of the economic and financial scenarios used as part of the regulators' stress test analysis. A summary of the results of certain aspects of the Federal Reserve's annual stress analysis is to be released publicly and will contain bank holding company specific information and results. The rules also require us to disclose publicly a summary of the results of our semi-annual stress analyses, and the Bank's annual stress analyses, under the severely adverse scenario.

Although the stress tests are not meant to assess our current condition, and even if we remain stable and well capitalized, we cannot predict the market's or our customers' reaction to the results of these stress tests. Our customers' reactions could limit our ability to attract and retain customers or to effectively compete for new business opportunities.

Additionally, our regulators may require us to raise additional capital or take other actions, or may impose restrictions on our business, based on the results of the stress tests, including requiring revisions or changes to our capital plans. We may not be able to raise additional capital if required to do so, or may not be able to do so on terms favorable to us. Any such capital raises, if required, may also be dilutive to our existing shareholders.

New, proposed and future regulatory initiatives associated with the CFPB may increase compliance burdens, which could have a material adverse effect on our financial condition and results of operations.

The Dodd-Frank Act created the CFPB, which has examination and enforcement authority over the Bank and its subsidiaries, and gave CFPB broad rulemaking authority to administer and carry out the purposes and objectives of certain federal consumer financial laws with respect to financial institutions that offer financial products and services to consumers. The CFPB is authorized to make rules identifying and prohibiting acts or practices that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The term “abusive” is new and untested, and we cannot predict how it will be enforced.

Based on the provisions of the Dodd-Frank Act and anticipated implementing regulations, it is likely that banks will be subject to increased regulation and compliance obligations that expose us to noncompliance risk and consequences, which could have a material adverse effect on our financial condition and results of operations.

Our framework for managing risks may not be effective in mitigating risk and any resulting loss.

Our risk management framework seeks to mitigate risk and any resulting loss. We have established processes intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity, credit, market, interest rate, operational, legal and compliance, and reputational risk. However, as with any risk management framework, there are inherent limitations to our risk management processes and strategies. There may exist, or develop in the future, risks that we have not appropriately anticipated or identified. Also, breakdowns in our risk management framework could have a material adverse effect on its financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

a. The Bank - The main office is located at One Mississippi Plaza, 201 South Spring Street in the central business district of Tupelo, Mississippi in a seven-floor, modern, glass, concrete and steel office building owned by the Bank. The Bank occupies approximately 80% of the space, with the remainder leased to various unaffiliated tenants.

The Bank owns 234 of its 256 branch banking facilities. The remaining 22 branch banking facilities are occupied under leases with unexpired terms ranging from one to ten years. The Bank also owns other buildings that provide space for computer operations, lease servicing, mortgage lending, warehouse needs and other general purposes.

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

b.BancorpSouth Insurance Services, Inc. - This wholly-owned subsidiary of the Bank owns five of the 29 offices it occupies. It leases 24 offices that have unexpired terms varying in duration from one to nine years.

ITEM 3. LEGAL PROCEEDINGS.

The nature of the Company's business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative 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 CFPB, 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 by allegedly issuing materially false and misleading statements regarding the Company's business and financial results. The plaintiff is seeking to recover alleged damages in an unspecified amount and equitable and/or injunctive relief, and attorneys' fees. A motion to dismiss has been under advisement by the court since early 2013. Although it is not possible to predict the ultimate resolution or financial liability with respect to this litigation, management is currently of the opinion that the outcome of this lawsuit will not have a material adverse effect on the Company's business, consolidated financial position or results of operations.

On May 18, 2010, the Bank was named as a defendant in a purported 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 have concluded and the case has been 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 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

MARKET FOR COMMON STOCK

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

		High	Low
2013	Fourth	$ 25.54	$ 19.64
	Third	20.77	17.76
	Second	18.06	14.72
	First	16.52	14.14
2012	Fourth	$ 15.00	$ 12.55
	Third	15.69	13.81
	Second	14.70	12.40
	First	14.21	10.85

HOLDERS OF RECORD

As of February 17, 2014, there were 8,125 shareholders of record of the Company's common stock.

DIVIDENDS

The Company declared cash dividends each quarter in an aggregate annual amount of $0.12 and $0.04 per share during 2013 and 2012, respectively. Future dividends, if any, will vary depending on the Company's profitability, anticipated capital requirements and applicable federal and state regulations. The Company is further restricted by the Federal Reserve's authority to limit or prohibit the payment of dividends, as outlined in SR 09-4 and the FDIC's authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends. There can be no assurance that the Federal Reserve Bank, the FDIC or other regulatory bodies will not limit or prohibit future dividends. See "Item 1. Business – Regulation and Supervision" included herein for more information on restrictions and limitations on the Company's ability to pay dividends.

ISSUER PURCHASES OF EQUITY SECURITIES

The Company did not repurchase any shares of its common stock during the quarter ended December 31, 2013.

STOCK PERFORMANCE GRAPH

The graph below compares the annual percentage change in the cumulative total shareholder return on the Company's common stock against the cumulative total return of the SNL Southeast Bank Index and the S&P 500 Index for a period of five years. The graph assumes an investment of $100 in the Company's common stock and in each respective index on December 31, 2008 and reinvestment of dividends on the date of payment without commissions. The SNL Southeast Bank Index is presented by SNL Financial LC and consists of 85 publicly traded banks and bank holding companies located in the southeastern United States as of December 31, 2013. The performance graph represents past performance and should not be considered to be an indication of future performance.

	Period Ending					
Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
BancorpSouth, Inc.	100.00	104.64	75.00	52.33	69.25	121.78
SNL Southeast Bank Index	100.00	100.41	97.49	57.04	94.75	128.40
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19

Source: SNL Financial LC

ITEM 6. SELECTED FINANCIAL DATA.

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

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

OVERVIEW

The Company is a regional financial holding company with $13.0 billion in assets headquartered in Tupelo, Mississippi. The Company’s wholly-owned banking subsidiary has commercial banking operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida, and Missouri. 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. The Bank’s insurance agency subsidiary also operates an office in Illinois.

Management's discussion and analysis provides a narrative discussion of the Company's financial condition and results of operations for the previous three years. For a complete understanding of the following discussion, you should refer to the Consolidated Financial Statements and related Notes presented elsewhere in this Report. This discussion and analysis is based on reported financial information, and certain amounts for prior years have been reclassified to conform with the current financial statement presentation. The information that follows is provided to enhance comparability of financial information between years and to provide a better understanding of the Company's operations.

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

The largest source of the Company's revenue is 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 remained relatively stable in 2013 compared to 2012. During 2012, the Company's debit card revenue decreased as a result of 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 the Company's 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 INFORMATION

	At or for the Year Ended December 31,				
	2013	2012	2011	2010	2009
Earnings Summary:	(Dollars in thousands, except per share amounts)				
Interest revenue	$ 449,507	$ 486,424	$ 537,853	$ 582,762	$ 615,414
Interest expense	50,558	71,833	102,940	141,620	170,515
Net interest revenue	398,949	414,591	434,913	441,142	444,899
Provision for credit losses	7,500	28,000	130,081	204,016	117,324
Net interest revenue, after provision for credit losses	391,449	386,591	304,832	237,126	327,575
Noninterest revenue	275,066	280,149	270,845	264,144	275,276
Noninterest expense	534,849	549,193	533,633	487,033	490,017
Income before income taxes	131,666	117,547	42,044	14,237	112,834
Income tax expense (benefit)	37,551	33,252	4,475	(8,705)	30,105
Net income	$ 94,115	$ 84,295	$ 37,569	$ 22,942	$ 82,729
Balance Sheet - Year-End Balances:					
Total assets	$ 13,029,733	$ 13,397,198	$ 12,995,851	$ 13,615,010	$ 13,167,867
Total securities	2,466,989	2,434,032	2,513,518	2,709,081	1,993,594
Loans and leases, net of unearned income	8,958,015	8,636,989	8,870,311	9,333,107	9,775,136
Total deposits	10,773,836	11,088,146	10,955,189	11,490,021	10,677,702
Long-term debt	81,714	33,500	33,500	110,000	112,771
Total shareholders' equity	1,513,130	1,449,052	1,262,912	1,222,244	1,276,296
Balance Sheet - Average Balances:					
Total assets	13,068,568	13,067,276	13,280,047	13,304,836	13,203,659
Total securities	2,561,918	2,490,898	2,620,404	2,157,096	2,179,479
Loans and leases, net of unearned income	8,671,441	8,719,399	9,159,431	9,621,529	9,734,580
Total deposits	10,877,366	10,936,694	11,251,406	11,107,445	10,155,730
Long-term debt	53,050	33,500	66,673	111,547	290,582
Total shareholders' equity	1,478,429	1,413,667	1,240,768	1,241,321	1,255,605
Common Share Data:					
Basic earnings per share	$ 0.99	$ 0.90	$ 0.45	$ 0.28	$ 0.99
Diluted earnings per share	0.99	0.90	0.45	0.27	0.99

Cash dividends per share	0.12	0.04	0.14	0.88	0.88
Book value per share	15.89	15.33	15.13	14.64	15.29
Tangible book value per share	12.60	12.23	11.68	11.17	11.78
Dividend payout ratio	12.12	4.44	31.11	314.29	88.89
Financial Ratios:					
Return on average assets	0.72%	0.65%	0.28%	0.17%	0.63%
Return on average shareholders' equity	6.37%	5.96%	3.03%	1.85%	6.59%
Total shareholders' equity to total assets	11.61%	10.82%	9.72%	8.98%	9.69%
Tangible shareholders' equity to tangible assets	9.44%	8.83%	7.67%	7.00%	7.63%
Net interest margin-fully taxable equivalent	3.43%	3.57%	3.69%	3.70%	3.77%
Credit Quality Ratios:					
Net charge-offs to average loans and leases	0.22%	0.67%	1.44%	1.90%	0.76%
Provision for credit losses to average loans and leases	0.09%	0.32%	1.42%	2.12%	1.21%
Allowance for credit losses to net loans and leases	1.71%	1.90%	2.20%	2.11%	1.80%
Allowance for credit losses to NPLs	127.27%	70.42%	60.55%	49.93%	94.41%
Allowance for credit losses to NPAs	80.76%	48.83%	39.33%	37.31%	71.64%
NPLs to net loans and leases	1.34%	2.70%	3.63%	4.23%	1.91%
NPAs to net loans and leases	2.12%	3.90%	5.59%	5.65%	2.51%
Capital Ratios:					
Tier 1 capital	12.99%	13.77%	11.77%	10.61%	11.17%
Total capital	14.25%	15.03%	13.03%	11.87%	12.42%
Tier 1 leverage capital	9.93%	10.25%	8.85%	8.07%	8.95%

In addition to financial ratios based on measures defined by 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 assets and tangible shareholders' equity as presented above to U.S. GAAP financial measure as reflected in the Company's consolidated financial statements:

	December 31, 2013 (In thousands)	2012	2011	2010	2009
Tangible Assets:					
Total assets	$ 13,029,733	$ 13,397,198	$ 12,995,851	$ 13,615,010	$ 13,167,867
Less: Goodwill	286,800	275,173	271,297	270,097	270,097
Identifiable intangible assets	26,079	17,329	16,613	19,624	23,533
Total tangible assets	$ 12,716,854	$ 13,104,696	$ 12,707,941	$ 13,325,289	$ 12,874,237
Tangible Shareholders' Equity:					
Total shareholders' equity	$ 1,513,130	$ 1,449,052	$ 1,262,912	$ 1,222,244	$ 1,276,296
Less: Goodwill	286,800	275,173	271,297	270,097	270,097
Identifiable intangible assets	26,079	17,329	16,613	19,624	23,533
Total tangible shareholders' equity	$ 1,200,251	$ 1,156,550	$ 975,002	$ 932,523	$ 982,666
Total shares outstanding	95,231,691	94,549,867	83,483,796	83,481,737	83,450,296
Tangible shareholders' equity to tangible assets	9.44%	8.83%	7.67%	7.00%	7.63%
Tangible book value per share	$ 12.60	$ 12.23	$ 11.68	$ 11.17	$ 11.78

FINANCIAL HIGHLIGHTS

The Company reported net income of $94.1 million for 2013 compared to $84.3 million for 2012 and $37.6 million for 2011. The decreased provision for credit losses was the most significant factor contributing to the increase in earnings in both 2013 compared to 2012 and 2012 compared to 2011, as the provision for credit losses was $7.5 million in 2013 compared to $28.0 million in 2012 and $130.1 million in 2011. Net charge-offs decreased to $18.7 million, or 0.22% of average loans and leases, in 2013 from $58.7 million, or 0.67% of average loans and leases, in

2012 and $131.9 million, or 1.44% of average loans and leases, in 2011. The decrease in the provision for credit losses from 2012 to 2013 and from 2011 to 2012 reflected the impact of significant decreases in NPL formation during both 2013 and 2012, as NPLs decreased to $120.4 million at December 31, 2013 after having decreased to $233.6 million at December 31, 2012 from $322.3 million at December 31, 2011. The impact of the economic environment continues to be evident on real estate consumer mortgage, commercial and construction, acquisition and development loans and more specifically on residential construction, acquisition and development loans. Prior to 2012, many of these loans had become collateral-dependent, requiring recognition of additional loan loss provisions or charge-offs to reflect the decline in real estate values. During 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 of $49.0 million, or 73.6%, to $17.6 million at December 31, 2013 from $66.6 million at December 31, 2012.

The primary source of revenue for the Company is net interest revenue earned by the Bank. Net interest revenue is the difference between interest earned on loans, investments and other earning assets and interest paid on deposits and other obligations. Net interest revenue for 2013 was $398.9 million, compared to $414.6 million for 2012 and $434.9 million for 2011. 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. One of the

Company's long-term objectives is to manage those assets and liabilities to maximize net interest revenue, while balancing interest rate, credit, liquidity and capital risks. The 3.8% decrease in net interest revenue in 2013 compared to 2012 was a result of the decrease in interest expense being more than offset by the decrease in interest revenue as the yield on earning assets declined by a greater amount than that of interest-bearing liabilities. The decline in earning asset yield was primarily a result of the balance in short-term investments, which is the lowest yielding earning asset, combined with declining loan yields as interest rates continued to be at historically low levels. The Company experienced a decrease in interest paid on junior subordinated debt resulting from the redemption of 8.15% trust preferred securities in the third quarter of 2013, as well as an increase in lower rate savings deposits and a decrease in higher rate average demand and other time deposits which resulted in a decrease in interest expense of $21.3 million, or 29.6%, in 2013 compared to 2012.

The Company attempts to diversify its revenue stream by increasing the amount of revenue received from mortgage lending operations, insurance agency activities, brokerage and securities activities and other activities that generate fee income. Management believes this diversification is important to reduce the impact of fluctuations in net interest revenue on the overall operating results of the Company. Noninterest revenue for 2013 was $275.1 million, compared to $280.1 million for 2012 and $270.8 million for 2011. One of the primary contributors to the decrease in noninterest revenue from 2012 to 2013 was the decrease in mortgage lending revenue to $45.0 million in 2013 compared to $56.9 million in 2012. The decrease in mortgage lending revenue was primarily related to the decrease in mortgage originations. Mortgage origination volume decreased by approximately $600 million in 2013 to $1.4 billion from $2.0 billion in 2012. The decreased level of mortgage origination volume resulted in a decrease in origination revenue to $26.1 million in 2013 from $53.3 million in 2012. The decrease in mortgage lending revenue in 2013 compared to 2012 was somewhat offset by the change in fair value of Mortgage servicing rights ("MSRs"). The fair value of MSRs increased $8.9 million in 2013 compared to a decrease of $3.2 million in 2012.

Service charges decreased 7.0% in 2013 compared to 2012 and 14.7% in 2012 compared to 2011 as a result of a decrease in insufficient fund fees and a lower volume of items processed. 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 the continued decreases in insufficient fund fees. While service charges and mortgage lending revenue decreased in 2013 compared to 2012, insurance commissions increased 8.4% to $97.7 million in 2013 from $90.1 million in 2012 after increasing 3.7% from $86.9 million in 2011. The increase in insurance commissions was 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. in July 2012 and GEM in December 2013.

Noninterest expense for 2013 was $534.8 million, a decrease of 2.6% from $549.2 million for 2012, which was an increase of 2.9% from $533.6 million for 2011. The decrease in noninterest expense in 2013 compared to 2012 was primarily a result of decreases in deposit insurance assessments and foreclosed property expense. Deposit insurance assessments decreased $4.7 million, or 28.7%, in 2013 compared to 2012 and decreased $4.8 million, or 22.7%, in 2012 compared to 2011 as a result of improvement evidenced in various variables utilized by the FDIC in calculating the deposit insurance assessment. Foreclosed property expense decreased $27.7 million, or 70.2%, to $11.7 million in 2013 compared to $39.4 million in 2012 primarily as a result of the Company experiencing lower losses on the sale and smaller writedowns of OREO. The decrease in noninterest expense was somewhat offset by a pre-tax charge of $10.9 million that was recorded during the second quarter of 2013 related to additional benefits offered under the voluntary early retirement program and a pre-tax charge of $2.9 million that was recorded during the third quarter of 2013 to write-off unamortized issuance costs related to the redemption of 8.15% trust preferred securities in the third quarter of 2013. No such voluntary early retirement program or redemption and resulting write-off of unamortized issuance costs were recorded in 2012 and 2011. Legal expenses increased $11.1 million, or 118.8%, in 2013 compared to 2012 as a result of a charge of $10.7 million to legal expense during 2013 that was recorded to increase the litigation accrual related to various legal matters after only increasing approximately $164,000, or 1.8% in 2012 compared to 2011. Income tax expense increased in 2013 and 2012 primarily as a result of the increase in pre-tax income in 2013 compared to 2012 and in 2012 compared to 2011. The major components of net income are discussed in more detail in the various sections that follow.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which require the Company to make estimates and assumptions (see Note 1 to the Company's Consolidated Financial Statements included elsewhere in this Report). Management believes that its determination of the allowance for credit losses, valuation of OREO, the annual goodwill impairment assessment, the assessment for other-than-temporary impairment of securities, the valuation of MSRs and the estimation of pension and other postretirement benefit amounts involve a higher degree of judgment and complexity than the Company's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Company's borrowers, subjecting the Company to significant volatility of earnings.

Allowance for Credit Losses

The allowance for credit losses is established through the provision for credit losses, which is a charge against earnings. Provisions for credit losses are made to reserve for estimated probable losses on loans and leases. The allowance for credit losses is a significant estimate and is regularly evaluated by the Company for adequacy by taking into consideration factors such as changes in the nature and volume of the loan and lease portfolio; trends in actual and forecasted portfolio credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. In determining an adequate allowance for credit losses, management makes numerous assumptions, estimates and assessments. The use of different estimates or assumptions could produce different provisions for credit losses. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Provision for Credit Losses and Allowance for Credit Losses" included herein for more information. At December 31, 2013, the allowance for credit losses was $153.2 million, representing 1.71% of total loans and leases, net of unearned income.

Other Real Estate Owned

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

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. The Company performed a qualitative assessment of whether it was more likely than not that a reporting segment's fair value was less than its carrying value during the fourth quarter of 2013. Based on this assessment, it was determined that the Company's reporting segments' fair value exceeded their carrying value. Therefore, the two-step quantitative goodwill impairment test was not deemed necessary and no goodwill impairment was recorded during 2013.

In the current environment, forecasting cash flows, credit losses and growth in addition to valuing the Company's assets with any degree of assurance is very difficult and subject to significant changes over very short periods of time. Management will continue to update its analysis as circumstances change. If market conditions continue to be volatile and unpredictable, impairment of goodwill related to the Company's reporting segments may be necessary in future periods. Goodwill was $286.8 million at December 31, 2013.

Assessment for Other-Than-Temporary Impairment of Securities

Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. The term "other-than-temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near-term recovery of value are not necessarily favorable. Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, and whether the Company would be required to sell the securities before a full recovery of costs in order to predict whether the loss in value is other-than-temporary. Once a decline in value is determined to be other-than-temporary, the impairment is separated into (a) the amount of the impairment related to the credit loss and (b) the amount of the impairment related to all other factors. The value of the security is reduced by the other-than-temporary impairment with the amount of the impairment related to credit loss recognized as a charge to earnings and the amount of the impairment related to all other factors recognized in other comprehensive income.

Mortgage Servicing Rights

The Company recognizes as assets the rights to service mortgage loans for others, known as MSRs. The Company records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 860, Transfers and Servicing ("FASB ASC 860"). An estimate of the fair value of the Company's MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSRs is the impact of fluctuating interest rates on the estimated life of the servicing revenue stream. The use of different estimates or assumptions could also produce different fair values. The Company does not hedge the change in fair value of MSRs and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSRs in changing interest rate environments. At December 31, 2013, the Company's mortgage servicing asset was valued at $54.7 million.

Pension and Postretirement Benefits

Accounting for pension and other postretirement benefit amounts is another area where the accounting guidance requires management to make various assumptions in order to appropriately value any related asset or liability. Estimates that the Company makes to determine pension-related assets and liabilities include actuarial assumptions, expected long-term rate of return on plan assets, rate of compensation increase for participants and discount rate. Estimates that the Company makes to determine asset and liability amounts for other postretirement benefits include actuarial assumptions and a discount rate. Changes in these estimates could impact earnings. For example, lower expected long-term rates of return on plan assets could negatively impact earnings, as would lower estimated discount rates or higher rates of compensation increase. In estimating the projected benefit obligation, actuaries must make assumptions about such factors as mortality rate, turnover rate, retirement rate, disability rate and the rate of compensation increases. The Company accounts for the over-funded or under-funded status of its defined benefit and postretirement plans as an asset or liability in its consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur through comprehensive income as required by FASB ASC 715, Compensation – Retirement Benefits ("FASB ASC 715"). In accordance with FASB ASC 715, the Company calculates the expected return on plan assets each year based on the balance in the pension asset portfolio at the beginning of the year and the expected long-term rate of return on that portfolio. In determining the reasonableness of the expected rate of return, the Company considers a variety of factors including the actual return earned on plan assets, historical rates of return on the various asset classes of which the plan portfolio is comprised and current/prospective capital market conditions and economic forecasts. The Company used an expected rate of return of 5.5% on plan assets for 2013. The discount rate is the rate used to determine the present value of the Company's future benefit obligations for its pension and other postretirement benefit plans. The Company determines the discount rate to be used to discount plan liabilities at the measurement date with the assistance of its actuary using the actuary's proprietary model. The Company developed a level equivalent yield using its actuary's model as of December 30, 2013 and the expected cash flows from the BancorpSouth, Inc. Retirement Plan (the "Basic Plan"), the BancorpSouth, Inc. Restoration Plan (the "Restoration Plan") and the BancorpSouth, Inc. Supplemental Executive Retirement Plan (the "Supplemental Plan"). Based on this analysis, the Company established its discount rate assumptions for determination of the projected benefit obligation at 4.90% for the Basic Plan, 4.50% for the Restoration Plan and 3.65% for the Supplemental Plan based on a December 31, 2013 measurement date.

RESULTS OF OPERATIONS

Net Interest Revenue

Net interest revenue is the difference between interest revenue earned on assets, such as loans, leases and securities, and interest expense paid on liabilities, such as deposits and borrowings, and continues to provide the Company with its principal source of revenue. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. One of the Company’s long-term objectives 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 years ended December 31, 2013:

	2013			2012			2011
(Taxable equivalent basis)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance
ASSETS	(Dollars in thousands, yields on taxable equivalent basis)						
Loans and leases (net of unearned income) (1)(2)	$ 8,671,441	$ 399,738	4.61%	$ 8,719,399	$ 428,998	4.92%	$ 9,159,431
Loans held for sale	77,984	2,539	3.26%	91,215	3,033	3.33%	53,504
Held-to-maturity securities:							
Taxable (3)	-	-	-	-	-	-	547,471
Non-taxable (4)	-	-	-	-	-	-	133,827
Available-for-sale securities:							
Taxable (5)	2,129,615	33,286	1.56%	2,035,628	39,849	1.96%	1,667,936
Non-taxable (6)	432,304	23,918	5.53%	455,270	25,627	5.63%	271,170
Federal funds sold, securities purchased under agreement to resell and short-term investments	670,170	1,694	0.25%	659,459	1,714	0.26%	310,052
Total interest earning assets and revenue	11,981,514	461,175	3.85%	11,960,971	499,221	4.17%	12,143,391
Other assets	1,247,897			1,290,436			1,347,685
Less: allowance for credit losses	(160,843)			(184,131)			(211,029)
Total	$ 13,068,568			$ 13,067,276			$ 13,280,047
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits:							
Demand - interest bearing	$ 4,651,841	$ 9,645	0.21%	$ 4,784,011	$ 16,111	0.34%	$ 4,907,058
Savings	1,205,980	1,705	0.14%	1,078,302	2,697	0.25%	943,317
Other time	2,467,611	29,729	1.20%	2,773,953	39,797	1.43%	3,322,733
Federal funds purchased, securities sold under agreement to repurchase,							

short-term FHLB and other borrowings	418,168	294	0.07%	382,167	330	0.09%	437,589
Junior subordinated debt securities	109,119	7,376	6.76%	160,312	11,502	7.17%	160,312
Long-term debt	53,050	1,809	3.41%	33,500	1,396	4.17%	66,673
Total interest bearing liabilities and expense	8,905,769	50,558	0.57%	9,212,245	71,833	0.78%	9,837,682
Demand deposits - noninterest bearing	2,551,934			2,300,428			2,078,298
Other liabilities	132,436			140,936			123,299
Total liabilities	11,590,139			11,653,609			12,039,279
Shareholders' equity	1,478,429			1,413,667			1,240,768
Total	$ 13,068,568			$ 13,067,276			$ 13,280,047
Net interest revenue-FTE		$ 410,617			$ 427,388		
Net interest margin-FTE			3.43%			3.57%	
Net interest rate spread			3.28%			3.39%	
Interest bearing liabilities to interest earning assets			74.33%			77.02%	

(1) Includes taxable equivalent adjustment to interest of approximately $3,297,000, $3,387,000, and $3,337,000 in 2013, 2012 respectively, using an effective tax rate of 35%.
(2) Non-accrual loans are included in Loans and leases (net of unearned income).
(3) Includes taxable equivalent adjustments to interest of approximately $186,000 in 2011 using an effective tax rate of 35%.
(4) Includes taxable equivalent adjustments to interest of approximately $3,035,000 in 2011 using an effective tax rate of 35%
(5) Includes taxable equivalent adjustment to interest of approximately $441,000 and $254,000 in 2012 and 2011, respectively effective tax rate of 35%.
(6) Includes taxable equivalent adjustment to interest of approximately $8,371,000, $8,969,000, and $5,914,000 in 2013, 2012 respectively, using an effective tax rate of 35%.

Net interest revenue-FTE decreased 3.9% to $410.6 million in 2013 from $427.4 million in 2012, which represented a decrease of 4.5% from $447.6 million in 2011. The decrease in net interest revenue-FTE for 2013 compared to 2012 was a result of the increase in average short-term investments combined with declining loan yields and lack of substantial loan growth, as the short-term investments had lower average rates earned than the average rates paid on interest bearing liabilities. The decrease in net interest revenue –FTE for 2013 was somewhat offset by the decrease in higher rate average demand and other time deposits, as well as a decrease in rates paid on junior subordinated debt resulting from the redemption of 8.15% trust preferred securities in the third quarter of 2013. The decrease in net interest revenue-FTE for 2012 compared to 2011 was primarily a result of increase in short-term investments resulting from excess liquidity coupled with the continued lack of substantial loan growth, as the short-term investments had lower average rates earned than the average rates paid on interest bearing liabilities. The yield on interest earning assets declined 32 basis points to 3.85% in 2013 from 4.17% in 2012, which exceeded the decline of 21 basis points in the average rate paid on interest bearing liabilities to 0.57% in 2013 from 0.78% in 2012. The yield on interest earning assets declined 36 basis points to 4.17% in 2012 from 4.53% in 2011 and the average rate paid on interest bearing liabilities declined 27 basis points to 0.78% in 2012 compared to 1.05% in 2011. The declining loan yields experienced by the Company in 2013 and 2012 were a result of reduced interest rates with this decline being somewhat offset by the impact of the interest rate floors evident on a portion of the Company's variable rate loans. The effect of the interest rate floors on the Company's variable rate loans is more fully discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Interest Rate Sensitivity."

Interest revenue-FTE decreased 7.6% to $461.2 million in 2013 from $499.2 million in 2012, which represented a decrease of 9.3% from $550.6 million in 2011. The decreases in interest revenue-FTE in 2013 and 2012 were primarily a result of the declining loan yields on decreased net loans and leases, as interest rates were at historically low levels with the 2013 and 2012 decrease also impacted by increased lower rate securities and short-term investments, resulting in an overall decrease in the yield on average interest earning assets of 32 basis points during 2013 and 36 basis points during 2012. Average interest earning assets remained relatively stable at $12.0 billion in 2013 after having decreased $182.4 million, or 1.5%, to $12.0 billion in 2012 from $12.1 billion in 2011. The decrease in average interest-earning assets during 2012 was primarily a result of the larger decrease in net loans and leases and securities than the increase in short-term investments resulting from excess liquidity.

Interest expense decreased 29.6% to $50.6 million in 2013 from $71.8 million in 2012, which represented a decrease of 30.2% from $102.9 million in 2011. The decrease in interest expense during 2013 was a result of the increase in average lower cost savings deposits and a decrease in interest bearing and other time deposits and their corresponding rates, as well as a decrease in rates paid on junior subordinated debt resulting from the redemption of 8.15% trust preferred securities in the third quarter, resulting in an overall decrease in the average rate paid of 21 basis points. The decrease in interest expense during 2012 was a result of the increase in average lower cost savings deposits combined with the decrease in interest bearing and other time deposits and their corresponding rates, coupled with the decrease in higher rate long-term FHLB borrowings, resulting in an overall decrease in the average rate paid of 27 basis points. Average interest bearing liabilities decreased $306.5 million, or 3.3%, to $8.9 billion in 2013 after decreasing $625.4 million, or 6.4%, from $9.2 billion in 2012. The decrease in average interest bearing liabilities in 2013 compared to 2012 and from 2012 to 2011 was a result of increases in average lower cost savings deposits being more than offset by decreases in average interest bearing demand deposits, other time deposits, short-term borrowings and long-term borrowings.

Net interest margin-FTE for 2013 was 3.43%, a decrease of 14 basis points from 3.57% for 2012, which represented a decrease of 12 basis points from 3.69% for 2011. The decrease in the net interest margin-FTE for 2013 was attributable to the yield on earning assets declining by a greater amount than that of interest-bearing liabilities, with the decline in earning asset yield primarily a result of the increase in the average balance of short-term investments, the lowest yielding asset. The decrease in the net interest margin-FTE for 2012 was primarily a result of weak loan demand, competitive pressure on loan pricing resulting in loans re-pricing at lower rates, both at maturity and, in some cases, prior to maturity and an increase in short-term investments having lower yields than those earned on the loan portfolio.

Net interest revenue-FTE may also be analyzed by segregating the rate and volume components of interest revenue and interest expense. The table below presents an analysis of rate and average volume change in net interest revenue from 2012 to 2013 and from 2011 to 2012. Changes that are not solely a result of volume or rate have been allocated to volume.

36

	2013 over 2012 - Increase (Decrease)			2012 over 2011 - Increase (Decrease)		
(Taxable equivalent basis)	Volume	Rate	Total	Volume	Rate	Total
INTEREST REVENUE	(In thousands)					
Loans and leases, net of unearned income	$ (2,211)	$ (27,049)	$ (29,260)	$ (21,650)	$ (13,765)	$ (35,415)
Loans held for sale	(431)	(63)	(494)	1,254	(440)	814
Held-to-maturity securities:						
Taxable	-	-	-	-	(13,266)	(13,266)
Non-taxable	-	-	-	-	(8,673)	(8,673)
Available-for-sale securities:						
Taxable	1,469	(8,032)	(6,563)	7,198	(11,592)	(4,394)
Non-taxable	(1,271)	(438)	(1,709)	10,363	(1,633)	8,730
Federal funds sold, securities purchased under agreement to resell and short-term investments	27	(47)	(20)	908	(62)	846
Total decrease	(2,417)	(35,629)	- (38,046)	- (1,927)	(49,431)	- (51,358)
INTEREST EXPENSE						
Demand deposits - interest bearing	(274)	(6,192)	(6,466)	(414)	(6,121)	(6,535)
Savings deposits	181	(1,173)	(992)	338	(852)	(514)
Other time deposits	(3,691)	(6,377)	(10,068)	(7,873)	(14,039)	(21,912)
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB and other borrowings	25	(61)	(36)	(48)	(177)	(225)
Junior subordinated debt securities	(3,460)	(666)	(4,126)	-	51	51
Long-term debt	667	(254)	413	(1,382)	(590)	(1,972)
Total decrease	(6,552)	(14,723)	(21,275)	(9,379)	(21,728)	(31,107)
Total net increase (decrease)	$ 4,135	$ (20,906)	$ (16,771)	$ 7,452	$ (27,703)	$ (20,251)

Interest Rate Sensitivity

The interest rate sensitivity gap is the difference between the maturity or repricing opportunities of interest sensitive assets and interest sensitive liabilities for a given period of time. A prime objective of asset/liability management is to maximize net interest margin while maintaining a reasonable mix of interest sensitive assets and liabilities.

37

The following table presents the Company's interest rate sensitivity at December 31, 2013:

	Interest Rate Sensitivity - Maturing or Repricing			
	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	$ 319,462	$ -	$ -	$ -
Available-for-sale securities	188,572	489,610	1,333,496	455,311
Loans and leases, net of unearned income	3,335,393	1,764,031	3,463,506	395,085
Loans held for sale	42,776	582	3,353	22,882
Total interest earning assets	3,886,203	2,254,223	4,800,355	873,278
INTEREST BEARING LIABILITIES:				
Interest bearing demand and savings deposits	5,816,580	-	-	-
Other time deposits	504,339	1,037,690	770,461	174
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short-term borrowings	421,028	-	-	-
Long-term debt and junior subordinated debt securities	-	-	51,714	61,446
Other	-	-	41	-
Total interest bearing liabilities	6,741,947	1,037,690	822,216	61,620
Interest rate sensitivity gap	$ (2,855,744)	$ 1,216,533	$ 3,978,139	$ 811,658
Cumulative interest sensitivity gap	$ (2,855,744)	$ (1,639,211)	$ 2,338,928	$ 3,150,586

In the event interest rates increase after December 31, 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 December 31, 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 December 31, 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 December 31, 2013, the Bank had $1.8 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 4.29%, an average maturity of 61 months and a fully-indexed interest rate of 3.80% at December 31, 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 December 31, 2013, the Company had $649.1 million, $1.3 billion and $679.3 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 December 31, 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	December 31, 2013	December 31, 2012
+400 basis points	8.1%	24.1%
+300 basis points	9.6%	21.3%
+200 basis points	10.0%	17.4%
+100 basis points	4.7%	8.1%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

Economic Value of Equity
% Variance from Base Case Scenario

Rate Shock	December 31, 2013	December 31, 2012
+400 basis points	22.7%	27.1%
+300 basis points	18.2%	22.6%
+200 basis points	12.4%	15.9%
+100 basis points	6.6%	12.7%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM
-400 basis points	NM	NM

NM=not meaningful

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

	Net Interest Income % Variance from Base Case Scenario	
Rate Ramp	December 31, 2013	December 31, 2012
+200 basis points	4.0%	8.1%
-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 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 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 troubled debt restructuring ("TDR") and analyzed for possible impairment as part of the credit approval process. TDRs are reserved in accordance with FASB ASC 310 in the same manner as impaired loans that are not TDRs. Should the borrower's financial condition, collateral protection or performance deteriorate, warranting reassessment of the loan rating or impairment, additional reserves may be required.

Loans of $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 December 31, 2013, impaired loans totaled $54.9 million, which was net of cumulative charge-offs of $17.2 million. Additionally, the Company had specific reserves related to impaired loans of $4.1 million included in the allowance for credit losses. Impaired loans at December 31, 2013 were primarily from the Company's construction, acquisition and development and commercial real estate portfolios. Impaired loan charge-offs are determined necessary when management does not anticipate any future recovery of collateral values. The loans were evaluated for impairment based on the fair value of the underlying collateral securing the loan. As part of the impairment review process, appraisals are used to determine the property values. The appraised values that are used are generally based on the disposition value of the property, which assumes Bank ownership of the property "as-is" and a 180-360 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 180-360 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.

An analysis of the allowance for credit losses for the five years ended December 31, 2013 is provided in the following table:

	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Balance, beginning of period	$ 164,466	$ 195,118	$ 196,913	$ 176,043	$ 132,793
Loans and leases charged off:					
Commercial and industrial	(4,672)	(12,362)	(17,337)	(11,879)	(9,534)
Real estate					
Consumer mortgages	(9,159)	(13,122)	(10,186)	(25,639)	(13,917)
Home equity	(1,469)	(2,721)	(5,852)	(5,215)	(5,372)
Agricultural	(736)	(1,240)	(3,420)	(1,201)	(848)
Commercial and industrial-owner occupied	(3,855)	(9,015)	(10,302)	(9,200)	(4,033)
Construction, acquisition and development	(6,745)	(33,085)	(67,362)	(113,237)	(32,638)
Commercial real estate	(10,341)	(12,728)	(17,436)	(14,084)	(3,584)
Credit cards	(2,316)	(2,221)	(3,072)	(4,559)	(4,770)
All other	(2,899)	(2,904)	(7,088)	(6,008)	(3,517)
Total loans and leases charged off	(42,192)	(89,398)	(142,055)	(191,022)	(78,213)
Recoveries:					
Commercial and industrial	3,517	7,096	1,567	1,330	761
Real estate					
Consumer mortgages	5,067	1,836	1,111	1,448	824
Home equity	607	496	185	179	109
Agricultural	215	126	123	12	2
Commercial and industrial-owner occupied	2,724	2,696	393	399	297
Construction, acquisition and development	4,682	8,407	3,951	1,706	128
Commercial real estate	4,978	8,538	1,045	845	189
Credit cards	629	527	803	829	617
All other	1,043	1,024	1,001	1,128	1,212
Total recoveries	23,462	30,746	10,179	7,876	4,139
Net charge-offs	(18,730)	(58,652)	(131,876)	(183,146)	(74,074)
Provision charged to operating expense	7,500	28,000	130,081	204,016	117,324
Balance, end of period	$ 153,236	$ 164,466	$ 195,118	$ 196,913	$ 176,043
Loans and leases, net of unearned income - average	$ 8,671,441	$ 8,719,399	$ 9,159,431	$ 9,621,529	$ 9,734,580
Loans and leases, net of unearned income - period end	$ 8,958,015	$ 8,636,989	$ 8,870,311	$ 9,333,107	$ 9,775,136

RATIOS

Net charge-offs to average loans and leases	0.22%	0.67%	1.44%	1.90%	0.76%
Provision for credit losses to average loans and leases, net of unearned income	0.09%	0.32%	1.42%	2.12%	1.21%
Allowance for credit losses to loans and leases, net of unearned income	1.71%	1.90%	2.20%	2.11%	1.80%

Net charge-offs decreased $39.9 million, or 68.1%, in 2013 compared to 2012, and decreased $73.2 million, or 55.5%, in 2012 compared to 2011. Net charge-offs as a percentage of average loans and leases decreased to 0.22% in 2013 compared to 0.67% in 2012 after having decreased from 1.44% in 2011. These decreases were primarily a result of decreased losses within the real estate construction, acquisition and development and commercial segments 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 decreased levels of charge-offs in 2013 and 2012, as updated appraisals came in closer to loan carrying values.

The provision for credit losses decreased $20.5 million to $7.5 million in 2013 compared to $28.0 million in 2012 after having decreased from $130.1 million in 2011 as a result of decreases in net charge-offs, declines in the formation of new non-accrual loans, including fewer loans being identified for impairment, continued stabilization in values of previously impaired loans, and significant decreases in NPLs. As of December 31, 2013 and 2012, 60% and 76%, 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 70% and 71% of their contractual principal balance at December 31, 2013 and 2012, respectively. Nonaccrual 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 $11.3 million to $153.2 million at December 31, 2013 compared to $164.5 million at December 31, 2012 after decreasing $30.6 million from $195.1 million at December 31, 2011. The decrease in the allowance for credit losses at December 31, 2013 compared to December 31, 2012 and 2011was a result of improving credit metrics in 2013, including reductions in classified, non-performing and impaired loans and lower net charge-off levels in 2013 compared to 2012 and 2011. For more information about the Company's classified, non-performing and impaired loans, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Loans and Leases" of this Report.

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

	2013		2012		2011	
	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Commercial and industrial	$ 18,376	17.1 %	$ 23,286	17.1 %	$ 20,724	16.6 %
Real estate						

Consumer mortgages	39,525	22.0	35,966	21.6	36,529	21.8
Home equity	5,663	5.5	6,005	5.6	8,630	5.8
Agricultural	2,800	2.6	3,301	3.0	3,921	2.7
Commercial and industrial-owner occupied	17,059	16.4	20,178	15.4	21,929	14.6
Construction, acquisition and development	11,828	8.3	21,905	8.5	45,562	10.2
Commercial real estate	43,853	20.5	40,081	20.2	39,444	19.7
Credit cards	3,782	1.2	3,611	1.2	4,021	1.2
All other	10,350	6.4	10,133	7.4	14,358	7.4
Total	$ 153,236	100.0 %	$ 164,466	100.0 %	$ 195,118	100.0 %

	2010		2009	
	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Commercial and industrial	$ 22,479	16.1 %	$ 21,154	15.1 %
Real estate				
Consumer mortgages	35,540	20.8	37,048	20.5
Home equity	7,305	5.8	7,218	5.6
Agricultural	4,997	2.7	4,192	2.7
Commercial and industrial-owner occupied	20,403	14.2	22,989	14.7
Construction, acquisition and development	59,048	12.5	46,193	14.9
Commercial real estate	33,439	19.4	26,694	18.4
Credit cards	4,126	1.1	3,481	1.1
All other	9,576	7.4	7,074	7.0
Total	$ 196,913	100.0 %	$ 176,043	100.0 %

Noninterest Revenue

The components of noninterest revenue for the years ended December 31, 2013, 2012 and 2011 and the percentage change between such years are shown in the following table:

	2013		2012		2011
	Amount	% Change	Amount	% Change	Amount
	(Dollars in thousands)				
Mortgage lending	$ 44,977	(21.0)%	$ 56,919	233.5 %	$ 17,069
Credit card, debit card and merchant fees	33,005	4.1	31,705	(25.2)	42,373
Deposit service charges	52,905	(7.0)	56,877	(14.7)	66,670
Trust income	13,451	12.9	11,913	(2.2)	12,186
Securities gains, net	46	(89.6)	442	(96.4)	12,127
Insurance commissions	97,700	8.4	90,138	3.7	86,918
Annuity fees	2,312	3.1	2,243	(32.5)	3,323
Brokerage commissions and fees	7,203	7.3	6,714	13.5	5,918
Bank-owned life insurance	8,314	3.0	8,074	5.4	7,662
Other miscellaneous income	15,153	0.2	15,124	(8.9)	16,599
Total noninterest revenue	$ 275,066	(1.8) %	$ 280,149	3.4 %	$ 270,845

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. For more information about the Company's treatment of MSRs, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Mortgage Servicing Rights" of this Report.

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

45

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 2013, 16 mortgage loans totaling approximately $931,000 were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately $661,000 were recognized related to these repurchased and make whole loans. During 2012, 14 mortgage loans totaling approximately $2.1 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately $782,000 were recognized related to these repurchased and make whole loans.

At December 31, 2013, the Company had reserved approximately $911,000 for potential losses from representation and warranty obligations, compared to a reserve of approximately $729,000 at December 31, 2012. The reserve is 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 committee 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 $1.4 billion, $2.0 billion and $1.2 billion produced origination revenue of $26.1 million, $53.3 million and $24.3 million for 2013, 2012 and 2011, respectively. The decrease in mortgage origination revenue in 2013 compared to 2012 was a direct result of the decrease in mortgage loan origination volumes during 2013 compared to 2012, as well as the result of interest rate volatility during 2013. The increase in mortgage origination revenue in 2012 compared to 2011 was a direct result of the increase in mortgage loan origination volumes during 2012 compared to 2011.

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 $16.2 million, $14.4 million and $12.9 million for 2013, 2012 and 2011, 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 impacted by principal payments, prepayments and payoffs on loans in the servicing portfolio. Decreases in value from principal payments, prepayments and payoffs were $6.2 million, $7.6 million and $6.2 million for 2013, 2012 and 2011, respectively. The Company does not hedge the change in fair value of its MSRs and is susceptible to significant fluctuations in their value in changing interest rate environments. Reflecting this sensitivity to interest rates, the fair value of MSRs increased $8.9 million in 2013 and decreased $3.2 million and $14.0 million in 2012 and 2011, respectively.

The following table presents the Company's mortgage lending operations for 2013, 2012 and 2011:

	2013		2012		2011
	Amount	% Change	Amount	% Change	Amount

	(Dollars in thousands)								
Production revenue:									
Origination	$	26,110	(51.0)	%	$	53,296	119.5	%	$	24,286
Servicing	16,168		12.0		14,435		11.6		12,929	
Payoffs/Paydowns	(6,244)		(18.4)		(7,649)		(23.8)		(6,180)	
Total	36,034		(40.0)		60,082		93.6		31,035	
Market value adjustment	8,943		(382.7)		(3,163)		77.4		(13,966)	
Mortgage lending revenue	$	44,977	(21.0)		$	56,919	233.5		$	17,069
	(Dollars in millions)									
Origination volume	$	1,425	(28.6)		$	1,996	64.6		$	1,213
Outstanding principal balance of mortgage loans serviced at year-end	$	5,577	10.2		$	5,059	17.8		$	4,293

46

Credit card, debit card and merchant fees remained relatively stable in 2013 compared to 2012 after decreasing in 2012 compared to 2011 as a result of the impact of the implementation of the Durbin Amendment, which was somewhat offset by the increases in the number and monetary volume of items processed.

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 decreases in insufficient fund fees during 2013 and 2012. As a result, service charges on deposit accounts, which include insufficient fund fees, decreased in 2013 when compared to 2012 and in 2012 compared to 2011.

Trust income increased in 2013 compared to 2012 primarily as a result of increases in the value of assets under management or in custody, as revenue is earned on assets under management, combined with fees generated by customers added during 2012 and 2013. Trust income decreased in 2012 compared to 2011 primarily as a result of decreases in the value of assets under management or in custody, as well as non-recurring fees received during 2011 that were not received during 2012.

Net securities gains of approximately $46,000, $442,000 and $12.1 million were recorded in 2013, 2012 and 2011, respectively. These amounts reflected the sales and calls of securities from the available-for-sale portfolio and held-to-maturity portfolio. Some of the sales of available-for-sale securities in 2011 were previously classified as held-to-maturity, because during the second quarter of 2011, the Company determined that it no longer had the intent to hold until maturity all securities that were previously classified as held-to-maturity. Any sales of held-to-maturity securities during the first two quarters of 2011 occurred within three months of maturity and were so near maturity that management believed changes in interest rates would not have a significant impact on fair value.

Insurance commissions increased 8.4% in 2013 compared to 2012 and increased 3.7% in 2012 compared to 2011 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. in July 2012 and GEM in December 2013. Annuity fees remained relatively stable in 2013 compared to 2012 after decreasing 32.5% in 2012 compared to 2011 as a result of fewer annuity sales combined with reduced commissions on those sales. Brokerage commissions and fees increased in 2013 compared to 2012 and in 2012 compared to 2011 as a result of the increase in sales of real estate investment trust products. Bank-owned life insurance revenue remained relatively stable in 2013 compared to 2012 and 2011. The Company recorded life insurance proceeds of approximately $450,000, $872,000 and $658,000 during 2013, 2012 and 2011, respectively.

Other miscellaneous income includes safe deposit box rental income, gain or loss on disposal of assets, and other miscellaneous and non-recurring revenue items. Other miscellaneous income remained relatively stable in 2013 compared to 2012 and decreased 8.9% in 2012 compared to 2011 primarily as a result of gains of $2.2 million on the dispositions of fixed assets recorded during 2011. No such gains were recognized in 2012 or 2013.

Noninterest Expense

The components of noninterest expense for the years ended December 31, 2013, 2012 and 2011 and the percentage change between years are shown in the following table:

	2013		2012		2011
	Amount	% Change	Amount	% Change	Amount
	(Dollars in thousands)				
Salaries and employee benefits	$ 306,696	0.7 %	$ 304,624	7.7 %	$ 282,880
Occupancy, net of rental income	41,109	(2.4)	42,140	(0.5)	42,362
Equipment	18,386	(11.8)	20,849	(4.0)	21,707
Deposit insurance assessments	11,755	(28.7)	16,478	(22.7)	21,316
Voluntary early retirement expense	10,850	100.0	-	-	-
Write-off and amortization of bond issue cost	2,995	100.0	153	-	153
Prepayment penalty on FHLB borrowings	-	NM	-	NM	9,778
Advertising	4,558	(6.4)	4,869	(4.5)	5,098
Foreclosed property expense	11,728	(70.2)	39,406	41.8	27,796
Telecommunications	8,481	(0.4)	8,515	1.5	8,386
Public relations	4,258	(21.6)	5,434	(5.1)	5,727
Data processing	10,962	7.1	10,234	5.8	9,677
Computer software	8,496	13.6	7,476	(0.3)	7,502
Amortization of intangibles	2,979	(7.5)	3,222	(3.1)	3,324
Legal expenses	20,426	118.8	9,334	1.8	9,170
Postage and shipping	4,369	(2.2)	4,465	(7.2)	4,812
Other miscellaneous expense	66,801	(7.2)	71,994	(2.6)	73,945
Total noninterest expense	$ 534,849	(2.6) %	$ 549,193	2.9 %	$ 533,633

NM = not meaningful

Salaries and employee benefits remained stable in 2013 compared to 2012 after increasing in 2012 compared to 2011 primarily because of increased employee benefits and incentive compensation. Pension plan costs, a component of salaries and employee benefits expense, increased in 2013 to $13.3 million after increasing in 2012 to $10.9 million from $4.9 million in 2011. Occupancy expense remained relatively stable in 2013, 2012 and 2011.

Equipment expense decreased in 2013 and 2012 as a result of a decrease in depreciation expense coupled with the Company's continued focus on controlling such expenses. The decrease in deposit insurance assessments in 2013 and 2012 was a result of improvement evidenced in several variables utilized by the FDIC in calculating the deposit insurance assessment. Effective as of the second quarter of 2011, the FDIC bases the deposit insurance assessment on a redefined assessment base and a new scorecard method to calculate the assessment rate. During the second quarter of 2011, the Company recorded $9.8 million in expenses related to the early repayment of FHLB advances. No early repayments were made during 2013 or 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 that was offered to certain employees that met job classification, age and years-of-service criteria. No such expenses were recorded during 2012 or 2011.

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 8.15% trust preferred securities. No such redemption and resulting write-off of unamortized issuance costs were recorded in 2012 or 2011.

Foreclosed property expense decreased in 2013 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 OREO properties owned during 2013.   During 2013, the Company added $29.3 million to OREO through foreclosure. Sales of OREO in 2013 were $57.1 million resulting in a net loss on sale of OREO of $1.3 million. The components of foreclosed property expense for the years ended December 31, 2013, 2012 and 2011 and the percentage change between years are shown in the following table:

	2013		2012		2011
	Amount	% Change	Amount	% Change	Amount
	(Dollars in thousands)				
Loss on sale of other real estate owned	$ 1,267	(85.0)%	$ 8,446	682.8 %	$ 1,079
Writedown of other real estate owned	6,118	(71.8)	21,726	6.7	20,353
Other foreclosed property expense	4,343	(53.0)	9,234	45.1	6,364
Total foreclosed property expense	$ 11,728	(70.2)%	$ 39,406	41.8 %	$ 27,796

While the Company experienced some fluctuations in various components of other noninterest expense, including advertising, public relations, data processing, and amortization of intangibles, total legal expenses increased in 2013 compared to 2012 as a result of increased litigation reserves related to various lawsuits.

Income Taxes

The Company recorded income tax expense of $37.6 million in 2013 compared to an income tax expense of $33.3 million in 2012 and an income tax expense of $4.5 million in 2011. The increase in income tax expense in 2013 was primarily a result of the increase in pre-tax income, which increased 12.0% in 2013 compared to 2012. The increase in income tax expense in 2012 was primarily a result of the increase in pre-tax income, which increased 179.5% in 2012 compared to 2011, while tax preference items, such as tax-exempt interest income, remained relatively consistent with prior years. The primary differences between the Company's recorded expense for 2013, 2012 and 2011 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 the effects of tax-exempt income and other tax preference items. During the third quarter of 2013, a $1.6 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 the Company's favor during the third quarter of 2013, resulting in the reversal of the uncertain tax position 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 December 31, 2013 were $11.8 billion, or 90.7% 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 72.4% of average earning assets during 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 $9.0 billion at December 31, 2013, representing a 3.7% increase from $8.6 billion at December 31, 2012.

The following table shows the composition of the Company's gross loans and leases by collateral type at December 31 for the years indicated:

	2013 (In thousands)	2012	2011	2010	2009
Commercial and industrial	$ 1,538,302	$ 1,484,788	$ 1,484,967	$ 1,505,471	$ 1,484,011
Real estate					
Consumer mortgages	1,976,073	1,873,875	1,945,190	1,978,145	2,017,067
Home equity	494,339	486,074	514,362	543,272	550,085
Agricultural	234,576	256,196	239,487	252,292	262,069
Commercial and industrial-owner occupied	1,473,320	1,333,103	1,301,575	1,331,473	1,449,554
Construction, acquisition and development	741,458	735,808	908,362	1,148,161	1,459,503
Commercial real estate	1,846,039	1,748,881	1,754,022	1,816,951	1,806,766
Credit cards	111,328	104,884	106,281	106,345	108,086
All other	578,453	649,143	657,012	694,241	685,845
Total gross loans and leases	$ 8,993,888	$ 8,672,752	$ 8,911,258	$ 9,376,351	$ 9,822,986

The following table shows the Company's net loans and leases by collateral type as of December 31, 2013 by geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas*	Mississippi*	Missouri	Greater Memphis Area	Tennessee*	Texas Louisi
Commercial and industrial	$ 83,078	$ 164,113	$ 280,964	$ 36,018	$ 23,551	$ 81,253	$
Real estate							
Consumer mortgages	127,619	260,013	688,228	61,471	101,167	158,714	487,93
Home equity	64,438	39,785	165,421	20,997	67,170	70,517	64,027
Agricultural	8,416	71,200	58,042	3,575	14,547	11,129	63,155
Commercial and industrial-owner occupied	176,162	173,027	472,646	64,911	91,790	88,710	282,81
Construction, acquisition and development	99,980	70,508	190,990	28,024	80,339	101,782	134,55
Commercial real estate	266,963	311,504	275,601	212,869	93,079	104,034	425,93
Credit cards**	-	-	-	-	-	-	-
All other	32,101	59,247	147,163	2,590	48,056	39,404	86,039
Total	$ 858,757	$ 1,149,397	$ 2,279,055	$ 430,455	$ 519,699	$ 655,543	$ 1

*Excludes the Greater Memphis Area

**Credit card receivables are spread across all geographic regions but are not viewed by the Company’s management as part of the geographic breakdown.

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 and business credit card lines. Commercial and industrial loans outstanding increased 3.6 % from December 31, 2012 to December 31, 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 generally 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 5.5% from December 31, 2012 to December 31, 2013. 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 increased 1.7% from December 31, 2012 to December 31, 2013.

Real Estate – Agricultural - Agricultural loans include loans to purchase agricultural land and production lines secured by farm land. Agricultural loans outstanding decreased 8.4% from December 31, 2012 to December 31, 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 10.5% from December 31, 2012 to December 31, 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 relatively 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. Construction, acquisition and development loans remained relatively stable, increasing 0.8% from December 31, 2012 to December 31, 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 December 31, 2013, the Company had $13.7 million in construction, acquisition and development loans that provided for the use of interest reserves with approximately $379,000 recognized as interest income during 2013. The amount of such loans with interest reserves that were on non-accrual status was approximately $122,000 at December 31, 2013. Interest income is not being 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 considered non-performing and are generally 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 consistent with 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. Each factor must be acceptable under the Company's lending policy and risk review.

The construction, acquisition and development portfolio is further categorized by risk characteristics into the following six 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 $741.5 million and $735.8 million at December 31, 2013 and 2012, respectively. The following table shows the Company's net loans and leases in the construction, acquisition and development portfolio by geographical location at December 31, 2013:

52

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	$ -	$ 997	$ 167	$ -	$ -	$ 4,519	$ 2,019	$
One-to-four family construction	36,892	13,785	50,145	7,187	10,972	64,909	35,315	8
Recreation and all other loans	1,575	7,774	12,178	517	3,862	1,165	9,056	-
Commercial construction	18,437	18,154	34,295	7,228	14,011	4,306	25,630	2
Commercial acquisition and development	9,886	15,642	35,999	4,024	20,205	11,071	21,091	1
Residential acquisition and development	28,730	13,739	54,198	7,013	22,705	14,666	38,866	4
Total	$ 95,520	$ 70,091	$ 186,982	$ 25,969	$ 71,755	$ 100,636	$ 131,977	$
Non-performing:								
Multi-family construction	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
One-to-four family construction	724	210	572	145	889	279	1,392	-
Recreation and all other loans	-	13	-	-	728	-	-	-
Commercial construction	34	-	-	-	346	831	-	-
Commercial acquisition and development	2,168	24	1,906	1,583	3,199	-	-	-
Residential acquisition and development	1,534	170	1,530	327	3,422	36	1,182	1
Total	$ 4,460	$ 417	$ 4,008	$ 2,055	$ 8,584	$ 1,146	$ 2,574	$
Total:								
Multi-family construction	$ -	$ 997	$ 167	$ -	$ -	$ 4,519	$ 2,019	$
One-to-four family construction	37,616	13,995	50,717	7,332	11,861	65,188	36,707	8
Recreation and all other loans	1,575	7,787	12,178	517	4,590	1,165	9,056	-
Commercial construction	18,471	18,154	34,295	7,228	14,357	5,137	25,630	2
	12,054	15,666	37,905	5,607	23,404	11,071	21,091	1

Commercial acquisition and development								
Residential acquisition and development	30,264	13,909	55,728	7,340	26,127	14,702	40,048	5
Total	$ 99,980	$ 70,508	$ 190,990	$ 28,024	$ 80,339	$ 101,782	$ 134,551	$

* Excludes the Greater Memphis Area

53

The following table shows the maturity distribution of the Company's net loans and leases in the construction, acquisition and development portfolio as of December 31, 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	$ -	$ 3,504	$ 4,198	$ -	$ 7,702
One-to-four family construction	2,693	184,783	33,555	3,255	224,286
Recreation and all other loans	50	11,307	17,298	8,213	36,868
Commercial construction	-	75,860	31,729	43,258	150,847
Commercial acquisition and development	4,526	44,699	63,545	15,387	128,157
Residential acquisition and development	4,224	102,412	69,552	17,410	193,598
Total	$ 11,493	$ 422,565	$ 219,877	$ 87,523	$ 741,458
Non-accrual loans:					
Multi-family construction	$ -	$ -	$ -	$ -	$ -
One-to-four family construction	1,738	686	340	173	2,937
Recreation and all other loans	-	728	-	-	728
Commercial construction	-	865	-	-	865
Commercial acquisition and development	3,750	2,850	290	-	6,890
Residential acquisition and development	2,764	2,061	1,194	128	6,147
Total	$ 8,252	$ 7,190	$ 1,824	$ 301	$ 17,567

As of December 31, 2013, 57.0% of the loans in the construction, acquisition and development portfolio were scheduled to mature within one year. Many of these maturities may occur prior to the completion of the related projects; and management expects that these loans will 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 2013:

	(In thousands)
Balance at December 31, 2012	$ 66,635
Additions to construction, acquisition and development nonaccruals:	
Formation of new nonaccrual loans	7,566
Reductions in construction, acquisition and development nonaccruals:	
Charge-offs	(5,453)
Foreclosures to OREO	(12,591)
Payments	(24,127)
Transfers to accrual status	(11,385)
Transfer to other loan category	(3,078)
Balance at December 31, 2013	$ 17,567

The five largest credits that made up the construction, acquisition and development nonaccrual loan balance at December 31, 2013 were located throughout the Company's geographical locations and in various stages of development and maturity. The five largest credits made up 43.4% of the total construction, acquisition and development nonaccrual loan balance at December 31, 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 Company'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. Real estate-commercial loans increased 5.6% from December 31, 2012 to December 31, 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 increased 6.1% from December 31, 2012 to December 31, 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 decreased 11.3% from December 31, 2012 to December 31, 2013.

The maturity distribution of the Company'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 December 31, 2013:

	One Year or Less (In thousands)	One to Five Years	After Five Years
Commercial and industrial	$ 885,045	$ 447,844	$ 196,360
Real estate			
Consumer mortgages	405,686	957,777	612,610
Home equity	238,260	255,943	136
Agricultural	57,485	108,869	68,222
Commercial and industrial-owner occupied	225,486	584,075	663,759
Construction, acquisition and development	434,058	219,877	87,523
Commercial real estate	303,626	906,347	636,066
Credit cards	111,328	-	-
All other	202,055	262,990	86,588
Total loans and leases, net of unearned income	$ 2,863,029	$ 3,743,722	$ 2,351,264

The interest rate sensitivity of the Company's loan and lease portfolio is important in the management of net interest margin. The Bank attempts to manage the relationship between the interest rate sensitivity of its assets and liabilities to produce an effective interest differential that is not significantly impacted by the level of interest rates. The following table shows the interest rate sensitivity of the Company's loans and leases, net of unearned income, due after one year as of December 31, 2013:

Fixed Rate	Variable Rate

	(In thousands)			
Loan and lease portfolio				
Due after one year	$	4,101,192	$	2,498,106

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 Company'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 other real estate owned, which consists of foreclosed properties. NPAs, which are carried either in the loan account or other real estate owned on the Company's consolidated balance sheets, depending on foreclosure status, were as follows at the end of each year presented:

	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Non-accrual loans and leases	$ 92,173	$ 207,241	$ 276,798	$ 347,499	$ 144,013
Loans 90 days or more past due, still accruing	1,226	1,210	3,434	8,500	36,301
Restructured loans and leases, but accruing	27,007	25,099	42,018	38,376	6,161
Total NPLs	120,406	233,550	322,250	394,375	186,475
Other real estate owned	69,338	103,248	173,805	133,412	59,265
Total NPAs	$ 189,744	$ 336,798	$ 496,055	$ 527,787	$ 245,740
NPLs to net loans and leases	1.71%	2.70%	3.63%	4.23%	1.91%
NPAs to net loans and leases	2.12%	3.90%	5.59%	5.65%	2.51%

NPLs decreased 48.4% in 2013 compared to 2012 and decreased 27.5% in 2012 compared to 2011. Other real estate owned decreased 32.8% in 2013 compared to 2012 and decreased 40.6% in 2012 compared to 2011. Included in NPLs at December 31, 2013 were $54.9 million of loans that were impaired. These impaired loans had a specific reserve of $4.1 million included in the allowance for credit losses of $153.2 million at December 31, 2013, and were net of $17.2 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 and had a specific reserve of $10.5 million included in the allowance for credit losses of $164.5 million at December 31, 2012. While restructured loans and leases still accruing remained relatively stable in 2013 compared to 2012, the increase in restructured loans and leases still accruing in 2011 reflected the increase in loans which met the criteria for disclosure as TDRs because payment terms or pricing had been modified by the Company or by orders under bankruptcy proceedings but which demonstrated sufficient performance to support the remaining principal and accrued interest. The decrease in restructured loans and leases accruing in 2012 reflected the combination of paydowns on existing restructured loans and the ability to return restructured loans to performing status due to at least a six-month sustained period of repayment performance under the restructured loan terms by the borrower with the interest rate at the time of restructure being at or above market for a comparable loan.

Non-accrual loans at December 31, 2013 reflected a decrease of $115.1 million, or 55.5%, to $92.2 million from $207.2 million at December 31, 2012 after decreasing $70.0 million, or 25.1%, from $276.8 million at December 31, 2011. 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 during 2013 and 2012 was primarily recognized in the real estate construction, acquisition and development portfolio, as non-accrual loans in this portfolio decreased $49.0 million, or 73.6% to $17.6 million at December 31, 2013 after decreasing $66.5 million, or 49.9%, to $66.6 million at December 31, 2012 from $133.1 million at December 31, 2011. The decrease in the real estate construction, acquisition and development portfolio resulted from charge-offs of previous non-accrual loans and a reduction in the non-accrual formation related to the real estate construction, acquisition and development portfolio combined with payment received on existing non-accrual loans.

Of the construction, acquisition and development portfolio, which totaled $741.5 million at December 31, 2013, $473.1 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 real estate construction, acquisition and development portfolio and totaled $224.3 million at December 31, 2013 with $165.4 million, or 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 Company's total NPLs of $120.4 million at December 31, 2013, $72.2 million, or 60.0%, 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 Company's NPLs by geographical location at December 31, 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	$ 858,757	$ -	$ 14,869	$ 670	$ 15,539	5.9 %
Arkansas*	1,149,397	-	5,682	2,006	7,688	2.4
Mississippi*	2,279,055	-	23,474	4,592	28,066	1.6
Missouri	430,455	-	7,897	7,996	15,893	9.3
Greater Memphis Area	519,699	-	9,590	5,580	15,170	5.8
Tennessee*	655,543	-	11,260	2,161	13,421	2.8
Texas and Louisiana	1,810,810	-	9,451	1,917	11,368	1.2
Other	1,254,299	1,226	9,950	2,085	13,261	1.8
Total	$ 8,958,015	$ 1,226	$ 92,173	$ 27,007	$ 120,406	2.7 %

*Excludes the Greater Memphis Area

OREO decreased by $33.9 million to $69.3 million at December 31, 2013 compared to December 31, 2012, which was a decrease of $70.6 million from $173.8 million at December 31, 2011. The decrease in OREO in 2013 and 2012 was 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 six-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 $50.3 million and $81.4 million at December 31, 2013 and 2012, respectively. Restructured loans of $23.2 million and $56.2 million were included in the non-accrual loan category at December 31, 2013 and 2012, respectively.

The total amount of interest earned on NPLs was $6.2 million, $4.3 million, $12.6 million, $11.2 million and $4.1 million in 2013, 2012, 2011, 2010 and 2009, respectively. The gross interest income that would have been recorded under the original terms of those loans and leases if they had been performing amounted to $7.3 million, $15.6 million, $18.7 million, $21.7 million and $8.4 million in 2013, 2012, 2011, 2010 and 2009, respectively.

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. Loans the Bank considered impaired, which were included in NPLs, totaled $54.9 million, $156.7 million, $234.9 million, $273.4 million and $128.5 million at December 31, 2013, 2012, 2011, 2010 and 2009, respectively, with a valuation allowance of $4.1 million, $10.5 million, $39.7 million, $40.7 million and $22.7

million, respectively.

At December 31, 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 December 31, 2013:

	December 31, 2013						
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
	(In thousands)						
Commercial and industrial	$ 1,495,972	$ 978	$ 30,886	$ 99	$ -	$ 1,314	$ 1,529,249
Real estate							
Consumer mortgage	1,859,094	1,531	108,615	427	-	6,406	1,976,073
Home equity	478,283	250	14,570	96	-	1,140	494,339
Agricultural	214,728	779	18,187	-	-	882	234,576
Commercial and industrial-owner occupied	1,409,757	116	50,853	849	-	11,745	1,473,320
Construction, acquisition and development	674,299	1,459	49,401	587	-	15,712	741,458
Commercial real estate	1,751,553	386	76,199	420	-	17,481	1,846,039
Credit cards	111,328	-	-	-	-	-	111,328
All other	538,467	71	12,832	-	-	263	551,633
Total	$ 8,533,481	$ 5,570	$ 361,543	$ 2,478	$ -	$ 54,943	$ 8,958,015

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 at the time 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 December 31, 2013, the Bank had $5.6 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 90 days or more past due category or in the non-accrual loan and lease category which includes impaired loans. See Note 5 to the Company's Consolidated Financial Statements included elsewhere in this Report for additional information regarding the Company's internal loan classification system.

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 December 31, 2013:

	Current	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
	(In thousands)				
Pass	$ 8,525,219	$ 8,262	$ -	$ -	$ 8,533,481
Special Mention	5,570	-	-	-	5,570
Substandard	315,534	22,436	7,728	15,845	361,543
Doubtful	2,366	-	-	112	2,478
Loss	-	-	-	-	-
Impaired	36,557	1,697	3,100	13,589	54,943
Total	$ 8,885,246	$ 32,395	$ 10,828	$ 29,546	$ 8,958,015

All loan grade categories decreased at December 31, 2013 compared to December 31, 2012, specifically the Special Mention, Substandard and Impaired categories which decreased 96.9%, 25.5% and 64.9%, respectively. All of the $5.6 million of Special Mention loans and leases remained current as to scheduled repayment of principal and interest, and no Special Mention loans had outstanding balances that were 90 days or more past due at December 31, 2013. Of the $361.5 million of Substandard loans and leases, 87.3% 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 December 31, 2013. Of the $54.9 million of Impaired loans and leases, 66.5% remained current as to scheduled repayment of principal and/or interest, with 24.7% having outstanding balances that were 90 days or more past due at December 31, 2013.

The following table provides details regarding the aging of the Company’s nonaccrual loans and leases by segment and class at December 31, 2013:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding
	(In thousands)					
Commercial and industrial	$ 543	$ 72	$ 574	$ 1,189	$ 1,890	$ 3,079
Real estate						
Consumer mortgage	1,429	1,368	11,691	14,488	11,157	25,645
Home equity	224	677	740	1,641	2,054	3,695
Agricultural	30	-	883	913	347	1,260
Commercial and industrial-owner occupied	399	1,006	4,585	5,990	12,578	18,568
Construction, acquisition and development	1,481	1,741	7,005	10,227	7,340	17,567
Commercial real estate	23	321	2,539	2,883	18,089	20,972
Credit cards	14	21	38	73	46	119
All other	58	35	265	358	910	1,268

Total	$	4,201	$	5,241	$	28,320	$	37,762	$	54,411	$	92,173

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 Company's loan and lease portfolio, net of unearned income, and the distribution of NPLs at December 31, 2013:

Loans and leases, net of unearned income	Outstanding	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, but Accruing	NPLs	NPLs as a % of Outstanding
	(Dollars in thousands)					
Commercial and industrial	$ 1,529,249	$ 27	$ 3,079	$ 1,073	$ 4,179	0.3 %
Real estate						
Consumer mortgage	1,976,073	888	25,645	2,576	29,109	1.5
Home equity	494,339	-	3,695	-	3,695	0.8
Agricultural	234,576	-	1,260	625	1,885	0.8
Commercial and industrial-owner occupied	1,473,320	-	18,568	4,983	23,551	1.6
Construction, acquisition and development	741,458	-	17,567	6,734	24,301	3.3
Commercial real estate	1,846,039	311	20,972	8,081	29,364	1.6
Credit cards	111,328	-	119	1,645	1,764	1.6
All other	551,633	-	1,268	1,290	2,558	0.5
Total	$ 8,958,015	$ 1,226	$ 92,173	$ 27,007	$ 120,406	1.3 %

The following table provides selected characteristics of the Company's real estate construction, acquisition and development loans at December 31, 2013:

Real Estate Construction, Acquisition and Development	Outstanding	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, but Accruing	NPLs	NPLs as a % of Outstanding
	(Dollars in thousands)					
Multi-family construction	$ 7,702	$ -	$ -	$ -	$ -	- %
One-to-four family construction	224,286	-	2,937	1,274	4,211	1.9
Recreation and all other loans	36,868	-	728	13	741	2.0
Commercial construction	150,847	-	865	346	1,211	0.8
Commercial acquisition and development	128,157	-	6,890	1,990	8,880	6.9
Residential acquisition and development	193,598	-	6,147	3,111		