

BANCORPSOUTH INC  
Form 10-K  
February 27, 2017  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-12991

BANCORPSOUTH, INC.

(Exact name of registrant as specified in its charter)

Mississippi

(State or other jurisdiction of incorporation or organization)

64-0659571

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

One Mississippi Plaza, 201 South Spring Street

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Tupelo, Mississippi  
(Address of principal executive offices)

38804  
(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)

1

---

(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  No

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2016 was approximately \$2,090,000,000, 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, 2016.

As of February 13, 2017, the registrant had outstanding 93,731,038 shares of common stock, par value \$2.50 per share.

DOCUMENTS INCORPORATED BY REFERENCE

To the extent stated herein, portions of the Definitive Proxy Statement on Schedule 14A to be used in connection with the Registrant's 2017 Annual Meeting of Shareholders, scheduled to be held April 26, 2017, are incorporated by reference into Part III of this Annual Report on Form 10-K.

BANCORPSOUTH, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2016

TABLE OF CONTENTS

PART I

Item	1. Business	4
Item	1A. Risk Factors	20
Item	1B. Unresolved Staff Comments	38
Item	2. Properties	38
Item	3. Legal Proceedings	38
Item	4. Mine Safety Disclosures	40

PART II

Item	5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	40
Item	6. Selected Financial Data	42
Item	7. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item	7A. Quantitative and Qualitative Disclosures About Market Risk	80
Item	8. Financial Statements and Supplementary Data	83
Item	9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	149
Item	9A. Controls and Procedures	149
Item	9B. Other Information	149

PART III

Item	10. Directors, Executive Officers and Corporate Governance	149
Item	11. Executive Compensation	150
Item	12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	151
Item	13. Certain Relationships and Related Transactions, and Director Independence	151
Item	14. Principal Accountant Fees and Services	152

PART IV

Item	15. Exhibits and Financial Statement Schedules	152
Item	16. Form 10-K Summary	157



## 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”), originally chartered in 1876, the Company conducts commercial banking and financial services operations in Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, Texas and Illinois. At December 31, 2016, the Company and its subsidiaries had total assets of \$14.7 billion and total deposits of \$11.7 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](http://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](http://www.sec.gov). The Company’s website and the information contained therein or linked thereto are not, and 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 offices in Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, Texas 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 an insurance agency subsidiary which engages in sales of insurance products. The Bank’s wealth management department offers a variety of services including investment brokerage services, 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 substantially 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 federal savings banks, 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 of these areas.



## REGULATION AND SUPERVISION

The following discussion sets forth certain material elements of the regulatory framework applicable to the Company and the Bank. This discussion is 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. Regulation of financial institutions is intended primarily for the protection of depositors, the deposit insurance fund and the banking system, and generally is not intended for the protection of shareholders. Changes in applicable laws, and their application by regulatory agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

### General

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.

The Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- it may acquire direct or indirect ownership or control of any voting shares of any other bank holding company if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the other bank holding company;
- it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the voting shares of the bank;
- it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or
- it may merge or consolidate with any other bank holding company.

The Bank Holding Company Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anticompetitive effects. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the Bank's performance under the Community Reinvestment Act of 1977 ("CRA"), both of which are discussed below in more detail.

Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

The Company's common stock is registered under Section 12 of the Exchange Act. The regulations provide a procedure for challenging rebuttable presumptions of control.

The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries and acquiring or retaining direct or indirect

control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks. In determining whether a particular activity is permissible, the Federal Reserve considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as

5

---

undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

Federal Reserve policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) codifies this policy as a statutory requirement. This support may be required by the Federal Reserve at times when the Company might otherwise determine not to provide it. In addition, if a bank holding company commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the Federal Reserve’s invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by a bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment, ahead of other creditors of the bank holding company.

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.

In addition, the Company is required to file certain reports with, and otherwise comply with the rules and regulations of, the SEC under federal securities laws. The common stock of the Company is listed on the New York Stock Exchange (“NYSE”) and such listing subjects the Company to compliance with the exchange’s requirements with respect to reporting and other rules and regulations.

#### Financial Holding Company Status

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. 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.

For a bank holding company to be eligible to elect financial holding company status, the holding company must be both “well capitalized” and “well managed” under applicable regulatory standards, and all of its subsidiary banks also must be “well capitalized” and “well managed” and must have received at least a satisfactory rating on such institution’s most recent examination under the CRA. A financial holding company that continues to meet all of such requirements may engage directly or indirectly in activities considered financial in nature, either de novo or by acquisition, as long as it gives the Federal Reserve after-the-fact notice of the new activities.

If a financial holding company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve that it will comply with all applicable capital and management requirements. If the financial holding company does not return to compliance within 180 days, or such longer period as agreed to by the Federal Reserve, the Federal Reserve may order the company to discontinue existing activities that are not generally permissible for bank holding companies or divest investments in companies engaged in such activities. In addition, if any banking subsidiary of a financial holding company receives a CRA rating of less

than satisfactory, the financial holding company would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies.

On August 11, 2016, the FDIC notified the Bank that, in connection with the Bank's entry into a Consent Order on June 29, 2016 (the "Consent Order"), with the United States Department of Justice and the Consumer Financial Protection Bureau to settle and resolve alleged violations of the Equal Credit Opportunity Act and the Fair Housing Act, the FDIC will be retroactively downgrading the Bank's CRA rating from "Satisfactory" to "Needs to Improve," effective as of the 2013 CRA evaluation. As a result of the retroactive downgrade of the Bank's CRA rating, the Company and the Bank likely will be unable to obtain the necessary Federal Reserve or FDIC regulatory approvals to complete the two pending mergers with Ouachita Bancshares Corp. and Central Community Corporation and their respective affiliated banks until such time as the Bank's CRA rating is improved to "Satisfactory." The Company presently understands that the FDIC expects to complete its next CRA evaluation of the Bank during the first quarter of 2017; however, the

Company cannot make any assurances as to the timing or outcome of its next CRA evaluation. For more information regarding the FDIC's retroactive downgrading of the Bank's CRA rating, please refer to the Current Report on Form 8-K that was previously filed with the SEC on August 15, 2016 and that is incorporated by reference into this Report.

Generally, the Bank Holding Company Act provides for "umbrella" regulation of financial holding companies by the Federal Reserve and functional regulation of holding company subsidiaries by applicable regulatory agencies. The Bank Holding Company Act, however, requires the Federal Reserve to examine any subsidiary of a bank holding company, other than a depository institution, engaged in activities permissible for a depository institution. The Federal Reserve is also granted the authority, in certain circumstances, to require reports of, and to examine and adopt rules applicable to any holding company subsidiary.

#### The Dodd-Frank Act

The Dodd-Frank Act, enacted in 2010, significantly restructured financial regulation in the United States, including creating a new resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies, and through numerous other provisions intended to strengthen the financial services sector.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (the "CFPB"), which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies, including financial institutions, with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also required the issuance of numerous implementing regulations, many of which have not yet been issued.

The CFPB has direct supervision and examination authority over banks with more than \$10 billion in assets, including the Bank. The CFPB's responsibilities include implementing and enforcing federal consumer financial protection laws, reviewing the business practices of financial services providers for legal compliance, monitoring the marketplace for transparency on behalf of consumers and receiving complaints and questions from consumers about consumer financial products and services. The Dodd-Frank Act added prohibitions on unfair, deceptive or abusive acts and practices to the scope of consumer protection regulations overseen and enforced by the CFPB.

The Dodd-Frank Act also authorizes national and state banks to establish de novo branches in other states to the same extent as a bank chartered by that state would be so permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are now able to enter new markets more freely.

Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years. The overall financial impact on the Company and its subsidiaries or the financial services industry generally cannot be anticipated at this time. In addition, on February 3, 2017, President Trump signed an executive order calling for his administration to review existing U.S. Financial laws and regulations including the Dodd-Frank Act. At this time, it is unclear if this executive order will result in any material changes to current laws and regulations applicable to the Company.

## Dividends

The Company is a legal entity that is separate and distinct from its subsidiaries. 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 the non-objection of the Commissioner of the Mississippi Department of Banking and Consumer Finance prior to paying any dividend on the Bank's common stock. Further, 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 09-04, 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 levels are very strong.

## Capital

The Federal Reserve has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. The risk-based capital ratio guidelines establish a systematic analytical framework that:

- makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations;
- takes off-balance sheet exposures into account in assessing capital adequacy; and
- minimizes disincentives to holding liquid, low-risk assets.

Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into multiple weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based asset ratio represents capital divided by total risk-weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements of the FDIC.

Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. "Total capital" is Tier 1 capital plus Tier 2 capital. These two tiers are:

- "Tier 1", or core capital, that includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and non-qualifying intangible and servicing assets; and
- "Tier 2", or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.

"Total capital" is Tier 1 plus Tier 2 capital. Federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage-servicing rights, non-mortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in capital cannot exceed 100% of an institution's Tier 1 capital.

The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Further, the Federal Reserve has indicated that it will consider a "tangible Tier 1 capital leverage ratio" (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet applicable capital guidelines can subject a financial institution to a variety of enforcement remedies available to the federal banking regulators. These include limitations on the ability to pay dividends, the issuance by a regulatory authority of a capital directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under "Prompt Corrective Action" as applicable to "under-capitalized" institutions.

Basel III Capital Rules

On July 2, 2013, the Federal Reserve approved the final rule for BASEL III capital requirements (the “Basel III Capital Rules”) for all bank holding companies chartered in the United States. This rule was subsequently approved by the FDIC on July 9, 2013 and made applicable to the Bank. The major provisions of the new rule applicable to the Company and the Bank are:

- The new rule implements higher minimum capital requirements, includes a new common equity Tier 1 capital

8

---



requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier 1 capital, additional Tier 1 capital, or Tier 2 capital. These enhancements both improve the quality and increase the quantity of capital required to be held by banking organizations, intended to better equip the United States banking system to deal with adverse economic conditions.

- The new minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6.0%, which is an increase from 4.0%, and a total capital ratio that remains at 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%.
- The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as trust preferred securities in Tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets, and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity Tier 1 capital.
- Under the new rule, in order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer is intended to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk weighted assets. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016. A banking organization with a buffer greater than 2.5% would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5% would be subject to increasingly stringent limitations as the buffer approaches zero. The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5% at the beginning of the quarter. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action well-capitalized thresholds.
- The new rule also increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

The transition period for implementation of the Basel III Capital Rules is January 1, 2015 through December 31, 2018.

#### Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) requires federal banking regulatory authorities to take “prompt corrective action” with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: “well capitalized,” “adequately capitalized,” “under capitalized,” “significantly under capitalized,” and “critically under capitalized.”

An institution is deemed to be:

- “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a Tier 1 leverage ratio of 5.0% or greater, and a common equity Tier 1 capital ratio of 6.5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure;
- “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, generally, a Tier 1 leverage ratio of 4.0% or greater, and a common equity Tier 1 capital ratio of 4.5% or greater, and the institution does not meet the definition of a “well capitalized” institution;
- “under capitalized” if it does not meet the definition of an “adequately capitalized” institution;
- “significantly under capitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, a Tier 1 leverage ratio that is less than 3.0%, and a common equity Tier 1 capital

ratio that is less than 3.0%; and

- “critically under capitalized” if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

9

---

Throughout 2016, the Bank's regulatory capital ratios were in excess of the levels established for "well capitalized" institutions.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would be "under capitalized" after such payment. "Under capitalized" institutions are subject to growth limitations and are required by the appropriate federal banking regulator to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

If an "under capitalized" institution fails to submit an acceptable plan, it is treated as if it is "significantly under capitalized." "Significantly under capitalized" institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks.

"Critically under capitalized" institutions may not, beginning 60 days after becoming "critically under capitalized," make any payment of principal or interest on their subordinated debt. In addition, "critically under capitalized" institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not "well capitalized" is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. As previously stated, the Bank is "well capitalized" and the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had no such brokered deposits at December 31, 2016.

### Stress Testing

The Dodd-Frank Act requires financial institutions with more than \$10 billion in total consolidated assets to conduct annual stress tests. In May 2012, the federal banking regulators issued joint supervisory guidance on stress testing. The guidance addresses stress testing in connection with overall risk management, including capital and liquidity planning. The guidance outlines general principles for stress testing, applicable to all banking organizations supervised by the Federal Reserve with more than \$10 billion in total consolidated assets. The guidance highlights the importance of stress testing as an ongoing risk management practice that supports a banking organization's forward-looking assessment of its risks. It outlines broad principles for a satisfactory stress testing framework and describes the manner in which stress testing should be employed as an integral component of risk management.

Under the stress test regulations, the Company must conduct annual company-run stress tests using three macroeconomic scenarios (baseline, adverse, and severely adverse) provided no later than February 15 of each year by the Federal Reserve. The stress test projections are based on exposures as of December 31 for the current year and must cover a nine-quarter planning horizon that begins with the quarter ending on March 31 of the following year, and ends with the quarter ending on March 31 two years later. The Company must project losses, pre-provision net revenues, the balance sheet, risk-weighted assets, and capital for each quarter. Additionally, the Company must estimate adequate levels of allowance for loan and lease losses to cover credit risk that remains at the end of each quarter. The stress tests are forward-looking exercises conducted by financial institutions regulated by the Federal Reserve to help ensure that such institutions have sufficient capital to absorb losses and support operations during adverse economic conditions.

The outcome of the Federal Reserve's analysis of the Company's projected performance (to include capital, earnings, and balance sheet changes) will be used in supervision of the Company and will assist the Federal Reserve in assessing the Company's risk profile and capital adequacy. The results of the stress test could hinder the Company's

ability to pay quarterly cash dividends to shareholders, repurchase stock and could also impact the Federal Reserve's decisions regarding future acquisitions by the Company. The annual Company-run stress test must be conducted and results reported to the Federal Reserve by July 31, 2017 and publicly disclosed during the period October 15 through October 31, 2017. For our stress test results visit our website at [www.bancorpsouth.com](http://www.bancorpsouth.com) on our Investor Relations webpage under the caption "Other Information."

#### The Volcker Rule

The "Volcker Rule" under the Dodd-Frank Act restricts, among other things, a bank's proprietary trading activities and a bank's ability to sponsor or invest in certain funds, including hedge or private equity funds. On December 10, 2013, the federal banking regulators adopted final rules implementing the Volcker Rule. The final rules require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule.

Subject to certain exceptions, the Volcker Rule prohibits a banking entity from engaging in “proprietary trading,” which is defined as engaging as principal for the “trading account” of the banking entity in securities or other instruments. Certain forms of proprietary trading may qualify as “permitted activities,” and therefore not be subject to the ban on proprietary trading, such as trading in U.S. government or agency obligations, or certain other state or municipal obligations, and the obligations of Fannie Mae, Freddie Mac or Ginnie Mae.

On January 14, 2014, the federal bank regulators approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities. Under the interim final rule, the retention of an interest in or sponsorship of covered funds by banking entities is not prohibited under the Volcker Rule if certain qualifications are met.

The final rules became effective on April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2015. On December 18, 2014, the Federal Reserve extended the period by which banking entities must bring certain activities into conformance with the restrictions of the Volcker Rule. Under the new extension, banking entities will have additional time to divest their ownership interests in or otherwise conform their activities with respect to legacy covered fund positions that were acquired before December 31, 2013. The initial extension lengthened the Volcker Rule conformance period for these purposes until July 21, 2016. Although the Federal Reserve is only empowered by the Dodd-Frank Act to extend the conformance period for one year at a time, the Federal Reserve in 2015 granted an additional one-year extension until July 21, 2017. While the Company is continuing to evaluate the impact of the Volcker Rule and the final rules adopted thereunder, the Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company or the Bank. The Company may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule, but any such costs are not expected to be material.

#### The Durbin Amendment

The “Durbin Amendment” provisions of the Dodd-Frank Act require the Federal Reserve to establish a cap on the rate merchants pay banks for electronic clearing of debit transactions (the interchange rate). The Federal Reserve issued a final rule establishing standards, including a cap, for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. The final rule established standards for assessing whether debit card interchange fees received by debit card issuers were reasonable and proportional to the costs incurred by issuers for electronic debit transactions. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of \$0.21 per transaction, a \$0.01 fraud prevention adjustment, and five basis points multiplied by the value of the transaction.

#### Interstate Banking and Branching Legislation

Federal law allows banks to establish and operate a de novo branch in a state other than the bank’s home state if the law of the state where the branch is to be located would permit establishment of the branch if the bank were chartered by that state, subject to standard regulatory review and approval requirements. Federal law also allows the Bank to acquire an existing branch in a state in which the Bank is not headquartered and does not maintain a branch if the FDIC and Mississippi Banking Department approve the branch or acquisition, and if the law of the state in which the branch is located or to be located would permit the establishment of the branch if the Bank were chartered by that state.

Once a bank has established branches in a state through an interstate merger transaction or through de novo branching, the bank may then establish and acquire additional branches within that state to the same extent that a state-chartered

bank is allowed to establish or acquire branches within the state. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Further, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states have opted out of such interstate merger authority prior to such date, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years; and subject to certain deposit market-share limitations.

For a discussion of the Company's pending merger with Central Community Corporation and the Company's pending merger with Ouachita Bancshares Corp., see "— Recent Acquisitions and Transaction Activity."

#### FDIC Insurance

The deposits of the Bank are insured by the Deposit Insurance Fund (the "DIF"), which the FDIC administers. The Dodd-Frank Act permanently increased deposit insurance on most accounts to \$250,000. To fund the DIF, FDIC-insured banks are required to pay deposit insurance assessments to the FDIC. The deposit insurance assessment base is

based on an insured institution's average consolidated total assets minus its average tangible equity. In 2011, the FDIC adopted a "scorecard" system to determine deposit insurance premiums for institutions like the Bank that have more than \$10 billion in assets. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score. The FDIC is authorized to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the scorecard, which is translated into a premium rate.

In addition, all institutions with deposits insured by the FDIC must pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established as a financing vehicle for the Federal Savings & Loan Insurance Corporation. The assessment rate for the first quarter of fiscal 2017 is 0.58% of assets and is adjusted quarterly. These assessments will continue until the bonds mature in 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

#### Affiliate Transactions

The Bank is subject to Regulation W, which comprehensively implements statutory restrictions on transactions between a bank and its affiliates. Regulation W combines the Federal Reserve's interpretations and exemptions relating to Sections 23A and 23B of the Federal Reserve Act. Regulation W and Section 23A place limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates, and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. In general, the Bank's "affiliates" are the Company and the Bank's non-bank subsidiaries.

Regulation W and Section 23B prohibit a bank from, among other things, engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and must not involve more than the normal risk of repayment or present other unfavorable features.

#### The Community Reinvestment Act

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 banking regulator 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.

For a discussion of the FDIC's retroactive downgrading of the Bank's CRA rating, see "— Regulation and Supervision - Financial Holding Company Status."

Patriot Act

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 “Patriot Act”), requires a 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 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 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. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants.

12

---



## Consumer Privacy and Other Consumer Protection Laws

The Bank, like all other financial institutions, is required to maintain the privacy of its customers' non-public, personal information. Such privacy requirements direct financial institutions to:

- provide notice to customers regarding privacy policies and practices;
- inform customers regarding the conditions under which their non-public personal information may be disclosed to non-affiliated third parties; and
- give customers an option to prevent disclosure of such information to non-affiliated third parties.

Under the Fair and Accurate Credit Transactions Act of 2003, the Bank's customers may also opt out of information sharing between and among the Bank and its affiliates.

The Bank is also subject, in connection with its deposit, lending and leasing activities, to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth in Savings Act, the Fair Housing 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 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.

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.

## Incentive Compensation

On May 16, 2016, the federal banking agencies invited public comment on a proposed rule to prohibit incentive-based compensation arrangements that encourage inappropriate risks at covered financial institutions. The proposed rules would apply to covered financial institutions with total assets of \$1 billion or more. The requirements are tailored based on assets, and covered institutions would be divided into three categories:

- Level 1: institutions with assets of \$250 billion and above;
- Level 2: institutions with assets of \$50 billion to \$250 billion; and
- Level 3: institutions with assets of \$1 billion to \$50 billion.

Much of the proposed rules would address requirements for senior executive officers and employees who are significant risk-takers at Level 1 and Level 2 institutions. All institutions that would be covered by the proposed rules would be required to annually document the structure of incentive-based compensation arrangements and retain those records for seven years. Boards of directors of covered institutions would be required to conduct oversight of the arrangements. All covered institutions would be subject to general prohibitions on incentive-based compensation arrangements that could encourage inappropriate risk-taking by providing excessive compensation or that could lead to a material financial loss.

The scope and content of banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company's ability to hire, retain and motivate its key employees.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) is applicable to all companies with equity or debt securities registered under 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.

13

---

## Effect of Governmental Policies

The Company and the Bank are affected by the policies of regulatory authorities, including the Federal Reserve, the FDIC, and the Mississippi Banking Department. An important function of the Federal Reserve is to regulate the national money supply. Among the instruments of monetary policy used by the Federal Reserve are: (i) purchases and sales of U.S. government and other securities in the marketplace; (ii) changes in the discount rate, which is the rate any depository institution must pay to borrow from the Federal Reserve; (iii) changes in the reserve requirements of depository institutions; and (iv) indirectly, changes in the federal funds rate, which is the rate at which depository institutions lend money to each other overnight. These instruments are intended to influence economic and monetary growth, interest rate levels, and inflation.

The monetary policies of the Federal Reserve and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Because of changing conditions in the national and international economy and in the money markets, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels, loan demand, or the business and results of operations of the Company and the Bank, or whether changing economic conditions will have a positive or negative effect on operations and earnings.

## Other Proposals

Bills occasionally are introduced in the United States Congress and the Mississippi State Legislature and other state legislatures, and regulations occasionally are proposed by federal and state regulatory agencies, any of which could affect the businesses, financial results, and financial condition of the Company or the Bank. Generally it cannot be predicted whether or in what form any particular proposals will be adopted or the extent to which the Company and the Bank may be affected.

## 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 banking 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.

## DEPOSITS

Deposits originating within the communities served by the Company continue to be its primary source of funding its earning assets. At December 31, 2016, the Company and its subsidiaries had total deposits of \$11.7 billion.

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

For more information regarding the Bank's deposits, see "Management's Discussion And Analysis of Financial Condition And Results Of Operations – Deposits and Other Interest Bearing Liabilities."

15

---

## OTHER FINANCIAL SERVICES

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

See Note 21 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 Credit Risk Committee of 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 AND TRANSACTION ACTIVITY

On January 21, 2014, the Company announced the signing of a definitive merger agreement with Central Community Corporation, headquartered in Temple, Texas, pursuant to which Central Community Corporation agreed to be merged with and into the Company. Central Community Corporation is the parent company of First State Bank Central Texas (“First State Bank”), which is headquartered in Austin, Texas. First State Bank operates 31 full-service banking offices in central Texas. Under the terms of the definitive agreement, the Company will issue approximately 7,250,000 shares of the Company’s common stock plus \$28.5 million in cash for all outstanding shares of Central Community Corporation’s capital stock, subject to certain conditions and potential adjustments. The merger has been unanimously approved by the Board of Directors of each company and was approved by Central Community Corporation shareholders on April 24, 2014. The Company and Central Community Corporation entered into an extension of the merger effective on October 13, 2016, extending the merger agreement through December 31, 2017 to allow for additional time to obtain the necessary regulatory approvals and to satisfy all closing conditions. The merger agreement remains in effect until terminated by the Board of Directors of the Company or Central Community Corporation. The terms of the agreement provide for a minimum total deal value of \$202.5 million but also allow Central Community Corporation to terminate the agreement if the average closing price of the Company’s common stock



declines below a certain threshold prior to closing. The transaction is expected to close shortly after receiving all required regulatory approvals, although the Company can provide no assurance that the merger will close timely or at all.

On January 8, 2014, the Company announced the signing of a definitive merger agreement with Ouachita Bancshares Corp., parent company of Ouachita Independent Bank (collectively referred to as “OIB”), headquartered in Monroe, Louisiana, pursuant to which Ouachita Bancshares Corp. agreed to be merged with and into the Company. OIB operates 11 full-service banking offices along the I-20 corridor and has a loan production office in Madison, Mississippi. Under the terms of the definitive agreement, the Company will issue approximately 3,675,000 shares of the Company’s common stock plus \$22.875 million in cash for all outstanding shares of Ouachita Bancshares Corp.’s capital stock, subject to certain conditions and potential adjustments. The merger has been unanimously approved by the Board of Directors of each company and was approved by Ouachita Bancshares Corp. shareholders on April 8, 2014. The Company and Ouachita Bancshares Corp. entered into an extension of the merger effective on October 13, 2016, extending the merger agreement through December 31, 2017 to allow for additional time to obtain the necessary regulatory approvals and to satisfy all closing conditions. The merger agreement remains in effect until terminated by the Board of Directors of the Company or Ouachita Bancshares Corp. The terms of the agreement provide for a minimum total deal value of \$111.1 million but also allow Ouachita Bancshares Corp. to terminate the agreement if the average closing price of the Company’s common stock declines below a certain threshold prior to closing. The transaction is expected to close shortly after receiving all required regulatory approvals, although the Company can provide no assurance that the merger will close timely or at all.

For the most recent information regarding the status of the pending merger with Central Community Corporation and the status of the pending merger with Ouachita Bancshares Corp., please refer to the Current Report on Form 8-K that was previously filed with the SEC on October 14, 2016 and that is incorporated by reference into this Report.

## EMPLOYEES

At December 31, 2016, the Company and its subsidiaries had approximately 3,998 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. The Company is committed to a culture of respect, diversity, and inclusion in both its workplace and communities. To learn more, visit the Company’s Community Commitment page at [www.bancorpsouth.com](http://www.bancorpsouth.com).

## EXECUTIVE OFFICERS OF THE REGISTRANT

Information follows concerning the executive officers of the Company:

Name	Offices Held	Age
James D. Rollins III	Chairman and Chief Executive Officer Director of the Company	58
Chris A. Bagley	President and Chief Operating Officer	56
William L. Prater	Senior Executive Vice President, Chief Financial Officer and Treasurer of the Company and Cashier of the Bank	56
W. James Threadgill, Jr.	Senior Executive Vice President and Chief Business Development Officer	62
Jeffrey W. Jagers	Senior Executive Vice President and Chief Information Officer	54

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Chuck Pignuolo	Senior Executive Vice President and General Counsel	61
James Ronald Hodges	Senior Executive Vice President and Chief Credit Officer	64
Cathy S. Freeman	Senior Executive Vice President and Chief Administrative Officer	51

None of the executive officers of the Company are 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 2017 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 executive 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 year.

Mr. Bagley has served as President and Chief Operating Officer since August 15, 2014. Prior to joining the Company, Mr. Bagley was an executive officer and Chief Credit Officer of Prosperity Bancshares, Inc for at least the preceding three years.

Mr. Prater has served as Treasurer and Chief Financial Officer of the Company and Executive Vice President, Chief Financial Officer and Cashier of the Bank for at least the past five years. Mr. Prater was promoted to Senior Executive Vice President in 2014. Mr. Prater will retire from the offices he holds with the Company and the Bank effective as of March 10, 2017.

Mr. Threadgill has served as Executive Vice President of the Company and Vice Chairman of the Bank for at least the past five years. In 2014, Mr. Threadgill was promoted to Senior Executive Vice President and Chief Business Development Officer. Mr. Threadgill retired from the offices he held with the Company and the Bank effective as of January 2, 2017.

Mr. Jagers was promoted to Senior Executive Vice President and Chief Information Officer effective January 2, 2017 upon Mr. Threadgill's retirement. Prior to being promoted Mr. Jagers served as Executive Vice President and Chief Information Officer starting in 2012. In 2012, Mr. Jagers served as Senior Vice President of Operation Administration.

Mr. Pignuolo joined the Company as Senior Executive Vice President and General Counsel on October 20, 2014. Prior to joining the bank, Mr. Pignuolo practiced law at Devlin and Pignuolo, PC for at least the preceding three years.

Mr. Hodges has served as Executive Vice President of the Company and Vice Chairman and Chief Lending Officer of the Bank since September 2011. Most recently, Mr. Hodges was promoted to Senior Executive Vice President and Chief Credit Officer in 2014.

Mrs. Freeman has served as Executive Vice President of the Company and the Bank for at least the past five years. Most recently, Mrs. Freeman was promoted to Senior Executive Vice President in 2014.

BOARD OF DIRECTORS OF THE REGISTRANT

Information follows concerning the Board of Directors of the Company:

e

Name	Occupation
Gus J. Blass III	General Partner Capital Properties, LLC Little Rock, AR
Shannon A. Brown	Chief HR and Diversity Officer FedEx Express Memphis, TN

18

---

James E. Campbell III	Chief Executive Officer H+M Company, Inc. Jackson, TN
Deborah Cannon	Retired Houston, TX
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
Larry G. Kirk	Retired Tupelo, MS
Guy W. Mitchell III	Attorney at Law Mitchell, McNutt & Sams, PA Tupelo, MS
Robert C. Nolan	Chairman Deltic Timber Corporation El Dorado, AR
Alan W. Perry	Attorney at Law Bradley Arant Boult Cummings, LLP Jackson, MS
James D. Rollins	Chairman and Chief Executive Officer BancorpSouth, Inc. and BancorpSouth Bank Tupelo, MS
Tom Stanton	Chairman and Chief Executive Officer Adtran, Inc. Huntsville, AL

CORPORATE INFORMATION

Corporate Headquarters

BancorpSouth

One Mississippi Plaza

201 South Spring Street

Tupelo, MS 38804

19

---

2017 Annual Meeting

9:00 a.m. (local time), April 26, 2017

BancorpSouth Corporate Headquarters

Fourth Floor

One Mississippi Plaza

201 South Spring Street

Tupelo, MS 38804

Shares of Common Stock

Listed on the NYSE

NYSE Symbol: BXS

Transfer Agent and Registrar

Computershare

250 Royall Street

Canton, MA 02021

Tel: (800) 368-5948

Internet address: [www.computershare.com](http://www.computershare.com)

#### 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 (the “Securities Act”), and Section 21E of the Exchange Act. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “believe,” “estimate,” “expect,” “plan,” “predict,” “foresee,” “may,” “might,” “will,” “would,” “should,” “could” or “intend,” future or conditional verb tenses, and variations or 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, repurchase of mortgage loans, the impact of economic conditions in the Company's market area and 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 therefore, 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, non-performing loans and leases, non-accrual loans and leases, economic value of equity, future lease payments, the use of proceeds from underwritten public offerings 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.

Except as otherwise required by law, 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.

## RISKS RELATED TO OUR BUSINESS

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

21

---

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. Global financial markets have also experienced significant volatility as a result of economic and political instability in the wake of the referendum in the United Kingdom in June 2016 in which the majority of voters voted in favor of an exit from the European Union (“Brexit”). Following the vote on Brexit, stock markets worldwide experienced significant declines and certain currency exchange rates fluctuated substantially, and the outlook for the global economy in 2016 and beyond remains uncertain as negotiations commence to determine the future terms of the United Kingdom’s relationship with the European Union. Thus, risks related to the European economic crisis and Brexit 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.

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 Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, Texas 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 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 selected markets in Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee, Texas and Illinois. Certain of these competitors, many of which are well-established banks, credit unions, insurance agencies and other large financial institutions, have an advantage over us through substantially greater financial resources, lending limits and larger distribution networks, and are able to offer a broader range of products and services. Other competitors, many of which are smaller, are privately-held and thus benefit from greater flexibility in adopting or modifying growth or operational strategies than we do. If we fail to compete effectively for deposits, loans, leases and other banking customers in our markets, we could lose substantial market share, suffer a slower growth rate or no growth and our financial condition, results of operations and liquidity could be adversely affected.

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 generally.

Our profitability is dependent on our banking activities.

Because we are a bank holding company, our profitability is directly attributable to the success of our Bank. Our banking activities compete with other banking institutions on the basis of products, service, convenience and price. Due in part to both regulatory changes and consumer demands, banks have experienced increased competition from other entities offering similar products and services. We rely upon the profitability of our Bank and dividends received from our Bank for, among other things, payment of our operating expenses, satisfaction of our obligations and payment of dividends on shares of our common stock. As is the case with other similarly situated financial institutions, our profitability will be subject to the fluctuating cost and availability of funds, changes in the prime lending rate and other interest rates, changes in economic conditions in general, and other factors.

22

---

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.

Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan and lease origination volume, liquidity, and overall profitability. We cannot assure you that we can minimize our interest rate risk.

In addition, 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.

If we do not properly manage our credit risk, our business could be seriously harmed.

There are substantial risks inherent in making any loan or lease, including, but not limited to:

- risks resulting from changes in economic and industry conditions;
- risks inherent in dealing with borrowers;
  - risks inherent from uncertainties as to the future value of collateral; and
- the risk of non-payment of loans and leases.

Although we attempt to minimize our credit risk through prudent loan and lease underwriting procedures and by monitoring concentrations of our loans and leases, there can be no assurance that these underwriting and monitoring procedures will reduce these risks. Moreover, as we continue to expand into new markets, credit administration and loan and lease underwriting policies and procedures may need to be adapted to local conditions. The inability to properly manage our credit risk or appropriately adapt our credit administration and loan and lease underwriting policies and procedures to local market conditions or changing economic circumstances could have an adverse effect on our allowance and provision for loan and lease losses and our financial condition, results of operations and liquidity.

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 loans to small-to-medium sized businesses that may not have the resources to weather a downturn in the economy, which could materially harm our operating results.

We make loans to privately-owned businesses, many of which are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower’s ability to repay a loan. In addition, the success of a small to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns, a sustained decline in commodity prices and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations and financial condition.

We make and hold in our portfolio 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, 2016, we had a balance of \$1.2 billion real estate construction, acquisition and development loans, representing 10.7% 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, 2016, non-accrual real estate construction, acquisition and development loans totaled \$7.0 million.

24

---



We hold 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, 2016, we had \$7.8 million of other real estate owned (“OREO”), compared to \$14.8 million at December 31, 2015. At December 31, 2016, \$4.5 million, or 57.7%, 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.

OREO 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 OREO equal to or greater than our reported values, or some combination of these, could have a material adverse effect on our financial condition.

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.

Reductions in interchange fees and the effects of the Durbin Amendment may reduce our non-interest income.

An interchange fee is a fee merchants pay to the interchange network in exchange for the use of the network’s infrastructure and payment facilitation, and which is paid to debit, credit and prepaid card issuers, including to us, to compensate them for the costs associated with card issuance and operation. In the case of credit cards, this includes

the risk associated with lending money to customers. Merchants, trying to decrease their operating expenses, have sought to, and have had some success at, lowering interchange rates. In particular, the Durbin Amendment limited the amount of interchange fees that may be charged for debit and prepaid card transactions and is applicable to financial institutions whose total assets exceed \$10 billion. As a result of implementing the lower debit card interchange fee structure imposed by the Durbin Amendment, the Bank's electronic banking income decreased during 2012 but remained relatively stable in 2016, 2015 and 2014. We can make no guarantee that the Bank's electronic banking income will continue to remain stable in the future.

Recent events and actions, however, indicate a continuing focus on interchange fees by both regulators and merchants. Beyond pursuing litigation, legislation and regulation, merchants are also pursuing alternate payment platforms as a means to lower payment processing costs. To the extent interchange fees are further reduced, our non-interest income from those fees will be reduced, which could have a material adverse effect on our business and results of operations. In addition, the payment card industry is subject to the operating regulations and procedures set forth by

25

---

payment card networks, and our failure to comply with these operating regulations, which may change from time to time, could subject us to various penalties or fees or the termination of our license to use the payment card networks, all of which could have a material adverse effect on our business, financial condition or results of operations.

The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

Changes in interest rates can negatively affect the performance of most of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, and other factors beyond our control. Fluctuations in interest rates can materially affect both the returns on and market value of our investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

Our investment securities portfolio consists of a number of securities whose trading markets are “not active.” As a result, we utilize alternative methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that we can sell these investment securities at the price derived by these methodologies, or that we can sell these investment securities at all, which could have an adverse effect on our financial position, results of operation or liquidity.

We monitor the financial position of the various issues of investment securities in our portfolio, including each of the state and local governments and other political subdivisions where we have exposure. To the extent we have securities in our portfolio from issuers who have experienced a deterioration of financial condition, or who may experience future deterioration of financial condition, the value of such securities may decline and could result in an other-than-temporary impairment charge, which could have an adverse effect on our financial condition, results of operations and liquidity.

Our FDIC deposit insurance premiums and assessments may increase.

The deposits of our Bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments. High levels of bank failures since the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund following the financial crisis, the FDIC increased deposit insurance assessment rates and charged special assessments to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

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.

Our recent results may not be indicative of our future results.

We may not be able to grow our business at the same rate of growth achieved in recent years or even grow our business at all. Additionally, in the future we may not have the benefit of several factors that have been favorable to our business in past years, such as an interest rate environment where changes in rates occur at a relatively orderly and modest pace, the ability to find suitable expansion opportunities and acquisition targets or other factors and conditions.

Numerous factors, such as weakening or deteriorating economic conditions, regulatory and legislative considerations, and competition may impede or restrict our ability to expand our market presence and could adversely affect our future operating results.

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. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations. We can provide no assurances that we will be able to develop and integrate new services without adversely affecting our financial performance.

We encounter technological change continually and have fewer resources than certain of our competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving clients better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our success will depend in part on our ability to address our clients' needs by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Certain of our competitors have substantially greater resources to invest in technological improvements than us, and in the future, we may not be able to implement new technology-driven products and services timely, effectively or at all or be successful in marketing these products and services to our clients. Failure to successfully keep pace with technological change affecting the financial services industry could impair our ability to retain or acquire new business and could have an adverse effect on our business, financial position, results of operations and liquidity.

We are subject to a variety of systems-failure and cyber security risks that could adversely affect our business and financial performance.

Our internal operations are subject to certain risks, including, but not limited to, information systems failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts, data piracy or natural disasters. We maintain a system of internal controls and security to mitigate the risks of many of these occurrences and maintain insurance coverage for certain risks. However, should an event occur that is not prevented or detected by our internal controls, and is uninsured against or in excess of applicable insurance limits, such occurrence could have an adverse effect on our business, financial condition, results of operations and liquidity.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon the ability to protect our computer equipment against damage from fire, severe storm, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure of our computer systems or network infrastructure that causes an interruption in operations could have an adverse effect on our financial condition, results of operations and liquidity.

In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure against damage from physical break-ins, security breaches and other disruptive problems caused by Internet users or other users. Computer break-ins and other disruptions could jeopardize the security of information stored in and transmitted through our computer systems and networks, which may result in significant liability and reputation risk to us, and may deter potential customers. Although we, with the help of third-party service providers, intend to continue to actively monitor and, where necessary, implement improved security technology and develop additional operational procedures to prevent damage or unauthorized access to our computer systems and network, there

27

---

can be no assurance that these security measures or operational procedures will be successful. In addition, new developments or advances in computer capabilities or new discoveries in the field of cryptography could enable hackers or data pirates to compromise or breach the security measures we use to protect customer data. Any failure to maintain adequate security over our customers' personal and transactional information could expose us to reputational risk or consumer litigation, and could have an adverse effect on our financial condition, results of operations and liquidity.

Our risk and exposure to cyber attacks and other information security breaches remain heightened because of, among other things, the evolving nature of these threats and the prevalence of Internet and mobile banking. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that customers use to access our products and services, could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, including litigation expense and/or additional compliance costs, any of which could materially and adversely affect our business, results of operations or financial condition.

We may not be able to protect our intellectual property, and we may be subject to claims of third-party intellectual property rights.

If we are unable to protect our intellectual property and proprietary technology, our competitors may be able to duplicate our technology and products. To the extent that we do not effectively protect our proprietary intellectual property through patents or other means, other parties, including former employees, with knowledge of our intellectual property may seek to exploit our intellectual property for their own or others' advantage. In addition, we may unintentionally infringe on claims of third-party patents, and we may face intellectual property challenges from other parties. We may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes. Third-party intellectual rights, valid or not, may also impede our deployment of the full scope of our products and service capabilities in all of the market areas in which we operate or market our products and services. The intellectual property of an acquired business may be an important component of the value that we agree to pay for such a business. Such acquisitions, however, are subject to the risks that the acquired business may not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent on licenses from third parties, that the acquired business infringes on the intellectual property rights of others, or that the technology does not have the acceptance in the marketplace that we may have anticipated.

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. These third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. Although we have selected these third-party vendors carefully, it does not control their actions. Accordingly, our operations are exposed to the risk that these vendors might not perform in accordance with applicable contractual arrangements or service level agreements. Any complications caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to its customers and otherwise conduct its business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to provide services. Furthermore, our vendors could

also be sources of operational and information security risk, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third-party vendors could also create significant delay and expense. Problems caused by external vendors could be disruptive to our operations, which could have a material adverse impact on our business and, in turn, our financial condition and results of operations. We maintain a system of policies and procedures designed to monitor vendor risks, [including, among other things, (i) changes in the vendor's organizational structure, (ii) changes in the vendor's financial condition, (iii) changes in existing products and services or the introduction of new products and services, and (iv) changes in the vendor's support for existing products and services. 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.



Our business may be adversely affected by security breaches at third parties.

Our customers interact with their own and other third-party systems, which pose operational risks to us. We may be adversely affected by data breaches at retailers and other third parties who maintain data relating to our customers that involve the theft of customer data, including the theft of customers' debit card, credit card, wire transfer and other identifying and/or access information used to make purchases or payments at such retailers and to other third parties. Despite third-party security risks that are beyond our control, we offer our customers protection against fraud and attendant losses for unauthorized use of debit and credit cards in order to stay competitive in the marketplace. Offering such protection to customers exposes us to significant expenses and potential losses related to reimbursing our customers for fraud losses, reissuing the compromised cards and increased monitoring for suspicious activity. In the event of a data breach at one or more retailers of considerable magnitude, our business, financial condition and results of operations may be adversely affected.

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. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or we may fund a loan that it would not have funded or on terms it would not have extended. Whether a misrepresentation is made by the applicant or another third party, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses we may suffer. Accordingly, 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 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. As a result, defaults by, or rumors or questions about, one or more financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose us to credit risk in the event of default of one or more counterparties and could have a material adverse effect on our financial position, results of operations and liquidity. 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 effect on our 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

29

---

events may also increase our litigation risk.

We are involved in legal proceedings and government investigations and may be the subject of additional litigation and investigations in the future; the actual cost of legal proceedings may exceed our accruals for them.

The nature of our business ordinarily results in a certain amount of litigation and investigations by government agencies having oversight over our business. 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, government investigations 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 and the potential loss, however, may turn out to be substantially higher than the amount accrued. Further, our insurance may not cover all 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, if applicable, management believes that the litigation-related expense we have accrued is adequate and that any incremental liability arising from pending legal proceedings, including class action litigation, 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 any lawsuit or investigation in which we or our subsidiaries are involved, which may have a material adverse effect on our business or our results of operations for one or more quarterly reporting periods. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition - Certain Litigation and Other Contingencies” for more information regarding material pending legal proceedings and ongoing government investigations.

We may be subject to claims and litigation pertaining to fiduciary responsibility.

From time to time as part of our normal course of business, customers may make claims and take legal action against us based on actions or inactions related to the fiduciary responsibilities of our Bank’s wealth management department. If such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect our market perception or our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We may be subject to claims and litigation asserting lender liability.

From time to time, and particularly during periods of economic stress, customers, including real estate developers, may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage

against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market perception, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

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.

In January 2014, we entered into separate definitive merger agreements with each of Ouachita Bancshares Corp., pursuant to which Ouachita will merge with and into us, and Central Community Corporation, pursuant to which CCC will merger with and into us (collectively, the “Proposed Mergers”). For more information regarding the Proposed Mergers, please refer to “Recent Acquisitions and Transaction Activity” above and to the Current Report on Form 8-K that we filed with the SEC on October 14, 2016 which is incorporated herein by reference. We cannot offer any assurances as to the terms, timing and closings of the Proposed Mergers.

There can be no assurance that we will be able to identify, negotiate, finance or consummate potential acquisitions successfully, including, without limitation, the Proposed Mergers, or, if consummated, integrate such acquisitions with our current business.

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, 2016, our goodwill and other identifiable intangible assets were \$300.8 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 2016 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.

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.

The market for acquisitions remains highly competitive. Accordingly, 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. To the extent that we are unable to find suitable acquisition candidates, an important component of our growth strategy may be lost.

In addition, acquisitions of financial institutions involve operational risks and uncertainties and acquired companies may have unforeseen liabilities, exposure to asset quality problems, key employee and customer retention problems and other problems that could negatively affect our organization. We may not be able to complete future acquisitions;

and, if completed, we may not be able to successfully integrate the operations, management, products and services of the entities that it acquires and eliminate redundancies. The integration process could result in the loss of key employees or disruption of the combined entity's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the transaction. The integration process may also require significant time and attention from our management that they would otherwise direct at servicing existing business and developing new business. Our inability to find suitable acquisition candidates and failure to successfully integrate the entities we acquire into our existing operations may increase our operating costs significantly and adversely affect our business and earnings.

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.

If we are unable to manage its growth effectively, its operations could be negatively affected.

If we experience growth in the future, we could face various risks and difficulties, including:

- finding suitable markets for expansion;
- finding suitable candidates for acquisition;
- attracting funding to support additional growth;
- maintaining asset quality;
- attracting and retaining qualified management; and
- maintaining adequate regulatory capital.

In addition, in order to manage our growth and maintain adequate information and reporting systems within our organization, we must identify, hire and retain additional qualified associates, particularly in the accounting and operational areas of our business.

If we do not manage our growth effectively, our business, financial condition, results of operations and future prospects could be negatively affected, and we may not be able to continue to implement our business strategy and successfully conduct our 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.

There may be risks resulting from the use of models in our business.

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, assessing potential acquisition opportunities, developing presentations made to market analysts and others, creating loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, conducting capital stress testing, calculating regulatory capital levels and estimating the fair value of financial instruments and balance sheet items. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If models for determining interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If models for determining probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If models to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in the analytical or

forecasting models could have a material adverse effect on our financial condition or results of operations.

Also, information we provide to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Certain decisions that the regulators make, including those related to dividends to our shareholders, could be adversely affected due to the regulator's perception that the quality of our models used to generate the relevant information is insufficient.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of accounting principles generally accepted in the United States ("GAAP"), which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. The impact of accounting developments that have been issued but not yet implemented is disclosed in our annual reports on Form 10-K

32

---



and our quarterly reports on Form 10-Q. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations.

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.

Hurricanes, tornados, tropical storms 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 Alabama, Florida, Louisiana, Mississippi and Texas, which include areas susceptible to hurricanes, tornados 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, tornados, 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, tornados, tropical storms or other adverse weather events.

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. We have an experienced senior management team and other key personnel that our board of directors believes is capable of managing and growing our business. 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.

## RISKS ASSOCIATED WITH OUR INDUSTRY

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 shareholders. 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. Business - 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. As of December 31, 2016, we have no such activities.

33

---

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;
- Increased capital requirements and changes to the quality of capital required to be held by banking organizations;
- 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

34

---

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.

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.

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 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.

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.

Consumers may decide not to use community banks to complete their financial transactions.

Technology and other changes are allowing parties to complete, through alternative methods, financial transactions that historically have involved community banks. For example, consumers can now maintain funds that

35

---

would have historically been held as local bank deposits in brokerage accounts, mutual funds with an Internet-only bank, or with virtually any bank in the country through online banking. Consumers can also complete transactions such as purchasing goods and services, paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower-cost deposits as a source of funds could have an adverse effect on our financial condition, results of operations and liquidity.

The CFPB is becoming more active in its rulemaking and enforcement activities which could result in enforcement actions, fines, penalties and the inherent reputational risk that results from such actions.

The Dodd-Frank Act established the CFPB, which has extensive regulatory and enforcement powers over consumer financial products and services. Among other regulatory powers, the CFPB has direct supervision and examination authority over banks with more than \$10 billion in assets, including the Bank. The CFPB's responsibilities include implementing and enforcing federal consumer financial protection laws, reviewing the business practices of financial services providers for legal compliance, monitoring the marketplace for transparency on behalf of consumers and receiving complaints and questions from consumers about consumer financial products and services. The CFPB also oversees and enforces certain prohibitions on unfair, deceptive or abusive financial acts and practices. The term "abusive" is new and untested, and we cannot predict how it will be enforced.

Pursuant to its authority, in January 2013, the CFPB issued final regulations governing primarily consumer mortgage banking. One rule imposes additional requirements on lenders, including rules designed to require lenders to ensure borrowers' ability to repay their mortgages. The CFPB also finalized a rule applicable to escrow accounts for higher priced mortgage loans and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. The CFPB also issued final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing. In November 2013, the CFPB issued a final rule on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act, compliance with which was required by October 3, 2015.

On June 29, 2016, the Bank, the CFPB and the DOJ agreed to a settlement set forth in a consent order (the "Consent Order") related to the joint investigation by the CFPB and the DOJ of the Bank's fair lending program during the period between January 1, 2011 and December 31, 2013. For additional information regarding the Consent Order, see our Current Report on Form 8-K that was filed with the SEC on June 29, 2016 and that is incorporated herein by reference. The Consent Order was signed by the United States District Court for the Northern District of Mississippi (the "District Court") on July 25, 2016.

The Bank is operating under the Consent Order, and its failure to comply with the Consent Order could materially and adversely affect our business.

The Bank is operating under the Consent Order. Our Board of Directors and senior management team have been working diligently to comply with the Consent Order and believe that they have allocated sufficient resources to address the corrective actions required by the DOJ and CFPB. Compliance with and resolution of the Consent Order will ultimately be determined by the DOJ and CFPB. The Bank's failure to comply with the Consent Order and to successfully implement its requirements may result in additional regulatory action, including civil money penalties against the Bank and its officers and directors or enforcement of the Consent Order through court proceedings, which could have a material and adverse effect on our business, results of operations, financial condition, cash flows and stock price.

## RISKS ASSOCIATED WITH OUR COMMON STOCK

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.

36

---



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, 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 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. As a publicly-traded company, a likely source of additional funds is the capital markets, accomplished generally through the issuance of equity, including common stock, preferred stock, warrants, depository shares, rights, purchase contracts or units, and the issuance of senior or subordinated debt securities. 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. Any occurrence that may limit its access to the capital markets, such as a decline in the confidence of investors, depositors of the Company or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. 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.

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.

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.

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.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

#### ITEM 2. PROPERTIES.

The physical properties of the Company are held as follows: 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 88% of the space, with the remainder leased to various unaffiliated tenants. The Bank also owns other buildings that provide space for computer operations, lease servicing, mortgage banking, warehouse needs and other general purposes. In addition to the facilities the Bank owns, 59 branch-banking, mortgage banking, insurance and operational facilities are occupied under leases with unexpired terms ranging from one to nine years. Management considers all of the Bank’s owned buildings and leased premises to be in good condition. None of the Company’s properties is subject to any material encumbrances.

#### 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.

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of the Company's 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 the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings and the potential loss, however, may turn out to be substantially higher than the amount accrued. Further, the Company's insurance has deductibles and will likely 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, if applicable, management believes that the litigation-related expense of \$3.5 million accrued as of December 31, 2016, which excludes amounts reserved for regulatory settlement expenses discussed below, is adequate and that any incremental liability arising from the Company's legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company's results of operations for a particular fiscal period or periods.

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 January 5, 2016, the Bank entered into an agreement to settle a class action lawsuit filed on May 18, 2010 by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenged the manner in which overdraft fees were charged and the policies related to the posting order of debit card and ATM transactions. The suit also made a claim under Arkansas' consumer protection statute. The plaintiff was seeking to recover damages in an unspecified amount and equitable relief. As a result of this agreement, the Company recorded an expense of \$16.5 million in the fourth quarter of 2015, representing amounts to be paid in connection with the settlement, net of amounts the Company had already accrued for this legal proceeding in previous periods. The settlement was approved by the court on July 15, 2016. Pursuant to the Court's order preliminarily approving the settlement, in the first quarter of 2016 the amounts accrued for settlement were paid into settlement escrow funds.

Litigation was successfully concluded in a putative derivative action filed in August 2011 in the Circuit Court of Lee County, Mississippi against certain current and past executive officers and members of the Company's Board of Directors. In February 2015 the plaintiff appealed the lower Court's dismissal of the case and on April 14, 2016 the Mississippi Supreme Court affirmed the lower Court's decision. The period for petitioning for a rehearing by the Mississippi Supreme Court elapsed and the Court issued its Mandate on May 5, 2016.

On July 31, 2014, the Company, its Chief Executive Officer and Chief Financial Officer were named in a purported class-action lawsuit filed in the U.S. District Court for the Middle District of Tennessee on behalf of certain purchasers of the Company's common stock. The complaint was subsequently amended to add the former President and Chief Operating Officer. The complaint alleges that the defendants made misleading statements concerning the Company's expectation that it would be able to close two merger transactions within a specified time period and the Company's compliance with certain Bank Secrecy Act and anti-money laundering requirements. On July 10, 2015, the District Court granted in part and denied in part the defendants' motion to dismiss and dismissed the claims

concerning the Company's expectations about the closing of the mergers. Class certification was granted by the District Court on April 21, 2016, and a petition for immediate appeal of the class certification was filed and was granted. Class certification was vacated by the U.S. Sixth Circuit Court of Appeals, and the case was remanded to the District Court for further proceedings. The plaintiff seeks an unspecified amount of damages and awards of costs and attorneys' fees and such other equitable relief as the District Court may deem just and proper. At this stage of the lawsuit, management cannot determine the probability of an unfavorable outcome to the Company as it is uncertain whether the lead Plaintiff will be successful in certifying a class on its second attempt and the exact amount of damages (should the District Court grant class certification again) is uncertain. Although it is not possible to predict the ultimate resolution or financial liability with respect to the litigation, management is currently of the opinion that the outcome of this lawsuit will not

39

---

have a material adverse effect on the Company's business, consolidated financial position or results of operations.

On June 29, 2016, the Bank, the CFPB and the DOJ agreed to a settlement set forth in a consent order (the "Consent Order") related to the joint investigation by the CFPB and the DOJ of the Bank's fair lending program during the period between January 1, 2011 and December 31, 2013. The Consent Order was signed by the United States District Court for the Northern District of Mississippi (the "District Court") on July 25, 2016. In the first quarter of 2016, the Bank reserved \$13.8 million to cover costs related to this matter, \$10.3 million of which was reflected as regulatory settlement expense and \$3.5 million of which was included in other noninterest expense. The settlement of this matter did not have a material financial impact on the second, third or fourth quarter 2016 financial results. For additional information regarding the terms of this settlement and the Consent Order, see the signed Consent Order and the Company's Current Report on Form 8-K filed on June 29, 2016 which is incorporated into this Report by reference.

#### 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 NYSE 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 NYSE:

		High	Low
2016	Fourth	\$ 31.75	\$ 22.23
	Third	25.09	20.98
	Second	24.18	20.19
	First	23.64	18.69
2015	Fourth	\$ 27.23	\$ 22.44
	Third	26.54	22.09

Second	26.68	22.83
First	23.68	19.64

## HOLDERS OF RECORD

As of February 16, 2017, there were 7,330 shareholders of record of the Company's common stock.

## DIVIDENDS

The Company declared cash dividends each quarter in an aggregate annual amount of \$0.45 and \$0.35 per share during 2016 and 2015, 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 Supervisory Release 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 had repurchases of shares of common stock during the quarter ended December 31, 2016 as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1-October 31	436,541	\$ 22.91	436,541	6,011,940
November 1- November 30	-	-	-	6,011,940
December 1- December 31	-	-	-	6,011,940
Total	436,541			

(1) On December 11, 2014, the Company announced a stock repurchase program pursuant to which the Company could purchase up to 5.8 million shares of its common stock during the period between December 11, 2014 and November 30, 2016. On January 21, 2016, the Company announced the termination of this stock repurchase program, under which the Company had repurchased 2,882,000 shares of common stock, and the initiation of a new stock repurchase program pursuant to which the Company may purchase up to 7 million shares of its common stock during the period between January 27, 2016 and December 29, 2017. On July 25, 2016, the Company adopted a Rule 10b5-1 plan in connection with this stock repurchase program. In October 2016, 436,541 shares were repurchased under the current stock repurchase program

## 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 S&P 500 Index and the KBW Bank 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, 2011 and reinvestment of dividends on the date of payment without commissions. The KBW Bank Index is a modified cap-weighted index consisting of 24 exchange-listed National Market System stocks, representing national money center banks and leading regional institutions. The performance graph represents past performance and should not be considered to be an indication of future performance.



\*This stock performance graph and related information are neither “soliciting material” nor “filed” with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent the Company specifically incorporates it by reference to such filing.

## 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 \$14.7 billion in assets headquartered in Tupelo, Mississippi. The Company’s wholly-owned banking subsidiary has commercial banking operations in Alabama, Arkansas, Florida, Louisiana, Mississippi, Missouri, Tennessee and Texas. The Bank and its insurance agency subsidiary 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. Management’s discussion and analysis should also be read in conjunction with the risk factors included in Item 1A of this Report. This discussion and analysis is based on reported financial information, and certain amounts for prior years have been reclassified to conform with the current financial statement presentation. The information that follows is provided to enhance comparability of financial information between years and to provide a better understanding of the Company’s operations.

As a financial holding company, the financial condition and operating results of the Company are heavily influenced by economic trends nationally and in the specific markets in which the Company’s subsidiaries provide financial services. Generally, 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. However, the Company’s financial condition remained stable during 2016, as reflected by decreases in the allowance for credit losses and increases in loans and leases, while total non-performing assets (“NPAs”) and criticized loans remained stable.

Management believes that the Company is better positioned with respect to overall credit quality as evidenced by the stable credit quality metrics when comparing December 31, 2016 to December 31, 2015. Management believes,

however, that future weakness in the economic environment could adversely affect the strength of the credit quality of the Company's assets overall. Therefore, management will continue to focus on early identification and resolution of any credit issues.

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

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

42

---

SELECTED FINANCIAL  
INFORMATION

	At or for the Year Ended December 31,				
	2016	2015	2014	2013	2012
Earnings Summary:	(Dollars in thousands, except per share amounts)				
Interest revenue	\$ 483,179	\$ 464,378	\$ 450,257	\$ 449,507	\$ 486,424
Interest expense	29,727	28,696	33,595	50,558	71,833
Net interest revenue	453,452	435,682	416,662	398,949	414,591
Provision for credit losses	4,000	(13,000)	-	7,500	28,000
Net interest revenue, after provision for credit losses	449,452	448,682	416,662	391,449	386,591
Noninterest revenue	279,030	277,968	269,146	275,066	280,149
Noninterest expense	532,038	539,911	518,406	534,849	549,193
Income before income taxes	196,444	186,739	167,402	131,666	117,547
Income tax expense (benefit)	63,716	59,248	50,652	37,551	33,252
Net income	\$ 132,728	\$ 127,491	\$ 116,750	\$ 94,115	\$ 84,295

## Balance Sheet -

## Year-End Balances:

Total assets	\$ 14,724,388	\$ 13,798,662	\$ 13,326,369	\$ 13,029,733	\$ 13,397,198
Total securities	2,531,676	2,082,329	2,156,927	2,466,989	2,434,032
Loans and leases, net of unearned income	10,811,991	10,372,778	9,712,936	8,958,015	8,636,989
Total deposits	11,688,141	11,331,161	10,972,339	10,773,836	11,088,146
Long-term debt	530,000	69,775	78,148	81,714	33,500
Total shareholders' equity	1,723,883	1,655,444	1,606,059	1,513,130	1,449,052

## Balance Sheet -

## Average Balances:

Total assets	14,226,953	13,583,715	13,034,800	13,068,568	13,067,276
Total securities	2,193,937	2,180,117	2,323,695	2,561,918	2,490,898
Loans and leases, net of unearned income	10,557,103	9,995,005	9,308,680	8,671,441	8,719,399
Total deposits	11,520,186	11,149,567	10,734,843	10,877,366	10,936,694
Long-term debt	313,979	72,900	83,189	53,050	33,500
Total shareholders' equity	1,701,052	1,654,028	1,581,870	1,478,429	1,413,667

## Common Share Data:

Basic earnings per share	\$ 1.41	\$ 1.33	\$ 1.22	\$ 0.99	\$ 0.90
Diluted earnings per share	1.41	1.33	1.21	0.99	0.90
	0.45	0.35	0.25	0.12	0.04

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Cash dividends per share					
Book value per share	18.40	17.58	16.69	15.89	15.33
Tangible book value per share	14.95	14.27	13.40	12.60	12.23
Dividend payout ratio	31.94	26.31	20.61	12.12	4.44
Financial Ratios:					
Return on average assets	0.93%	0.94%	0.90%	0.72%	0.65%
Return on average shareholders' equity	7.80%	7.71%	7.38%	6.37%	5.96%
Total shareholders' equity to total assets	11.71%	12.00%	12.05%	11.61%	10.82%
Tangible shareholders' equity to tangible assets	9.73%	9.96%	9.92%	9.44%	8.83%
Net interest margin-fully taxable equivalent	3.52%	3.57%	3.59%	3.43%	3.57%
Credit Quality Ratios:					
Net charge-offs to average loans and leases	0.06%	0.03%	0.12%	0.22%	0.67%
Provision for credit losses to average loans and leases	0.04%	-0.13%	0.00%	0.09%	0.32%
Allowance for credit losses to net loans and leases	1.14%	1.22%	1.47%	1.71%	1.90%
Allowance for credit losses to NPLs	121.50%	133.23%	198.57%	127.27%	70.42%
Allowance for credit losses to NPAs	112.84%	115.30%	134.74%	80.76%	48.83%
NPLs to net loans and leases	0.94%	0.92%	0.74%	1.34%	2.70%
NPAs to net loans and leases	1.01%	1.06%	1.09%	2.12%	3.90%
Capital Ratios:					
Common Equity Tier 1 capital	12.23%	12.07%	NA	NA	NA
Tier 1 capital	12.34%	12.27%	13.27%	12.99%	13.77%
Total capital	13.38%	13.37%	14.52%	14.25%	15.03%
Tier 1 leverage capital	10.32%	10.61%	10.55%	9.93%	10.25%



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 measures as reflected in the Company's consolidated financial statements:

	December 31, 2016 (In thousands)	2015	2014	2013	2012
<b>Tangible Assets:</b>					
Total assets	\$ 14,724,388	\$ 13,798,662	\$ 13,326,369	\$ 13,029,733	\$ 13,397,198
Less: Goodwill	300,798	291,498	291,498	286,800	275,173
Identifiable intangible assets	21,894	20,545	24,508	26,079	17,329
Total tangible assets	\$ 14,401,696	\$ 13,486,619	\$ 13,010,363	\$ 12,716,854	\$ 13,104,696
<b>Tangible Shareholders' Equity:</b>					
Total shareholders' equity	\$ 1,723,883	\$ 1,655,444	\$ 1,606,059	\$ 1,513,130	\$ 1,449,052
Less: Goodwill	300,798	291,498	291,498	286,800	275,173
Identifiable intangible assets	21,894	20,545	24,508	26,079	17,329
Total tangible shareholders' equity	\$ 1,401,191	\$ 1,343,401	\$ 1,290,053	\$ 1,200,251	\$ 1,156,550
Total shares outstanding	93,696,687	94,162,728	96,254,903	95,231,691	94,549,867
Tangible shareholders' equity to tangible assets	9.73%	9.96%	9.92%	9.44%	8.83%
Tangible book value per share	\$ 14.95	\$ 14.27	\$ 13.40	\$ 12.60	\$ 12.23

## FINANCIAL HIGHLIGHTS

The Company reported net income of \$132.7 million for 2016 compared to \$127.5 million for 2015 and \$116.8 million for 2014. A factor contributing to the increase in net income in 2016 and 2015 was the increase in net interest revenue, as net interest revenue was \$453.5 million in 2016 compared to \$435.7 million in 2015 and \$416.7 million in



2014. The increase in net interest revenue is a result of the increase in loan and lease revenue more than offsetting the increase in interest expense associated with interest bearing demand and savings deposits and long-term debt.

Another factor contributing to the increase in net income in 2015 compared to 2014 was the decreased provision for credit losses as there was a \$13.0 million negative provision in 2015 compared to no provision in 2014.

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 2016 was \$453.5 million, compared to \$435.7 million for 2015 and \$416.7 million for 2014. 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 4.1% increase in net interest revenue in 2016 compared to 2015 was a result of the increase in interest revenue related to loans and leases due to the increasing loan portfolio. The 4.6% increase in net interest revenue in 2015 compared to 2014 was primarily a result of the increase in interest revenue related to loans and leases due to the increasing loan portfolio coupled with the decrease in interest expense related to the

decrease in rates paid on interest-bearing liabilities. Rates paid on interest bearing liabilities decreased as a result of reduced average balances and rates on other time deposits.

The Company attempts to diversify its revenue stream by increasing the amount of revenue received from mortgage banking 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 2016 was \$279.0 million, compared to \$278.0 million for 2015 and \$269.1 million for 2014. One of the primary contributors to the increase in noninterest revenue from 2015 to 2016 was the increase in mortgage banking revenue to \$41.7 million in 2016 compared to \$35.5 million in 2015. The increase in mortgage banking revenue was primarily related to the increase in mortgage originations. Mortgage origination volume increased by approximately \$211.6 million in 2016 to \$1.7 billion from \$1.4 billion in 2015. The increased level of mortgage origination volume resulted in an increase in origination revenue to \$30.2 million in 2016 from \$26.4 million in 2015. The increase in mortgage banking revenue in 2016 compared to 2015 was also affected by the change in fair value of mortgage servicing rights (“MSRs”). The fair value of MSRs increased \$1.5 million in 2016 compared to a decrease of \$1.2 million in 2015. One of the primary contributors to the increase in noninterest revenue from 2014 to 2015 was the increase in mortgage lending revenue to \$35.5 million in 2015 compared to \$22.7 million in 2014. The increase in mortgage lending revenue in 2015 compared to 2014 was primarily affected by the change in fair value of MSRs. The fair value of MSRs decreased \$1.2 million in 2015 compared to a decrease of \$6.4 million in 2014. The increase in mortgage lending revenue was also related to the increase in mortgage originations. Mortgage origination volume increased by approximately \$390.3 million in 2015 to \$1.4 billion from \$1.1 billion in 2014. The increased level of mortgage origination volume resulted in an increase in origination revenue to \$26.4 million in 2015 from \$18.4 million in 2014.

Other noninterest revenue fluctuations in 2016 compared to 2015 and 2015 compared to 2014 included the decrease in deposit service charges of 7.4% in 2016 compared to 2015 and 7.6% in 2015 compared to 2014 resulting from modifications made on the calculation and assessment of overdraft fees during 2016 and 2015. Insurance commissions remained relatively stable, only decreasing 0.7% to \$116.0 million in 2016 from \$116.7 million in 2015 after increasing 1.7% from \$114.8 million in 2014. There were no significant non-recurring noninterest revenue items in 2016 or 2015.

Noninterest expense for 2016 was \$532.0 million, a decrease of 1.5% from \$539.9 million for 2015, which was an increase of 4.1% from \$518.4 million for 2014. The decrease in noninterest expense in 2016 compared to 2015 was primarily a result of decreases in legal expenses and foreclosed property expense. Legal expenses decreased \$21.8 million, or 71.8%, from 2015 and foreclosed property expense decreased \$3.1 million, or 41.3%, from 2015 primarily as a result of the Company’s declining OREO balance throughout the years. These decreases were partially offset by a regulatory settlement charge as well as the increase in salaries and employee benefits. Salaries and employee benefits increased \$5.7 million, or 1.8%, in 2016 compared to 2015 primarily as a result of increases in group health insurance costs and increased salaries related to the slight increase in headcount with these increases partially offset by the decrease in pension expenses due to annual revisions to actuarial assumptions, including updates to the Society of Actuaries pension plan mortality tables. The increase in noninterest expense in 2015 compared to 2014 was primarily a result of increases in salaries and employee benefits, and legal expenses. Salaries and employee benefits increased \$14.6 million, or 4.8%, in 2015 compared to 2014 primarily as a result of increases in pension expenses due to annual revisions to actuarial assumptions, including updates to the Society of Actuaries pension plan mortality tables. The increase in legal expenses of \$20.5 million, or 209.0%, in 2015 compared to 2014 was a result of additional litigation reserves recorded during 2015. The increase in noninterest expense in 2015 compared to 2014 was somewhat offset by the decrease in foreclosed property expense. Income tax expense increased in 2016 and 2015 primarily as a result of the increase in pre-tax income in 2016 compared to 2015 and in 2015 compared to 2014. 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

45

---

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, 2016, the allowance for credit losses was \$123.7 million, representing 1.14% 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 in prior 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.

#### 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 MSR's. The Company records MSR's at fair value for all loans sold on a servicing retained basis with subsequent adjustments to fair value of MSR's 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 MSR's 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 MSR's 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 has historically not hedged the MSR asset. At December 31, 2016 there was a hedge in place designed to cover approximately 4% of the MSR value. The Company is susceptible to fluctuations in their value in changing interest rate environments. At December 31, 2016, the Company's mortgage servicing asset was valued at \$65.3 million.

46

---

## 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 2016. 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 31, 2016 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 4.10% for the Basic Plan, 3.94% for the Restoration Plan and 3.35% for the Supplemental Plan based on a December 31, 2016 measurement date.

In 2016, we changed the method we use to estimate the service and interest cost components of net periodic benefit cost for our defined benefit pension plans. Historically, we estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change does not affect the measurement of our total benefit obligations as the change in the service cost and interest cost is completely offset in the actuarial (gain) loss reported. We have accounted for this change as a change in estimate and, accordingly, have accounted for it prospectively starting in 2016. The discount rates that we used to measure service and interest cost during 2016 were 4.62% and 3.77% for the Basic Plan, 4.46% and 3.45% for the Restoration Plan and 3.84% and 2.69% for the Supplemental Plan. The discount rates that we measured at year end and would have been used for service and interest cost under our prior estimation technique were 4.44% for the Basic Plan, 4.20% for the Restoration Plan and 3.40% for the Supplemental Plan. The reductions in service cost and interest cost for 2016 associated with this change in estimate for the three plans are \$648,000 and \$1,710,000, respectively. The diluted earnings per share impact for 2016 of this change in estimate is \$0.02. The Company measured benefit obligations using the most recent RP-2014 mortality tables and MP-2016 mortality improvement scale in selecting mortality assumptions as of December 31, 2016.

## 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

47

---

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, 2016:

48

---



Edgar Filing: BANCORPSOUTH INC - Form 10-K

	2016			2015			2014
(Taxable equivalent basis)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance
<b>ASSETS</b> (Dollars in thousands, yields on taxable equivalent basis)							
Loans and leases (net of unearned income) (1)(2)	\$ 10,557,103	\$ 444,301	4.21%	\$ 9,995,005	\$ 423,561	4.24%	\$ 9,308,680
Loans held for sale, at fair value	138,354	4,616	3.34%	136,510	4,744	3.48%	77,401
Available-for-sale securities, at fair value:							
Taxable	1,858,540	25,191	1.36%	1,805,652	26,308	1.46%	1,913,314
Non-taxable (3)	335,397	17,885	5.33%	374,465	20,116	5.37%	410,381
Federal funds sold, securities purchased under agreement to resell and short-term investments	257,870	1,070	0.41%	194,038	438	0.23%	219,239
Total interest earning assets and revenue	13,147,264	493,063	3.75%	12,505,670	475,167	3.80%	11,929,015
Other assets	1,205,942			1,215,945			1,254,184
Less: allowance for credit losses	(126,253)			(137,900)			(148,399)
Total	\$ 14,226,953			\$ 13,583,715			\$ 13,034,800
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Deposits:							
Demand - interest bearing							
	\$ 4,974,523	\$ 9,246	0.19%	\$ 4,871,767	\$ 8,820	0.18%	\$ 4,561,738
Savings	1,511,890	1,826	0.12%	1,399,572	1,703	0.12%	1,297,407
Other time	1,857,381	14,162	0.76%	1,926,514	14,837	0.77%	2,141,122
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB and other borrowings	456,011	662	0.15%	471,378	384	0.08%	444,263

Junior subordinated debt securities	22,691	747	3.29%	23,198	667	2.88%	23,334
Long-term debt	313,979	3,084	0.98%	72,900	2,285	3.13%	83,189
Total interest bearing liabilities and expense	9,136,475	29,727	0.33%	8,765,329	28,696	0.33%	8,551,053
Demand deposits	-						
noninterest bearing	3,176,392			2,951,714			2,734,576
Other liabilities	213,034			212,644			167,301
Total liabilities	12,525,901			11,929,687			11,452,930
Shareholders' equity	1,701,052			1,654,028			1,581,870
Total	\$ 14,226,953			\$ 13,583,715			\$ 13,034,800
Net interest revenue-FTE		\$ 463,336			\$ 446,471		
Net interest margin-FTE			3.52%			3.57%	
Net interest rate spread			3.42%			3.47%	
Interest bearing liabilities to interest earning assets			69.49%			70.09%	

(1) Includes taxable equivalent adjustment to interest of approximately \$3,624,000, \$3,748,000, and \$3,441,000 in 2016, 2015 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 adjustment to interest of approximately \$6,260,000, \$7,041,000, and \$7,787,000 in 2016, 2015 respectively, using an effective tax rate of 35%.

Net interest revenue-FTE increased 3.8% to \$463.3 million in 2016 from \$446.5 million in 2015, which represented an increase of 4.3% from \$427.9 million in 2014. The increase in net interest revenue-FTE for 2016 compared to 2015 was primarily a result of the increase in interest revenue-FTE related to the increase in average

earning assets more than offsetting the increase in interest expense related to the increase in yields and average balance on demand interest bearing deposits and the increase in the balance of long term debt, combined with the effects of decreased yields on earning assets and increased average total interest-bearing liabilities. The increase in net interest revenue-FTE for 2015 compared to 2014 was primarily a result of the increase in interest revenue-FTE related to the increase in average earning assets combined with the decrease in interest expense related to the decrease in yields and average balance on other time deposits exceeding the effects of decreased yields on earning assets and increased average total interest-bearing liabilities.

Interest revenue-FTE increased 3.8% to \$493.1 million in 2016 from \$475.2 million in 2015, which represented an increase of 3.0% from \$461.5 million in 2014. The increase in interest revenue-FTE in 2016 compared to 2015 and 2015 compared to 2014 was a result of the declining loan yields, as interest rates continued to be at low levels, being more than offset by loan growth noticed during 2016 and 2015 combined with the increase in the balance of average short term investments. The yield on average interest-earning assets decreased 5 basis points in 2016 compared to 2015. The yield on average interest-earning assets decreased 7 basis points in 2015 compared to 2014. Average interest earning assets increased 5.1% to \$13.1 billion in 2016 compared to \$12.5 billion in 2015 and increased 4.8% or \$576.7 million from 2015 compared to \$11.9 billion at 2014.

Interest expense remained relatively stable only increasing 3.6% to \$29.7 million in 2016 from \$28.7 million in 2015, after decreasing 14.6% from \$33.6 million in 2014. The increase in interest expense during 2016 was a result of the increase in average interest bearing liabilities. The increase in interest bearing liabilities was due to average balances in long term debt increasing \$241.1 million to \$314.0 million at December 31, 2016 compared to \$72.9 million at December 31, 2015 combined with increases in interest bearing demand and savings deposits more than offsetting the decreases in other time deposits and short-term borrowings. The overall rates paid on average interest bearing liabilities remained stable from December 31, 2016 to December 31, 2015 after declining 6 basis points to December 31, 2015 from December 31, 2014.

Net interest margin-FTE for 2016 was 3.52%, a decrease of 5 basis points from 3.57% for 2015, which represented a decrease of 2 basis points from 3.59% for 2014.

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 2015 to 2016 and from 2014 to 2015. Changes that are not solely a result of volume or rate have been allocated to volume.

(Taxable equivalent basis) INTEREST REVENUE	2016 over 2015 - Increase (Decrease)			2015 over 2014 - Increase (Decrease)		
	Volume (In thousands)	Rate	Total	Volume	Rate	Total
Loans and leases, net of unearned income	\$ 23,664	\$ (2,924)	\$ 20,740	\$ 29,085	\$ (13,524)	\$ 15,561
Loans held for sale	62	(190)	(128)	2,054	(259)	1,795
Available-for-sale securities:						
Taxable	717	(1,834)	(1,117)	(1,569)	122	(1,447)
Non-taxable	(2,083)	(148)	(2,231)	(1,929)	(204)	(2,133)
Federal funds sold, securities purchased under agreement to resell and short-term investments	264	368	632	(57)	(37)	(94)
Total increase (decrease)	22,624	(4,728)	- 17,896	- 27,584	(13,902)	- 13,682
<b>INTEREST EXPENSE</b>						
Demand deposits - interest bearing	191	235	426	561	408	969
Savings deposits	136	(13)	123	124	(35)	89
Other time deposits	(527)	(148)	(675)	(1,653)	(4,185)	(5,838)
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB and other borrowings	(22)	300	278	22	29	51
Junior subordinated debt securities	(17)	97	80	(4)	12	8
Long-term debt	2,370	(1,571)	799	(323)	145	(178)
Total decrease	2,131	(1,100)	1,031	(1,273)	(3,626)	(4,899)
Total net increase (decrease)	\$ 20,493	\$ (3,628)	\$ 16,865	\$ 28,857	\$ (10,276)	\$ 18,581

### 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.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table presents the Company's interest rate sensitivity at December 31, 2016:

	Interest Rate Sensitivity - Maturing or Repricing			
	0 to 90	91 Days	Over One	Over
	Days	to	Year to	Over
		One Year	Five Years	Five Years
	(In thousands)			
<b>INTEREST EARNING ASSETS:</b>				
Interest bearing deposits with banks	\$ 38,813	\$ -	\$ -	\$ -
Available-for-sale securities	167,168	543,288	1,671,498	149,722
Loans and leases, net of unearned income	3,770,449	2,785,221	3,385,150	871,171
Loans held for sale	166,927	-	-	-
Total interest earning assets	4,143,357	3,328,509	5,056,648	1,020,893
<b>INTEREST BEARING LIABILITIES:</b>				
Interest bearing demand and savings deposits	6,596,289	-	-	-
Other time deposits	295,505	677,109	868,589	112
Federal funds purchased, securities sold under agreement to repurchase, short-term FHLB borrowings and other short-term borrowings	546,002	-	-	-
Long-term debt and junior subordinated debt securities	512,888	-	30,000	-
Other	-	-	-	-
Total interest bearing liabilities	7,950,684	677,109	898,589	112
Interest rate sensitivity gap	\$ (3,807,327)	\$ 2,651,400	\$ 4,158,059	\$ 1,020,781
Cumulative interest sensitivity gap	\$ (3,807,327)	\$ (1,155,927)	\$ 3,002,132	\$ 4,022,913

In the event interest rates increase after December 31, 2016, 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, 2016, 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, 2016 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, 2016, the Bank had \$2.3 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 4.14%, an average maturity of 176 months and a fully-indexed interest rate of 4.15% at December 31, 2016. The fully-indexed interest rate is the interest rate that these loans would be earning without the effect of interest rate floors. The fully-indexed interest rate

also considers the impact of loans that will earn an interest rate above their floor at their next repricing date. 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, 2016, the Company had \$466.5 million, \$4.1 billion and \$748.0 million in variable rate

52

---

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, 2016 and 2015 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.

Rate Shock	Net Interest Income	
	% Variance from Base Case Scenario	
	December 31, 2016	December 31, 2015
+400 basis points	11.1%	8.0%
+300 basis points	11.7%	9.4%
+200 basis points	10.9%	9.3%
+100 basis points	5.5%	4.3%
-100 basis points	NM	NM
-200 basis points	NM	NM
-300 basis points	NM	NM

-400 basis points    NM  
NM=not meaningful

NM

53

---



Rate Shock	Economic Value of Equity	
	% Variance from Base Case Scenario	
	December 31, 2016	December 31, 2015
+400 basis points	29.9%	24.6%
+300 basis points	23.2%	19.0%
+200 basis points	15.3%	13.0%
+100 basis points	7.3%	6.1%
-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:

Rate Ramp	Net Interest Income	
	% Variance from Base Case Scenario	
	December 31, 2016	December 31, 2015
+200 basis points	4.5%	3.5%
-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 (or credit) of providing an allowance or reserve for estimated probable incurred 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 or more frequently if required 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 incurred losses that exist in various segments of performing loans and leases based upon historical net loss experience; (2) specifically identified losses in individually analyzed credits; and (3) qualitative factors that address estimates of incurred losses not fully identified by historical net loss experience. 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. Estimates of incurred losses are influenced by the historical net losses experienced by the Bank for loans

and leases of comparable creditworthiness and structure. Specific loss assessments are performed for loans and leases classified as impaired loans based upon the collateral protection or 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 conditions, concentrations of risk, 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 estimated incurred loan losses. The ALLL group meets at least quarterly to determine the amount of adjustments to the allowance for credit losses. The ALLL group is

54

---

composed of senior management from the Bank's loan administration and finance departments. The impairment group is responsible for evaluating individual loans that have been specifically identified as impaired loans through various channels, including examination of the Bank's watch list, past due listings, 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 the loan is greater than \$500,000 and it is probable that the Company will be unable to collect the contractual principal and interest on the loan and all loans restructured in a TDR. The impairment group also evaluates the circumstances surrounding the loan in order to determine the most appropriate method for measuring the impairment of the loan was used (i.e., present value of expected future cash flows, observable market price or fair value of the underlying collateral if the loan is collateral dependant). 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 an impaired loan, with the amount of impairment, if any, determined as discussed above. TDRs are reserved in accordance with FASB ASC 310. Should the borrower's financial condition, collateral protection or performance deteriorate, warranting reassessment of the loan rating or impairment, additional reserves and/or chargeoffs may be required.

Loans of \$500,000 or more that are identified as impaired loans are reviewed by the impairment group which approves the amount of specific reserve, if any, and/or chargeoff amounts. The impairment evaluation of real estate loans generally focuses on the fair value of underlying collateral less estimated costs to sell 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.

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 received from outside appraisers, 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 and/or chargeoffs 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 and/or charge-offs.

At December 31, 2016, impaired loans, excluding accruing TDRs, totaled \$38.2 million, which was net of cumulative charge-offs of \$8.3 million. Additionally, the Company had specific reserves related to impaired loans of \$4.4 million included in the allowance for credit losses. Impaired loans at December 31, 2015 were primarily from the Company's commercial real estate portfolio. Impaired loan charge-offs are determined necessary when management determines that the amount is not likely to be collected.

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. Subsequent analyses may result in the identification of the inability of some guarantors to perform under the agreed upon terms.

55

---

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.

56

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

An analysis of the allowance for credit losses for the five years ended December 31, 2016 is provided in the following table:

	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Balance, beginning of period	\$ 126,458	\$ 142,443	\$ 153,236	\$ 164,466	\$ 195,118
Loans and leases charged off:					
Commercial and industrial	(4,551)	(10,022)	(2,546)	(4,672)	(12,362)
Real estate					
Consumer mortgages	(2,687)	(3,995)	(6,037)	(9,159)	(13,122)
Home equity	(1,884)	(1,204)	(1,359)	(1,469)	(2,721)
Agricultural	(110)	(33)	(765)	(736)	(1,240)
Commercial and industrial-owner occupied	(1,095)	(1,800)	(3,591)	(3,855)	(9,015)
Construction, acquisition and development	(521)	(1,039)	(3,731)	(6,745)	(33,085)
Commercial real estate	(1,129)	(3,723)	(1,795)	(10,341)	(12,728)
Credit cards	(2,845)	(2,632)	(2,359)	(2,316)	(2,221)
All other	(2,197)	(2,271)	(2,844)	(2,899)	(2,904)
Total loans and leases charged off	(17,019)	(26,719)	(25,027)	(42,192)	(89,398)
Recoveries:					
Commercial and industrial	1,833	2,035	2,298	3,517	7,096
Real estate					
Consumer mortgages	1,694	2,693	3,267	5,067	1,836
Home equity	506	639	625	607	496
Agricultural	175	384	96	215	126
Commercial and industrial-owner occupied	544	2,834	1,112	2,724	2,696
Construction, acquisition and development	1,373	11,727	3,734	4,682	8,407
Commercial real estate	2,411	1,656	1,458	4,978	8,538
Credit cards	850	658	542	629	527
All other	911	1,108	1,102	1,043	1,024
Total recoveries	10,297	23,734	14,234	23,462	30,746
Net charge-offs	(6,722)	(2,985)	(10,793)	(18,730)	(58,652)
Provision charged to operating expense	4,000	(13,000)	-	7,500	28,000
Balance, end of period	\$ 123,736	\$ 126,458	\$ 142,443	\$ 153,236	\$ 164,466
Loans and leases, net of unearned income - average	\$ 10,557,103	\$ 9,995,005	\$ 9,308,680	\$ 8,671,441	\$ 8,719,399
Loans and leases, net of unearned					

Edgar Filing: BANCORPSOUTH INC - Form 10-K

income - period end	\$ 10,811,991	\$ 10,372,778	\$ 9,712,936	\$ 8,958,015	\$ 8,636,989
---------------------	---------------	---------------	--------------	--------------	--------------

RATIOS

Net charge-offs to average loans and leases	0.06%	0.03%	0.12%	0.22%	0.67%
Provision for credit losses to average loans and leases, net of unearned income	0.04%	-0.13%	0.00%	0.09%	0.32%
Allowance for credit losses to loans and leases, net of unearned income	1.14%	1.22%	1.47%	1.71%	1.90%

57

---

Net charge-offs increased \$3.7 million, or 125.2%, in 2016 compared to 2015, and decreased \$7.8 million, or 72.3%, in 2015 compared to 2014. Net charge-offs as a percentage of average loans and leases increased to 0.06% in 2016 compared to 0.03% in 2015 after having decreased from 0.12% in 2014. These increases in 2016 were primarily a result of decreased losses within the commercial and industrial segment being more than offset by the decreased recoveries in the real estate construction, acquisition and development segment of the Company' loan and lease portfolio.

A provision for credit losses of \$4.0 million was recorded in 2016 compared to a negative \$13.0 million provision recorded in 2015 and no provision recorded in 2014. While we experienced \$439.2 million in net loan growth when comparing December 31, 2016 to December 31, 2015, the low provision for credit losses in 2016 was a result of improving credit trends. The negative provision for credit losses in 2015 was a result of improving credit trends, including elevated recoveries. As of December 31, 2016 and 2015, 53% and 62%, 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 82% and 78% of their contractual principal balance at December 31, 2016 and 2015, respectively.

The allowance for credit losses decreased \$2.7 million to \$123.7 million at December 31, 2016 compared to \$126.5 million at December 31, 2015 after decreasing \$16.0 million from \$142.4 million at December 31, 2014. The decrease in the allowance for credit losses at December 31, 2016 compared to December 31, 2015 and 2014 was a result of improving credit metrics in 2016, including reductions in nonaccrual and impaired loans, and low net charge-off levels in 2016. 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" in 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 December 31 of each of the years indicated:

	2016		2015		2014	
	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	\$ 19,170	14.9 %	\$ 17,583	16.8 %	\$ 21,419	18.0 %
Real estate						
Consumer mortgages	30,386	24.4	33,198	23.8	40,015	23.2
Home equity	7,174	5.8	6,949	5.7	9,542	5.4
Agricultural	2,172	2.2	2,524	2.5	3,420	2.5



Edgar Filing: BANCORPSOUTH INC - Form 10-K

Commercial and industrial-owner occupied	12,899	16.3	14,607	15.5	16,325	15.6
Construction, acquisition and development	13,957	10.7	15,925	9.1	9,885	8.7
Commercial real estate	24,845	20.7	25,508	21.0	23,562	20.1
Credit cards	7,787	1.0	4,047	1.1	6,514	1.2
All other	5,346	4.0	6,117	4.5	11,761	5.3
Total	\$ 123,736	100.0 %	\$ 126,458	100.0 %	\$ 142,443	100.0 %

58

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	2013		2012	
	Allowance for Credit Loss (Dollars in thousands)	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
Commercial and industrial Real estate	\$ 18,376	17.1 %	\$ 23,286	17.1 %
Consumer mortgages	39,525	22.0	35,966	21.6
Home equity	5,663	5.5	6,005	5.6
Agricultural	2,800	2.6	3,301	3.0
Commercial and industrial-owner occupied	17,059	16.4	20,178	15.4
Construction, acquisition and development	11,828	8.3	21,905	8.5
Commercial real estate	43,853	20.5	40,081	20.2
Credit cards	3,782	1.2	3,611	1.2
All other	10,350	6.4	10,133	7.4
Total	\$ 153,236	100.0 %	\$ 164,466	100.0 %

Noninterest Revenue

The components of noninterest revenue for the years ended December 31, 2016, 2015 and 2014 and the percentage change between such years are shown in the following table:

	2016		2015		2014
	Amount (Dollars in thousands)	% Change	Amount	% Change	Amount
Mortgage banking excl. MSR market value adjustment	\$ 40,726	11.0 %	\$ 36,691	26.0 %	\$ 29,115
MSR and hedge market value adjustment	1,009	NM	(1,161)	(82.0)	(6,444)
Credit card, debit card and merchant fees	37,010	1.3	36,533	3.5	35,303
Deposit service charges	43,301	(7.4)	46,765	(7.6)	50,622
Securities gains, net	128	(5.9)	136	267.6	37
Insurance commissions	115,955	(0.7)	116,744	1.7	114,842
Trust income*	14,438	(1.8)	14,701	1.2	14,520
Annuity fees*	1,645	(18.4)	2,016	(29.9)	2,877
Brokerage commissions and fees*	5,086	(14.4)	5,943	(9.2)	6,543
Bank-owned life insurance	7,585	1.7	7,457	(15.7)	8,848
Other miscellaneous income	12,147	0.0	12,143	(5.7)	12,883
Total noninterest revenue	\$ 279,030	0.4 %	\$ 277,968	3.3 %	\$ 269,146

\*Included in wealth management revenue on the Consolidated Statements of Income

The Company's revenue from mortgage banking 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 mortgage revenue can be significantly affected by changes in the valuation of MSR's in changing interest rate environments, the Company began piloting a hedge of the change in fair value of its MSR's during the fourth quarter of 2015. The Company's normal practice is to originate mortgage loans for sale in the secondary market and to either retain or release the associated MSR's with the loan sold. The Company records MSR's at fair value for all loans sold on a servicing retained basis with subsequent adjustments to fair value of MSR's in accordance with FASB ASC 860. For

59

---

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

In the course of conducting the Company's mortgage banking activities of originating mortgage loans and selling those loans in the secondary market, various representations and warranties are made to the purchasers of the mortgage loans. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (i.e., make whole requests) if such failure cannot be cured by the Company within the specified period following discovery. During 2016, 25 mortgage loans totaling \$1.6 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately \$451,000 were recognized related to these repurchased and make whole loans. During 2015, 24 mortgage loans totaling approximately \$2.0 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately \$442,000 were recognized related to these repurchased and make whole loans.

At December 31, 2016, the Company had reserved approximately \$1.7 million for potential losses from representation and warranty obligations, compared to a reserve of approximately \$1.3 million at December 31, 2015. 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 banking 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 \$1.7 billion, \$1.4 billion and \$1.1 billion produced origination revenue of \$30.2 million, \$26.4 million and \$18.4 million for 2016, 2015 and 2014, respectively. The increase in mortgage origination revenue in 2016 compared to 2015 and in 2015 compared to 2014 was a direct result of the increase in mortgage loan origination volumes during 2016 compared to 2015 and during 2015 compared to 2014.

Revenue from the servicing process, another component of mortgage banking revenue, includes fees from the actual servicing of loans. Revenue from the servicing of loans was \$18.7 million, \$17.3 million and \$16.5 million for 2016, 2015 and 2014, respectively. Changes in the fair value of the Company's MSR's 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 MSR's while a decrease in mortgage interest rates typically results in a decrease in the fair value of MSR's. The fair value of MSR's is impacted by principal payments, prepayments, chargeoffs and payoffs on loans in the servicing portfolio. Decreases in value from principal payments, prepayments, chargeoffs and payoffs were \$8.2 million, \$7.0 million and \$5.8 million for 2016, 2015 and 2014, respectively. The Company began piloting a hedge of the change in fair value of its MSR's during the fourth quarter of 2015. The Company has historically not hedged the MSR asset. At December 31, 2016 there was a hedge in place designed to cover approximately 4% of the MSR value. The Company is susceptible to significant fluctuations in their value in changing interest rate environments. Reflecting this sensitivity to interest rates, the fair value of MSR's increased \$1.5 million in 2016, decreased \$1.2 million in 2015 and decreased \$6.4 million in 2014.



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table presents the Company's mortgage banking operations for 2016, 2015 and 2014:

	2016		2015		2014
	Amount (Dollars in thousands)	% Change	Amount	% Change	Amount
Production revenue:					
Origination	\$ 30,223	14.6 %	\$ 26,372	43.3 %	\$ 18,407
Servicing	18,734	8.2	17,318	5.0	16,501
Payoffs/Paydowns	(8,231)	17.6	(6,999)	20.8	(5,793)
Total	40,726	11.0	36,691	26.0	29,115
MSR and hedge market value adjustment	1,009	NM	(1,161)	(82.0)	(6,444)
Mortgage lending revenue	\$ 41,735	17.5	\$ 35,530	56.7	\$ 22,671
(Dollars in millions)					
Origination volume	\$ 1,652	14.7	\$ 1,440	37.1	\$ 1,050
Outstanding principal balance of mortgage loans serviced at year-end	\$ 6,385	6.2	\$ 6,011	5.7	\$ 5,687
NM=Not meaningful					

Credit card, debit card and merchant fees increased approximately \$477,000 in 2016 compared to 2015 and \$1.2 million from 2015 compared to 2014 as a result of new account volume and transaction volume experienced in 2016 and 2015.

Deposit service charge revenue decreased \$3.5 million in 2016 compared to 2015 and \$3.9 million in 2015 compared to 2014 due to modifications made on the calculation and assessment of overdraft fees during 2016 and 2015.

Net securities gains of approximately \$128,000, \$136,000 and \$37,000 were recorded in 2016, 2015 and 2014, respectively. These amounts reflected the sales and calls of securities from the available-for-sale portfolio. Insurance commissions remained relatively stable in 2016 compared to 2015 after increasing 1.7% in 2015 compared to 2014 as a result of new policies and growth from existing customers coupled with the revenue contributed by the acquisition of certain assets of Knox in April 2014.

Trust income remained relatively stable in 2016 compared to 2015 and in 2015 compared to 2014. Annuity fees decreased 18.4% in 2016 compared to 2015 after decreasing 29.9% in 2015 compared to 2014 as a result of less annuity sales during 2016 and 2015. Brokerage commissions and fees decreased 14.4% in 2016 compared to 2015 and 9.2% in 2015 compared to 2014 as a result of decreases in sales of all brokerage products. Bank-owned life insurance revenue increased in 2016 compared to 2015 after decreasing in 2015 compared to 2014. The Company recorded life insurance proceeds of approximately \$321,000, approximately \$38,000 and \$1.3 million during 2016, 2015 and 2014, respectively.

Other miscellaneous income includes safe deposit box rental income, gain or loss on disposal of assets, and other miscellaneous items. Other miscellaneous income remained stable in 2016 compared to 2015. Other miscellaneous

income decreased approximately \$740,000 in 2015 compared to 2014 as a result of decreases in miscellaneous other investment income and losses recorded on the sale and disposal of fixed assets.

#### Noninterest Expense

The components of noninterest expense for the years ended December 31, 2016, 2015 and 2014 and the percentage change between years are shown in the following table:

61

---

	2016		2015		2014	
	Amount	% Change	Amount	% Change	Amount	
	(Dollars in thousands)					
Salaries and employee benefits	\$ 328,217	1.8 %	\$ 322,469	4.8 %	\$ 307,828	
Occupancy, net of rental income	41,088	(1.9)	41,866	1.3	41,345	
Equipment	14,046	(8.3)	15,309	(9.2)	16,869	
Deposit insurance assessments	9,915	4.3	9,509	16.1	8,190	
Regulatory settlement	10,277	100.0	-	-	-	
Advertising	5,044	17.6	4,288	(2.3)	4,388	
Foreclosed property expense	4,354	(41.3)	7,418	(56.5)	17,071	
Telecommunications	5,087	(2.7)	5,226	(7.1)	5,625	
Public relations	2,694	(2.7)	2,769	(32.5)	4,101	
Data processing	26,835	11.1	24,148	1.3	23,830	
Computer software	11,381	8.4	10,500	(0.2)	10,525	
Amortization of intangibles	3,635	(8.3)	3,963	(10.8)	4,443	
Legal fees	8,543	(71.8)	30,346	209.0	9,822	
Merger expense	2	(92.0)	25	(98.6)	1,761	
Postage and shipping	4,236	(6.6)	4,535	(4.4)	4,745	
Other miscellaneous expense	56,684	(1.5)	57,540	(0.6)	57,863	
Total noninterest expense	\$ 532,038	(1.5) %	\$ 539,911	4.1 %	\$ 518,406	

NM = not meaningful

Salaries and employee benefits increased \$5.7 million in 2016 compared to 2015 and increased \$14.6 million in 2015 compared to 2014. The increase in salaries and employee benefits in 2016 compared to 2015 was primarily related to the increase in group health insurance costs coupled with salaries related to the slight increase in headcount. Pension expense, a component of salaries and employee benefits expense, decreased in 2016 to \$13.8 million after increasing in 2015 to \$17.2 million from \$10.7 million in 2014. The decrease in pension expense in 2016 is due to annual revisions to actuarial assumptions, including updates to the Society of Actuaries pension plan mortality tables. Occupancy expense remained relatively stable in 2016, 2015 and 2014.

Equipment expense decreased in 2016 and 2015 as a result of a decrease in depreciation expense coupled with the Company's continued focus on controlling such expenses. The increase in deposit insurance assessments in 2016 compared to 2015 and in 2015 compared to 2014 was a result of movement evidenced in several variables utilized by the FDIC in calculating the deposit insurance assessment including the additional assessments related to the surcharge on all larger banks to bring the Deposit Insurance Fund reserve ratio to the statutory minimum.

A pre-tax charge of \$10.3 million was recorded during the first quarter of 2016 related to a regulatory settlement expense. No such expenses were recorded during 2015 or 2014.

Foreclosed property expense decreased in 2016 compared to 2015 as a result of the decrease of the overall balance of foreclosed property. During 2016, the Company added \$9.8 million to OREO through foreclosure. Sales of OREO in 2016 were \$14.2 million resulting in a net loss on sale of OREO of approximately \$436,000. The components of foreclosed property expense for the years ended December 31, 2016, 2015 and 2014 and the percentage change between years are shown in the following table:



Edgar Filing: BANCORPSOUTH INC - Form 10-K

	2016		2015		2014
	Amount	% Change	Amount	% Change	Amount
	(Dollars in thousands)				
Loss (gain) on sale of other real estate owned	\$ 436	NM %	\$ (295)	NM %	\$ 6,471
Writedown of other real estate owned	2,518	(58.0)	5,998	(25.7)	8,073
Other foreclosed property expense	1,400	(18.4)	1,715	(32.1)	2,527
Total foreclosed property expense	\$ 4,354	(41.3)%	\$ 7,418	(56.5)%	\$ 17,071

NM= Not meaningful

62

While the Company experienced some fluctuations in various components of other noninterest expense, including public relations and data processing, in 2016 compared to 2015, the primary fluctuations included the decrease in legal expenses. The decrease in legal expenses is a result of additional litigation reserves recorded in 2015 related to the agreement to settle the class action lawsuit.

#### Income Taxes

The Company recorded income tax expense of \$63.7 million in 2016 compared to an income tax expense of \$59.2 million in 2015 and an income tax expense of \$50.7 million in 2014. The increase in income tax expense in 2016 and 2015 was primarily a result of the increase in pre-tax income, which increased 5.2% and 11.6% in 2016 compared to 2015 and in 2015 compared to 2014, respectively. The primary differences between the Company's recorded expense for 2016, 2015 and 2014 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.

#### 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, 2016 were \$13.5 billion, or 92.0% of total assets, compared with \$12.7 billion, or 91.7% of total assets, at December 31, 2015.

#### Loans and Leases

The Bank's loan and lease portfolio represents the largest single component of the Company's earning asset base, comprising 80.3% of average earning assets during 2016. 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 \$10.8 billion at December 31, 2016, representing a 4.2% increase from \$10.4 billion at December 31, 2015.

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

2016	2015	2014	2013	2012
(In thousands)				

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Commercial and industrial Real estate	\$ 1,615,608	\$ 1,752,273	\$ 1,753,041	\$ 1,538,302	\$ 1,484,788
Consumer mortgages	2,643,966	2,472,202	2,257,726	1,976,073	1,873,875
Home equity	628,846	589,752	531,374	494,339	486,074
Agricultural	245,377	259,360	239,616	234,576	256,196
Commercial and industrial-owner occupied	1,764,265	1,617,429	1,522,536	1,473,320	1,333,103
Construction, acquisition and development	1,157,248	945,045	853,623	741,458	735,808
Commercial real estate	2,237,719	2,188,048	1,961,977	1,846,039	1,748,881
Credit cards	109,656	112,165	113,426	111,328	104,884
All other	432,827	468,052	516,221	578,453	649,143
Gross loans and leases (1)	\$ 10,835,512	\$ 10,404,326	\$ 9,749,540	\$ 8,993,888	\$ 8,672,752
Less: Unearned income	23,521	31,548	36,604	35,873	35,763
Net loans and leases	\$ 10,811,991	\$ 10,372,778	\$ 9,712,936	\$ 8,958,015	\$ 8,636,989

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table shows the Company's net loans and leases by collateral type as of December 31, 2016 by geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas	Louisiana	Mississippi	Missouri	Tennessee	Texas
Commercial and industrial	\$ 150,644	\$ 194,141	\$ 181,338	\$ 594,016	\$ 78,450	\$ 122,403	\$ 1,000,000
Real estate							
Consumer mortgages	349,488	320,160	229,038	833,535	87,015	305,512	490,000
Home equity	98,427	44,608	71,030	230,337	22,734	145,079	150,000
Agricultural	6,579	87,424	26,624	67,797	5,481	13,482	37,000
Commercial and industrial-owner occupied	200,929	191,826	206,321	713,548	45,248	147,034	250,000
Construction, acquisition and development	122,912	74,124	53,071	370,193	25,741	176,539	330,000
Commercial real estate	315,091	374,388	226,718	558,378	199,968	190,228	370,000
Credit cards*	-	-	-	-	-	-	-
All other	55,318	43,212	25,540	209,058	3,511	24,898	440,000
<b>Total</b>	<b>\$ 1,299,388</b>	<b>\$ 1,329,883</b>	<b>\$ 1,019,680</b>	<b>\$ 3,576,862</b>	<b>\$ 468,148</b>	<b>\$ 1,125,175</b>	<b>\$ 2,000,000</b>

\*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. Commercial and industrial loans outstanding decreased 7.8% from December 31, 2015 to December 31, 2016.

**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 25 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 7.0% from December 31, 2015 to December 31, 2016. 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

64

---

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 6.6% from December 31, 2015 to December 31, 2016.

Real Estate – Agricultural - Agricultural loans include loans to purchase agricultural land and production lines secured by farm land. Agricultural loans outstanding decreased 5.4% from December 31, 2015 to December 31, 2016.

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 9.1% from December 31, 2015 to December 31, 2016.

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. The Bank generally engages in construction and development lending only in local markets served by its branches. Construction, acquisition and development loans increased 22.5% from December 31, 2015 to December 31, 2016.

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. 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.

At December 31, 2016, the Company had \$74.1 million in construction, acquisition and development loans that provided for the use of interest reserves with \$2.1 million recognized as interest income during 2016. There were no construction, acquisition and development loans with interest reserves that were on non-accrual status at December 31, 2016. Interest income would not be 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.

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.

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

estate-commercial loans increased 2.3% from December 31, 2015 to December 31, 2016.

Credit Cards - Credit cards include consumer and business MasterCard and Visa accounts. The Bank offers credit cards primarily to its deposit and loan customers. Credit card balances remained relatively stable, decreasing 2.2% from December 31, 2015 to December 31, 2016.

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 loans and leases decreased 6.4% from December 31, 2015 to December 31, 2016.

65

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

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, 2016:

	One Year or Less (In thousands)	One to Five Years	After Five Years
Commercial and industrial	\$ 599,139	\$ 774,571	\$ 238,585
Real estate			
Consumer mortgages	256,290	397,579	1,990,097
Home equity	71,921	289,834	267,091
Agricultural	44,203	48,129	153,045
Commercial and industrial-owner occupied	211,614	426,746	1,125,905
Construction, acquisition and development	574,928	305,944	276,376
Commercial real estate	200,129	706,050	1,331,540
Credit cards	109,656	-	-
All other	180,405	169,792	62,422
Total loans and leases, net of unearned income	\$ 2,248,285	\$ 3,118,645	\$ 5,445,061

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 changes in 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, 2016:

	Fixed Rate (In thousands)	Variable Rate
Loan and lease portfolio		
Due after one year	\$ 3,535,461	\$ 5,028,245

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





Edgar Filing: BANCORPSOUTH INC - Form 10-K

	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accrual loans and leases	\$ 71,812	\$ 83,028	\$ 58,052	\$ 92,173	\$ 207,241
Loans 90 days or more past due, still accruing	3,983	2,013	2,763	1,226	1,210
Restructured loans and leases, but accruing	26,047	9,876	10,920	27,007	25,099
Total NPLs	101,842	94,917	71,735	120,406	233,550
Other real estate owned	7,810	14,759	33,984	69,338	103,248
Total NPAs	\$ 109,652	\$ 109,676	\$ 105,719	\$ 189,744	\$ 336,798
NPLs to net loans and leases	0.94%	0.92%	0.74%	1.34%	2.70%
NPAs to net loans and leases	1.01%	1.06%	1.09%	2.12%	3.90%

NPLs increased 7.3% in 2016 compared to 2015 and increased 32.3% in 2015 compared to 2014. Other real estate owned decreased 47.1% in 2016 compared to 2015 and decreased 56.6% in 2015 compared to 2014. Included in NPLs at December 31, 2016 were \$38.2 million of loans that were impaired. These impaired loans had a specific reserve of \$4.4 million included in the allowance for credit losses of \$123.7 million at December 31, 2016, and were net of \$8.3 million in partial charge-downs previously taken on these impaired loans. NPLs at December 31, 2015 included \$51.4 million of loans that were impaired and had a specific reserve of \$2.4 million included in the allowance for credit losses of \$126.5 million at December 31, 2015. While restructured loans and leases still accruing remained relatively stable in 2015 compared to 2014, the increase in restructured loans and leases still accruing in 2016 compared to 2015 reflected the increase in loans which met the criteria for disclosure as TDRs.

Non-accrual loans at December 31, 2016 reflected a decrease of \$11.2 million, or 13.5%, to \$71.8 million from \$83.0 million at December 31, 2015 after increasing \$25.0 million, or 43.0%, from \$58.1 million at December 31, 2014.

While non-accrual loans are decreasing in almost all loan categories when comparing December 31, 2016 to December 31, 2015, the primary decrease in non-accrual loans is recognized in the commercial real estate portfolio, as non-accrual loans in this portfolio decreased \$8.3 million, or 38.4% to \$13.4 million at December 31, 2016 after increasing \$9.8 million, or 82.4%, to \$21.7 million at December 31, 2015 from \$11.9 million at December 31, 2014. The decrease in non-accrual loans related to the commercial real estate portfolio was a result of paydowns on existing nonaccrual loans exceeding the addition of new nonaccrual loans.

The following table presents the Company's NPLs by geographical location at December 31, 2016:

Outstanding (Dollars in thousands)	90+ Days Past Due still Accruing	Non- accruing Loans	Restructured Loans, still accruing	NPLs	NPLs as a % of Outstanding
---------------------------------------	---	---------------------------	--	------	----------------------------------

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Alabama and Florida								
Panhandle	\$ 1,299,388	\$ 752	\$ 3,844	\$ 382	\$ 4,978	0.4	%	
Arkansas	1,329,883	282	7,783	3,210	11,275	0.8		
Louisiana	1,019,680	132	8,533	106	8,771	0.9		
Mississippi	3,576,862	1,658	39,583	17,619	58,860	1.6		
Missouri	468,148	52	781	-	833	0.2		
Tennessee	1,125,175	243	2,449	869	3,561	0.3		
Texas	1,781,610	198	8,543	3,060	11,801	0.7		
Other	211,245	666	296	801	1,763	0.8		
Total	\$ 10,811,991	\$ 3,983	\$ 71,812	\$ 26,047	\$ 101,842	0.9	%	

OREO decreased by \$7.0 million to \$7.8 million at December 31, 2016 compared to \$14.8 million at December 31, 2015, which was a decrease of \$19.2 million from \$34.0 million at December 31, 2014. The decrease in OREO in 2016 and 2015 was a result of sales of foreclosed properties exceeding new foreclosures. Writedowns were the result of

67

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 Bank continues 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. 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. 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 \$40.9 million and \$25.0 million at December 31, 2016 and 2015, respectively. Restructured loans of \$14.8 million and \$15.1 million were included in the non-accrual loan category at December 31, 2016 and 2015, respectively.

The total amount of interest earned on NPLs was \$1.9 million, \$4.7 million, \$3.9 million, \$6.2 million and \$4.3 million in 2016, 2015, 2014, 2013 and 2012, 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 \$5.4 million, \$6.7 million, \$5.3 million, \$7.3 million and \$15.6 million in 2016, 2015, 2014, 2013 and 2012, 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, excluding accruing TDRs, totaled \$38.2 million, \$51.4 million, \$28.1 million, \$54.9 million and \$156.7 million at December 31, 2016, 2015, 2014, 2013 and 2012, respectively, with a valuation allowance of \$4.4 million, \$2.4 million, \$1.5 million, \$4.1 million and \$10.5 million, respectively.

At December 31, 2016, 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, 2016:

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	December 31, 2016						
	Pass (In thousands)	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
Commercial and industrial Real estate	\$ 1,562,263	\$ -	\$ 41,618	\$ 100	\$ -	\$ 8,314	\$ 1,612,295
Consumer mortgages	2,579,905	522	61,602	282	-	1,655	2,643,966
Home equity	616,758	-	11,231	-	-	857	628,846
Agricultural	233,939	-	10,577	-	-	861	245,377
Commercial and industrial-owner occupied	1,705,266	3,668	47,010	-	-	8,321	1,764,265
Construction, acquisition and development	1,135,618	-	15,697	-	-	5,933	1,157,248
Commercial real estate	2,179,318	634	45,471	-	-	12,296	2,237,719
Credit cards	109,656	-	-	-	-	-	109,656
All other	405,611	-	7,008	-	-	-	412,619
Total	\$ 10,528,334	\$ 4,824	\$ 240,214	\$ 382	\$ -	\$ 38,237	\$ 10,811,991

In the normal course of business, management becomes aware of possible credit problems in which borrowers exhibit potential for the inability to comply with the contractual terms of their loans and leases, but which currently do not yet meet the criteria for disclosure as NPLs. However, based upon past experiences, some of these loans and leases with potential weaknesses will ultimately be restructured or placed in non-accrual status. At December 31, 2016, the Bank had \$5.2 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 4 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, 2016:

	Current (In thousands)	30-59 Days	60-89 Days	90+ Days	Total
		Past Due	Past Due	Past Due	
Pass	\$ 10,523,874	\$ 4,218	\$ 75	\$ 167	\$ 10,528,334
Special Mention	4,824	-	-	-	4,824
Substandard	188,454	19,391	10,408	21,961	240,214
Doubtful	294	-	-	88	382

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Loss	-	-	-	-	-
Impaired	12,295	1,735	1,284	22,923	38,237
Total	\$ 10,729,741	\$ 25,344	\$ 11,767	\$ 45,139	\$ 10,811,991

All loan grade categories except the Doubtful and Impaired categories increased at December 31, 2016 compared to December 31, 2015, specifically the Pass, Special mention and Substandard categories which increased

69

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

4.3%, 100.0% and 5.8%, respectively. Of the \$240.2 million of Substandard loans and leases, 78.5% remained current as to scheduled repayment of principal and interest, with only 9.1% having outstanding balances that were 90 days or more past due at December 31, 2016. Of the \$38.2 million of Impaired loans and leases, 32.2% remained current as to scheduled repayment of principal and/or interest, with 59.9% having outstanding balances that were 90 days or more past due at December 31, 2016.

The following table provides details regarding the aging of the Company's nonaccrual loans and leases by segment and class at December 31, 2016:

	30-59 Days Past Due (In thousands)	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Outstanding
Commercial and industrial Real estate	\$ 97	\$ 1,295	\$ 9,095	\$ 10,487	\$ 3,192	\$ 13,679
Consumer mortgages	1,787	2,901	11,615	16,303	4,781	21,084
Home equity	306	63	2,959	3,328	489	3,817
Agricultural	39	-	247	286	1,260	1,546
Commercial and industrial-owner occupied	948	14	4,342	5,304	5,487	10,791
Construction, acquisition and development	1,198	-	1,429	2,627	4,395	7,022
Commercial real estate	-	592	11,210	11,802	1,600	13,402
Credit cards	17	20	29	66	95	161
All other	25	-	230	255	55	310
Total	\$ 4,417	\$ 4,885	\$ 41,156	\$ 50,458	\$ 21,354	\$ 71,812

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.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

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, 2016:

Loans and leases, net of unearned income	Outstanding (Dollars in thousands)	90+ Days Past Due still Accruing	Non-accruing Loans	Restructured Loans, but Accruing	NPLs	NPLs as a % of Outstanding	
Commercial and industrial Real estate	\$ 1,612,295	\$ 58	\$ 13,679	\$ 10,181	\$ 23,918	1.5	%
Consumer mortgages	2,643,966	3,439	21,084	1,571	26,094	1.0	
Home equity	628,846	-	3,817	3	3,820	0.6	
Agricultural	245,377	-	1,546	76	1,622	0.7	
Commercial and industrial-owner occupied	1,764,265	-	10,791	3,888	14,679	0.8	
Construction, acquisition and development	1,157,248	14	7,022	244	7,280	0.6	
Commercial real estate	2,237,719	-	13,402	6,537	19,939	0.9	
Credit cards	109,656	472	161	739	1,372	1.3	
All other	412,619	-	310	2,808	3,118	0.8	
Total	\$ 10,811,991	\$ 3,983	\$ 71,812	\$ 26,047	\$ 101,842	0.9	%

Securities

The Company uses the Bank's securities portfolio to make various term investments, to provide a source of liquidity and to serve as collateral to secure certain types of deposits. The following tables show the carrying value of the Company's available-for-sale securities by investment category at December 31, 2016, 2015, and 2014:

	2016 (In thousands)	2015	2014
Available-for-sale securities:			
U.S. Government agency securities	\$ 1,789,427	\$ 1,244,640	\$ 1,215,054
U.S. Government agency issued residential mortgage-backed securities	176,243	140,540	209,230
U.S. Government agency issued commercial mortgage-backed securities	172,279	260,693	240,568
Taxable obligations of states and political subdivisions	49,174	64,088	90,343



Tax-exempt obligations of states and political subdivisions	310,831	353,411	393,521
FHLB and other securities	33,722	18,957	8,211
Total	\$ 2,531,676	\$ 2,082,329	\$ 2,156,927

A portion of the Company's securities portfolio continues to be tax exempt. Investments in tax-exempt securities totaled \$310.8 million at December 31, 2016, compared to \$353.4 million at the end of 2015 and \$393.5 million at the end of 2014. The Company invests only in investment grade securities, with the exception of obligations of certain counties and municipalities within the Company's market area, and avoids other high yield non-rated securities and investments.

71

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

At December 31, 2016, the Company's available-for-sale securities totaled \$2.5 billion. These securities, which are subject to possible sale, are recorded at fair value. At December 31, 2016, the Company held no securities whose decline in fair value was considered other than temporary.

The following table shows the maturities and weighted average yields at December 31, 2016 for the carrying value of the available-for-sale securities, excluding mortgage-backed securities:

	Securities Maturing				Total
	Within One Year	After One But Within Five Years	After Five But Within Ten Years	After Ten Years	
Available-for-sale securities:					
U.S. Government agency securities	\$ 527,435	\$ 1,261,992	\$ -	\$ -	\$ 1,789,427
Obligations of states and political subdivisions	20,912	64,334	54,418	220,341	360,005
FHLB and other securities	-	163	-	33,559	33,722
Total	\$ 548,347	\$ 1,326,489	\$ 54,418	\$ 253,900	\$ 2,183,154
Weighted average yield	0.96%	1.30%	5.71%	5.47%	

The yield on tax-exempt obligations of states and political subdivisions has been adjusted to a taxable equivalent basis using a 35% tax rate.

Net unrealized gains on available-for-sale securities as of December 31, 2016 totaled \$10.1 million. Net unrealized gains on available-for-sale securities as of December 31, 2015 totaled \$22.9 million.

The following table shows the available-for-sale securities portfolio by credit rating as obtained from Moody's Investors Services as of December 31, 2016:

Available-for-sale securities:	Amortized Cost		Estimated Fair Value	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Aaa	\$ 2,199,239	87.2%	\$ 2,195,592	86.7%
Aa1 to Aa3	116,676	4.6%	123,530	4.9%
A1 to A3	39,731	1.6%	41,540	1.6%
Not rated (1)	165,946	6.6%	171,014	6.8%
Total	\$ 2,521,592	100.0%	\$ 2,531,676	100.00%

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

Of the securities not rated by Moody's Investors Services, bonds with a book value of \$58.3 million and a market value of \$61.1 million were rated A- or better by Standard & Poor's Rating Services.

#### 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 2016. Based on this assessment, it was determined that the

72

---

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 2016.

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 \$300.8 million and \$291.5 million at December 31, 2016 and 2015, respectively.

#### Other Real Estate Owned

OREO was \$7.8 million and \$14.8 million at December 31, 2016 and 2015, respectively. OREO at December 31, 2016 had aggregate loan balances at the time of foreclosure of \$12.5 million. The following table presents the Company's OREO by collateral type at December 31, 2016 and 2015:

	December 31,	
	2016	2015
	(In thousands)	
Commercial and industrial Real estate	\$ -	\$ 84
Consumer mortgages	857	2,477
Home equity	39	101
Agricultural	22	25
Commercial and industrial-owner occupied	1,958	1,074
Construction, acquisition and development	3,746	10,212
Commercial real estate	1,128	678
All other	60	108
Total	\$ 7,810	\$ 14,759

Because of the relatively high number of the Bank's NPLs that have been determined to be collaterally dependent, management expects the resolution of a significant number of these loans to necessitate foreclosure proceedings resulting in further additions to OREO. While management expects future foreclosure activity in virtually all loan categories, the magnitude of NPLs in the consumer mortgage and commercial and industrial portfolios at December 31, 2016 indicated that a majority of additions to OREO in the near-term might be from those categories.

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

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

## Deposits and Other Interest Bearing Liabilities

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

The following table presents the Bank's noninterest bearing, interest bearing demand, savings and other time deposits at December 31, 2016, 2015 and 2014 and the percentage change between years:

	2016		2015		2014	
	Amount	% Change	Amount	% Change	Amount	
	(Dollars in millions)					
Noninterest bearing demand deposits	\$ 3,251	7.2 %	\$ 3,032	9.1 %	\$ 2,779	
Interest bearing demand deposits	5,034	0.6	5,004	2.8	4,868	
Savings	1,562	8.3	1,442	8.3	1,332	
Other time	1,841	(0.6)	1,853	(7.0)	1,993	
Total deposits	\$ 11,688	3.2	\$ 11,331	3.3	\$ 10,972	

The 3.2% increase in deposits at December 31, 2016 compared to December 31, 2015 was primarily a result of the increase in noninterest bearing demand deposits of \$219.0 million, or 7.2%, to \$3.3 billion at December 31, 2016 from \$3.0 billion at December 31, 2015 and the increase in savings deposits of \$119.5 million, or 8.3% to \$1.6 billion at December 31, 2016 from \$1.4 billion at December 31, 2015 more than offsetting the decrease in other time deposits of \$12.2 million, or 0.6%, to \$1.8 billion at December 31, 2016 from \$1.9 billion at December 31, 2015. The 3.3% increase in deposits at December 31, 2015 compared to December 31, 2014 was primarily a result of the increase in noninterest bearing demand deposits of \$252.8 million, or 9.1%, to \$3.0 billion at December 31, 2015 from \$2.8 billion at December 31, 2014 and the increase in savings deposits of \$110.4 million, or 8.3% to \$1.4 billion at December 31, 2015 from \$1.3 billion at December 31, 2014 more than offsetting the decrease in other time deposits of \$140.1 million, or 7.0%, to \$1.9 billion at December 31, 2015 from \$2.0 billion at December 31, 2014.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table presents the classification of the Bank's deposits on an average basis for three years ended December 31, 2016:

The following table presents the classification of the Bank's deposits on an average basis for the three years ended December 31, 2016:

	2016		2015		2014	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(Dollars in thousands)					
Noninterest bearing demand deposits	\$ 3,176,392	-	\$ 2,951,714	-	\$ 2,734,576	-
Interest bearing demand deposits	4,974,523	0.19%	4,871,767	0.18%	4,561,738	0.17%
Savings deposits	1,511,890	0.12%	1,399,572	0.12%	1,297,407	0.12%
Other time deposits	1,857,381	0.76%	1,926,514	0.77%	2,141,122	0.97%
Total deposits	\$ 11,520,186		\$ 11,149,567		\$ 10,734,843	

The Bank's other time deposits of \$100,000 and greater, including certificates of deposits of \$100,000 and greater, at December 31, 2016 had maturities as follows:

Maturing in	Amount (In thousands)
Three months or less	\$ 137,239
Over three months through six months	104,588
Over six months through 12 months	201,733
Over 12 months	526,046
Total	\$ 969,606

The average maturity of time deposits at December 31, 2016 was approximately 19.4 months, compared to approximately 17.6 months at December 31, 2015.

### Liquidity and Capital Resources

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

meet the Company's liquidity needs for normal operations over both the short-term and the long-term.

To provide additional liquidity, the Company utilizes short-term financing through the purchase of federal funds and securities sold under agreement to repurchase. All securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. Further, the Company maintains a borrowing relationship with the FHLB which provides access to short-term and long-term borrowings. The Company also has access to the Federal Reserve discount window and other bank lines. The Company had \$92.0 million of short-term borrowings from the FHLB or the Federal Reserve at December 31, 2016. The Company had \$62.0 million of short-term borrowings from the FHLB or the Federal Reserve at December 31, 2015. The Company had federal funds purchased and securities sold under agreement to repurchase of \$454.0 million and \$405.9 million at December 31, 2016 and 2015, respectively.

On August 8, 2013, the Company entered into a credit agreement (the "Credit Agreement") with U.S. Bank National Association ("U.S. Bank") as a lender and administrative agent, and First Tennessee Bank, National Association, as a lender. The Credit Agreement included an unsecured revolving loan of up to \$25.0 million that terminated and the outstanding balance of which was payable in full on August 8, 2015, which the bank did not renew, and an unsecured multi-draw term loan of up to \$60.0 million, which commitment terminated on February 28, 2014. The proceeds from the term loan were used to repurchase trust preferred securities. All principal and interest due under the Credit Agreement were repaid in full in October 2016.

75

---



The Company had no long-term borrowings from U.S. Bank at December 31, 2016 and \$39.8 million at December 31, 2015. The Company also had long-term borrowings from the FHLB totaling \$530.0 million and \$30.0 million at December 31, 2016 and 2015, respectively. The Company has pledged eligible mortgage loans to secure the FHLB borrowings and had \$3.7 billion in additional borrowing capacity under the existing FHLB borrowing agreement at December 31, 2016.

The Company had non-binding federal funds borrowing arrangements with other banks aggregating \$795.0 million at December 31, 2016. The unencumbered fair value of the Company's federal government and government agencies securities portfolio may provide substantial additional liquidity.

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

#### Off-Balance Sheet Arrangements

In the ordinary course of business, the Company enters into various off-balance sheet commitments and other arrangements to extend credit that are not reflected on the consolidated balance sheets of the Company. The business purpose of these off-balance sheet commitments is the routine extension of credit. As of December 31, 2016, commitments to extend credit included \$88.2 million for letters of credit and \$2.5 billion for interim mortgage financing, construction credit, credit card and other revolving line of credit arrangements. While most of the commitments to extend credit were made at variable rates, included in these commitments were forward commitments to fund individual fixed-rate mortgage loans of \$140.9 million at December 31, 2016, with a carrying value and fair value reflecting a gain of \$3.4 million, which has been recognized in the Company's results of operations. Fixed-rate lending commitments expose the Company to risks associated with increases in interest rates. As a method to manage these risks, the Company also enters into forward commitments to sell individual fixed-rate mortgage loans. At December 31, 2016, the Company had \$238.3 million in such commitments to sell, with a carrying value and fair value reflecting a gain of \$2.9 million, which has been recognized in the Company's results of operations. The Company also faces the risk of deteriorating credit quality of borrowers to whom a commitment to extend credit has been made; however, no significant credit losses are expected from these commitments and arrangements.

#### Regulatory Requirements for Capital

The Company is required to comply with the risk based capital guidelines established by the Federal Reserve. These guidelines apply a variety of weighting factors that vary according to the level of risk associated with the assets. Capital is measured in two "Tiers": Tier 1 consists of common shareholders' equity, qualifying non-cumulative perpetual preferred stock and minority interest in consolidated subsidiaries, less goodwill and certain other intangible assets; and Tier 2 consists of general allowance for losses on loans and leases, "hybrid" debt capital instruments and all or a portion of other subordinated capital debt, depending upon remaining term to maturity. Common equity Tier 1 capital generally consist of common stock (plus related additional paid in capital) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. Total capital is the sum of Tier 1 and Tier 2 capital. The required minimum ratio levels

to be considered “well capitalized” for the Company’s Common equity Tier 1 capital, Tier 1 capital, total capital, as a percentage of total risk-adjusted assets, and Tier 1 leverage capital (Tier 1 capital divided by total assets, less goodwill) are 6.5%, 8%, 10% and 5%, respectively. The Company exceeded the required minimum levels for these ratios at December 31, 2016 and 2015 as follows:

76

---

	December 31, 2016		December 31, 2015	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
BancorpSouth, Inc.				
Common equity tier 1 capital (to risk-weighted assets)	\$ 1,467,979	12.23%	\$ 1,402,041	12.07%
Tier 1 capital (to risk-weighted assets)	1,480,867	12.34	1,425,239	12.27
Total capital (to risk-weighted assets)	1,605,257	13.38	1,552,280	13.37
Tier 1 leverage capital (to average assets)	1,480,867	10.32	1,425,239	10.61

The FDIC's capital based supervisory system for insured financial institutions categorizes the capital position for banks into five categories, ranging from "well capitalized" to "critically undercapitalized." For a bank to be classified as "well capitalized," the common equity Tier 1 capital, Tier 1 capital, total capital and leverage capital ratios must be at least 6.5%, 8%, 10% and 5%, respectively. The Bank met the criteria for the "well capitalized" category at December 31, 2016 and 2015 as follows:

	December 31, 2016		December 31, 2015	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
BancorpSouth Bank				
Common equity tier 1 capital (to risk-weighted assets)	\$ 1,311,542	10.94%	\$ 1,369,419	11.80%
Tier 1 capital (to risk-weighted assets)	1,311,542	10.94	1,369,419	11.80
Total capital (to risk-weighted assets)	1,435,932	11.97	1,496,460	12.90
Tier 1 leverage capital (to average assets)	1,311,542	9.17	1,369,419	10.23

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

#### Uses of Capital

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

On December 11, 2014, the Company announced a stock repurchase program whereby the Company could acquire up to an aggregate of 6% or 5,764,000 shares of its common stock in the open market at prevailing market prices or in privately negotiated transactions during the period between December 11, 2014 through November 30, 2016. The extent and timing of any repurchases depended on market conditions and other corporate, legal and regulatory considerations. Repurchased shares are held as authorized but unissued shares. These authorized but unissued shares are available for use in connection with the Company's stock option plans, other compensation programs, other transactions or for other corporate purposes as determined by the Company's Board of Directors. At December 31, 2015, 2,882,000 shares had been repurchased under this program. On January 27, 2016, the Company announced this stock repurchase plan was terminated. At the time of termination, 2,882,000 shares had been repurchased under this program.

On January 27, 2016, the Company announced a new stock repurchase program whereby the Company may acquire up to an aggregate of 7,000,000 shares of its common stock in the open market at prevailing market prices or in privately negotiated transactions during the period between January 27, 2016 through December 29, 2017. The extent and timing of any repurchases depends on market conditions and other corporate, legal and regulatory considerations. Repurchased shares are held as authorized but unissued shares. These authorized but unissued shares are available for

use in connection with the Company's stock option plans, other compensation programs, other transactions or for other corporate purposes as determined by the Company's Board of Directors. At December 31, 2016, 988,060 shares had been repurchased under this program

The Company assumed \$6.2 million in Junior Subordinated Debt Securities and the related \$6.0 million in trust preferred securities pursuant to the merger on December 31, 2004 with Business Holding Corporation. The Company also assumed \$6.7 million in Junior Subordinated Debt Securities and the related \$6.5 million in trust preferred securities pursuant to the merger on December 1, 2005 with American State Bank Corporation and \$18.5 million in Junior Subordinated Debt Securities and the related \$18.0 million in trust preferred securities pursuant to the merger on March 1, 2007 with City Bancorp. The Company redeemed \$8.2 million of the Junior Subordinated Debt Securities and \$8.0 million of the related trust preferred securities assumed in the City Bancorp merger at par on January 8, 2014. The Company redeemed the remaining \$10.3 million in Junior Subordinated Debt Securities and the related \$10.0 million in trust preferred securities assumed in the City Bancorp merger at par on December 14, 2016. The Company's remaining \$12.9 million in assumed trust preferred securities qualifies as Tier 1 capital at December 31, 2016 under Federal Reserve guidelines. On January 9, 2017, the remaining \$12.9 million in Junior Subordinated Debt securities were redeemed. See Note 11 to the Company's Consolidated Financial Statements included elsewhere in this Report for additional information regarding Junior Subordinated Debt Securities.

#### Contractual Obligations

The Company has contractual obligations to make future payments on debt and lease agreements. See Notes 9, 10, 11 and 23 to the Company's Consolidated Financial Statements included elsewhere in this Report for further disclosures regarding contractual obligations. The following table summarizes the Company's contractual obligations at December 31, 2016:

	Payment Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual obligations:	(In thousands)				
Deposit maturities	\$ 11,688,141	\$ 10,819,440	\$ 456,104	\$ 412,485	\$ 112
Junior subordinated debt	12,888	-	-	-	12,888
Long-term debt	530,000	-	530,000	-	-
Short-term FHLB and other borrowings	92,000	92,000	-	-	-
Operating lease obligations	27,397	6,939	8,689	5,464	6,305
Purchase obligations	31,893	16,139	11,497	3,757	500
Total contractual obligations	\$ 12,382,319	\$ 10,934,518	\$ 1,006,290	\$ 421,706	\$ 19,805

The Company's operating lease obligations represent short- and long-term operating lease and rental payments for facilities, certain software and data processing and other equipment. Purchase obligations represent obligations to purchase goods and services that are legally binding and enforceable on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts presented above primarily relate to certain contractual payments for services provided related to information technology.

### Certain Litigation and Other Contingencies

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

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions and potential transactions with numerous customers or applicants. From time to time, borrowers, customers, former employees and other third parties have brought actions against the Company or its subsidiaries, in some cases claiming substantial damages. Financial services companies are subject to the risk of class action litigation and, from time to time, the Company and its subsidiaries are subject to such actions brought against it.

78

---

Additionally, the Bank is, and management expects it to be, engaged in a number of foreclosure proceedings and other collection actions as part of its lending and leasing collections activities, which, from time to time, have resulted in counterclaims against the Bank. Various legal proceedings have arisen and may arise in the future out of claims against entities to which the Company is a successor as a result of business combinations. The Company's insurance has deductibles, and will likely not cover all such litigation or other proceedings or the costs of defense. The Company and its subsidiaries may also be subject to enforcement actions by federal or state regulators, including the Securities and Exchange Commission, the Federal Reserve, the FDIC, the Consumer Financial Protection Bureau, the Department of Justice, state attorneys general and the Mississippi Department of Banking and Consumer Finance.

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

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of the Company's 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 the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings and the potential loss, however, may turn out to be substantially higher than the amount accrued. Further, the Company's insurance has deductibles and will likely 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, if applicable, management believes that the litigation-related expense of \$3.5 million accrued as of December 31, 2016, which excludes amounts reserved for regulatory settlement expenses discussed below, is adequate and that any incremental liability arising from the Company's legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company's results of operations for a given fiscal period.

On January 5, 2016, the Bank entered into an agreement to settle a class action lawsuit filed on May 18, 2010 by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenged the manner in which overdraft fees were charged and the policies related to the posting order of debit card and ATM transactions. The suit also made a claim under Arkansas' consumer protection statute. The plaintiff was seeking to recover damages in an unspecified amount and equitable relief. As a result of this agreement, the Company recorded an expense of \$16.5 million in the fourth quarter of 2015, representing amounts to be paid in connection with the settlement, net of amounts the Company had already accrued for this legal proceeding in previous periods. The settlement was approved by the court on July 15, 2016. Pursuant to the Court's order preliminarily approving the settlement, in the first quarter of 2016 the amounts accrued for settlement were paid into settlement escrow funds.

On July 31, 2014, the Company, its Chief Executive Officer and Chief Financial Officer were named in a purported class-action lawsuit filed in the U.S. District Court for the Middle District of Tennessee on behalf of certain purchasers of the Company's common stock. The complaint was subsequently amended to add the former President and Chief Operating Officer. The complaint alleges that the defendants made misleading statements concerning the Company's expectation that it would be able to close two merger transactions within a specified time period and the Company's compliance with certain Bank Secrecy Act and anti-money laundering requirements. On July 10,

2015, the District Court granted in part and denied in part the defendants' motion to dismiss and dismissed the claims concerning the Company's expectations about the closing of the mergers. Class certification was granted by the District Court on April 21, 2016, and a petition for immediate appeal of the class certification was filed and was granted. Class certification was vacated by the U.S. Sixth Circuit Court of Appeals, and the case was remanded to the District Court for further proceedings. The plaintiff seeks an unspecified amount of damages and awards of costs and attorneys' fees and such other equitable relief as the District Court may deem just and proper. At this stage of the lawsuit, management cannot determine the probability of an unfavorable outcome to the Company as it is uncertain whether the lead Plaintiff will be successful in certifying a class on its second attempt and the exact amount of damages (should the District Court

79

---



grant class certification again) is uncertain. Although it is not possible to predict the ultimate resolution or financial liability with respect to the 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 June 29, 2016, the Bank, the CFPB and the DOJ agreed to a settlement set forth in a consent order (the "Consent Order") related to the joint investigation by the CFPB and the DOJ of the Bank's fair lending program during the period between January 1, 2011 and December 31, 2013. The Consent Order was signed by the United States District Court for the Northern District of Mississippi (the "District Court") on July 25, 2016. In the first quarter of 2016, the Bank reserved \$13.8 million to cover costs related to this matter, \$10.3 million of which was reflected as regulatory settlement expense and \$3.5 million of which was included in other noninterest expense. The settlement of this matter did not have a material financial impact on the second, third or fourth quarter 2016 financial results. For additional information regarding the terms of this settlement and the Consent Order, see the signed Consent Order and the Company's Current Report on Form 8-K filed on June 29, 2016 which is incorporated into this Report by reference.

#### Recent Pronouncements

In September 2014, the FASB issued an ASU regarding accounting for revenue from contracts with customers. This ASU implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally going to be effective on January 1, 2017; however, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606)—Deferral of the Effective Date" which deferred the effective date of ASU 2014-09 by one year to January 1, 2018. The Company is currently evaluating the potential impact of ASU 2014-09 on the financial statements.

In December 2014, the FASB issued an ASU regarding accounting for share-based payments. This ASU requires entities to apply existing guidance in Topic 718 to any performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The amendments in this update are effective for interim and annual periods beginning after December 15, 2015. This ASU did not have a material impact on the financial position and results of operations of the Company.

In February 2016, the FASB issued an ASU regarding accounting for leases. ASU 2016-02 requires all leases, except short-term leases, to be recognized on the lessee's balance sheet at commencement date as a lease liability for the obligation of lease payments and a right-of-use asset for the right to use/control a specified asset for the lease term. This ASU is effective for interim and annual periods beginning after December 15, 2018. This ASU is not expected to have a material impact on the financial position and results of operations of the Company.

In March 2016, the FASB issued an ASU regarding stock compensation and improvements to employee share-based payment accounting. This ASU changes five aspects of the accounting for share-based payment award transactions including 1) accounting for income taxes; 2) classification of excess tax benefits on the statement of cash flows; 3) forfeitures; 4) minimum statutory tax withholding requirements; 5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. This ASU is effective for interim and annual periods beginning after December 15, 2016. This ASU will not have a material impact on the financial position and results of operations of the Company.

In June 2016, the FASB issued an ASU regarding credit losses on financial instruments. This ASU will provide financial statement users with more information regarding the expected credit losses on financial instruments and other commitments to extend credit at each reporting date rather than the incurred loss impairment method. This ASU is effective for interim and annual periods after December 15, 2019. The Company is currently evaluating the potential impact of this ASU on the financial statements. A steering committee has been formed consisting of key employees to evaluate the changes that will need to be put into place to ensure an easy transition for when this ASU will take effect. Much progress has been made and management feels prepared to continue forward with the current documentation.

In August 2016, the FASB issued an ASU regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow items whose objective is to reduce existing diversity in practice. This ASU is effective for interim and annual periods after December 15, 2017. The

80

---

adoption of this ASU is not expected to have a material impact on the financial position and results of operations of the Company.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk reflects the risk of economic loss resulting from changes in interest rates and other relevant market prices. This risk of loss can be reflected in either reduced potential net interest revenue in future periods or diminished market values of financial assets.

The Company's market risk arises primarily from interest rate risk that is inherent in its lending, investment and deposit taking activities. Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest the Company earns on certain of its assets and owes on certain of its liabilities are established contractually for a period of time. Because market interest rates change over time, the Company is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. Several techniques might be used by a financial institution to minimize interest rate risk. One approach used by the Company is to periodically analyze its assets and liabilities and make future financing and investing decisions based on payment streams, interest rates, contractual maturities, repricing opportunities and estimated sensitivity to actual or potential changes in market interest rates. Such activities fall under the broad definition of asset/liability management. The Company's primary asset/liability management technique is the measurement of its asset/liability gap, that is, the difference between the amounts of interest-sensitive assets and liabilities that will be refinanced (repriced) during a given period. If the asset amount to be repriced exceeds the corresponding liability amount for a certain day, month, year or longer period, the Company is in an asset-sensitive gap position. In this situation, net interest revenue would increase if market interest rates rose or decrease if market interest rates fell. If, alternatively, more liabilities than assets will reprice, the Company is in a liability-sensitive position. Accordingly, net interest revenue would decline when rates rose and increase when rates fell. These examples assume that interest-rate changes for assets and liabilities are of the same magnitude, whereas actual interest-rate changes generally differ in magnitude for assets and liabilities.

Management seeks to manage interest rate risk through the utilization of various tools that include matching repricing periods for new assets and liabilities and managing the composition and size of the investment portfolio so as to reduce the risk in the deposit and loan portfolios, while at the same time maximizing the yield generated from the portfolio.

MSRs are sensitive to changes in interest rates. 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 Company began piloting a hedge of the change in fair value of its MSRs during the fourth quarter of 2015. The Company has historically not hedged the MSR asset. At December 31, 2016 there was a hedge in place designed to cover approximately 4% of the MSR value. The Company is susceptible to significant fluctuations in their value in changing interest rate environments.

The Company enters into interest rate swaps (derivative financial instruments) to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These instruments are reported at fair value and the value of these positions, which are offsetting, are recorded in other assets and other liabilities on the consolidated balance sheets.

The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates as of December 31, 2016. The expected maturity categories take into account repricing opportunities as well as contractual maturities. The fair value of loans, deposits and other borrowings are based on the discounted value of expected cash flows using a discount rate that is commensurate with the maturity. The fair value of securities is based on market prices or dealer quotes.

81

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	Principal Amount Maturing/Repricing in:							Fair value	
	2017	2018	2019	2020	2021	Thereafter	Total	December 31, 2016	
Rate-sensitive assets:	(Dollars in thousands)								
Fixed interest rate loans and leases	\$ 1,368,091	\$ 636,330	\$ 459,847	\$ 427,986	\$ 449,404	\$ 1,561,894	\$ 4,903,552	\$ 5,037,951	
Average interest rate	4.11%	4.18%	4.32%	5.23%	4.51%	4.04%	4.25%		
Variable interest rate loans and leases	\$ 4,674,383	\$ 292,586	\$ 496,554	\$ 349,301	\$ 202,436	\$ 60,106	\$ 6,075,366	\$ 5,945,532	
Average interest rate	4.22%	4.25%	4.22%	4.30%	4.26%	3.56%	4.22%		
Fixed interest rate securities	\$ 707,967	\$ 642,102	\$ 785,953	\$ 195,679	\$ 41,305	\$ 148,586	\$ 2,521,592	\$ 2,531,676	
Average interest rate	1.64%	1.57%	1.87%	2.87%	4.19%	3.79%	1.96%		
Other interest bearing assets	\$ 38,813	-	-	-	-	-	\$ 38,813	\$ 38,813	
Average interest rate	0.75%	-	-	-	-	-	0.75%		
Mortgage servicing rights (1)	-	-	-	-	-	-	\$ 65,263	\$ 65,263	
Rate-sensitive liabilities:									
Savings and interest bearing checking	\$ 6,596,289	-	-	-	-	-	\$ 6,596,289	\$ 6,596,289	
Average interest rate	0.18%	-	-	-	-	-	0.18%		
Fixed interest rate time deposits	\$ 972,614	\$ 274,928	\$ 181,176	\$ 181,906	\$ 230,579	\$ 112	\$ 1,841,315	\$ 1,857,506	
Average interest rate	0.43%	0.78%	1.23%	1.42%	1.41%	1.30%	0.78%		
Fixed interest rate borrowings	-	-	\$ 30,000	-	-	-	\$ 30,000	\$ 31,940	
Average interest rate	-	-	4.08%	-	-	-	4.08%		
Variable interest rate borrowings	\$ 1,058,890	-	-	-	-	-	\$ 1,058,890	\$ 1,060,335	
	0.49%	-	-	-	-	-	0.49%		

Average interest rate									
Rate-sensitive off balance sheet items:									
Commitments to extend credit for single family mortgage loans	\$ 140,940	-	-	-	-	-	\$ 140,940	\$	140,940
Average interest rate	4.00%	-	-	-	-	-	4.00%		
Forward contracts to sell individual fixed rate mortgage loans	\$ 238,310	-	-	-	-	-	\$ 238,310	\$	238,310
Average interest rate	3.23%	-	-	-	-	-	3.23%		
Interest rate swap position to receive	\$ 213,627	-	-	-	-	-	\$ 213,627	\$	15,876
Average interest rate	2.93%	-	-	-	-	-	2.93%		
Interest rate swap position to pay	\$ 213,627	-	-	-	-	-	\$ 213,627	\$	(15,990)
Average interest rate	5.65%	-	-	-	-	-	5.65%		

(1) MSRs represent a non-financial asset that is rate-sensitive in that its value is dependent upon the underlying mortgage loans being serviced that are rate-sensitive.

For additional information about the Company's market risk and its strategies for minimizing this risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Interest Rate Sensitivity" and "– Interest Rate Risk Management" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Securities."

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

## SELECTED QUARTERLY FINANCIAL DATA

## Summary of Quarterly Results

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
2016	(In thousands, except per share amounts)			
Interest revenue	\$ 117,972	\$ 119,423	\$ 122,340	\$ 123,444
Net interest revenue	111,159	112,316	114,590	115,387
Provision for credit losses	1,000	2,000	-	1,000
Income before income taxes	33,374	51,281	55,946	55,843
Income tax expense	10,825	16,589	18,129	18,173
Net income	22,549	34,692	37,817	37,670
Earnings per share: Basic	0.24	0.37	0.40	0.40
Diluted	0.24	0.37	0.40	0.40
Dividends per share	0.100	0.100	0.125	0.125
2015				
Interest revenue	\$ 113,497	\$ 114,630	\$ 118,201	\$ 118,050
Net interest revenue	106,073	107,309	111,070	111,230
Provision for credit losses	(5,000)	(5,000)	(3,000)	-
Income before income taxes	47,455	58,446	50,573	30,265
Income tax expense	15,189	18,733	16,230	9,096
Net income	32,266	39,713	34,343	21,169
Earnings per share: Basic	0.33	0.41	0.36	0.22
Diluted	0.33	0.41	0.36	0.22
Dividends per share	0.075	0.075	0.100	0.100

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2016.

The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting. That report appears on page 85 of this Report.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

BancorpSouth, Inc.:

We have audited BancorpSouth, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). BancorpSouth, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BancorpSouth, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BancorpSouth, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 27, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Jackson, Mississippi

February 27, 2017

85

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

BancorpSouth, Inc.:

We have audited the accompanying consolidated balance sheets of BancorpSouth, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BancorpSouth, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BancorpSouth, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Jackson, Mississippi

February 27, 2017



Consolidated Balance Sheets  
BancorpSouth, Inc. and Subsidiaries

December 31,  
2016

December 31,  
2015

(Dollars in thousands, except per share  
amounts)

ASSETS

Cash and due from banks	\$	184,152	\$	154,192
Interest bearing deposits with other banks		38,813		43,777
Available-for-sale securities, at fair value		2,531,676		2,082,329
Loans and leases		10,835,512		10,404,326
Less: Unearned income		23,521		31,548
Allowance for credit losses		123,736		126,458
Net loans and leases		10,688,255		10,246,320
Loans held for sale, at fair value		166,927		157,907
Premises and equipment, net		305,561		308,125
Accrued interest receivable		42,005		40,901
Goodwill		300,798		291,498
Other identifiable intangibles		21,894		20,545
Bank-owned life insurance		258,648		251,534
Other real estate owned		7,810		14,759
Other assets		177,849		186,775
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>14,724,388</b>	<b>\$</b>	<b>13,798,662</b>

LIABILITIES

Deposits:				
Demand: Noninterest bearing	\$	3,250,537	\$	3,031,528
Interest bearing		5,034,470		5,003,806
Savings		1,561,819		1,442,336
Other time		1,841,315		1,853,491
Total deposits		11,688,141		11,331,161
Securities sold under agreement to repurchase		454,002		405,937
Short-term borrowings		92,000		62,000
Accrued interest payable		3,975		3,071
Junior subordinated debt securities		12,888		23,198
Long-term debt		530,000		69,775
Other liabilities		219,499		248,076
<b>TOTAL LIABILITIES</b>		<b>13,000,505</b>		<b>12,143,218</b>

SHAREHOLDERS' EQUITY

Common stock, \$2.50 par value per share				
Authorized - 500,000,000 shares; Issued - 93,696,687 and 94,162,728 shares, respectively		234,242		235,407
Capital surplus		271,292		282,934
Accumulated other comprehensive loss		(50,937)		(41,825)
Retained earnings		1,269,286		1,178,928

Edgar Filing: BANCORPSOUTH INC - Form 10-K

TOTAL SHAREHOLDERS' EQUITY	1,723,883	1,655,444
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 14,724,388	\$ 13,798,662

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income BancorpSouth, Inc. and Subsidiaries	Year Ended December 31,		
	2016	2015	2014
INTEREST REVENUE:	(In thousands, except per share amounts)		
Loans and leases	\$ 440,677	\$ 419,813	\$ 404,559
Deposits with other banks	1,070	438	532
Available-for-sale securities:			
Taxable	25,191	26,308	27,755
Tax-exempt	11,625	13,075	14,462
Loans held for sale	4,616	4,744	2,949
Total interest revenue	483,179	464,378	450,257
INTEREST EXPENSE:			
Deposits:			
Interest bearing demand	9,246	8,820	7,851
Savings	1,826	1,703	1,614
Other time	14,162	14,837	20,675
Federal funds purchased and securities sold under agreement to repurchase	662	383	331
Long-term debt	3,082	2,285	2,463
Junior subordinated debt	747	667	659
Other	2	1	2
Total interest expense	29,727	28,696	33,595
Net interest revenue	453,452	435,682	416,662
Provision for credit losses	4,000	(13,000)	-
Net interest revenue, after provision for credit losses	449,452	448,682	416,662
NONINTEREST REVENUE:			
Mortgage banking	41,735	35,530	22,671
Credit card, debit card and merchant fees	37,010	36,533	35,303
Deposit service charges	43,301	46,765	50,622
Security gains, net	128	136	37
Insurance commissions	115,955	116,744	114,842
Wealth management	21,169	22,660	23,940
Other	19,732	19,600	21,731
Total noninterest revenue	279,030	277,968	269,146
NONINTEREST EXPENSE:			
Salaries and employee benefits	328,217	322,469	307,828
Occupancy, net of rental income	41,088	41,866	41,345
Equipment	14,046	15,309	16,869
Deposit insurance assessments	9,915	9,509	8,190
Regulatory settlement	10,277	-	-
Other	128,495	150,758	144,174
Total noninterest expense	532,038	539,911	518,406
Income before income taxes	196,444	186,739	167,402
Income tax expense	63,716	59,248	50,652
Net income	\$ 132,728	\$ 127,491	\$ 116,750

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Earnings per share: Basic	\$	1.41	\$	1.33	\$	1.22
Diluted	\$	1.41	\$	1.33	\$	1.21

See accompanying notes to consolidated financial statements.

88

---



Consolidated Statements of Comprehensive Income  
 BancorpSouth, Inc. and Subsidiaries

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net income	\$ 132,728	\$ 127,491	\$ 116,750
Other comprehensive (loss) income, net of tax			
Unrealized (losses) gains on securities	(7,897)	(5,847)	16,028
Pension and other postretirement benefits	(1,215)	7,708	(29,755)
Other comprehensive (loss) income	(9,112)	1,861	(13,727)
Comprehensive income	\$ 123,616	\$ 129,352	\$ 103,023

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders'  
Equity  
BancorpSouth, Inc. and  
Subsidiaries  
Years Ended December 31, 2016, 2015  
and 2014

	Common Stock Shares	Common Stock Amount	Capital Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	(Dollars in thousands, except per share amounts)					
Balance, December 31, 2013	95,231,691	\$ 238,079	\$ 312,900	\$ (29,959)	\$ 992,110	\$ 1,513,130
Net income	-	-	-	-	116,750	116,750
Change in fair value of available-for-sale securities, net of tax effect of \$9,951	-	-	-	16,028	-	16,028
Change in pension funding status, net of tax effect of (\$18,432)	-	-	-	(29,755)	-	(29,755)
Comprehensive income						103,023
Exercise of stock options	667,739	1,669	9,914	-	-	11,583
Income tax benefit from exercise of stock options	-	-	1,856	-	-	1,856
Recognition of stock compensation	385,113	963	238	-	-	1,201
Repurchase of stock	(29,640)	(74)	(637)	-	-	(711)
Cash dividends declared, \$0.25 per share	-	-	-	-	(24,023)	(24,023)
Balance, December 31, 2014	96,254,903	240,637	324,271	(43,686)	1,084,837	1,606,059
Net income	-	-	-	-	127,491	127,491
Change in fair value of available-for-sale securities, net of tax effect of (\$3,629)	-	-	-	(5,847)	-	(5,847)
Change in pension funding status, net of tax effect of \$4,774	-	-	-	7,708	-	7,708
Comprehensive income						129,352
Exercise of stock options	520,538	1,301	9,140	-	-	10,441
Income tax benefit from exercise of stock options	-	-	1,079	-	-	1,079
Recognition of stock compensation	383,215	958	11,393	-	-	12,351
Repurchase of stock	(2,995,928)	(7,489)	(62,949)	-	-	(70,438)
Cash dividends declared, \$0.35 per share	-	-	-	-	(33,400)	(33,400)

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Balance, December 31, 2015	94,162,728	235,407	282,934	(41,825)	1,178,928	1,655,444
Net income	-	-	-	-	132,728	132,728
Change in fair value of available-for-sale securities, net of tax effect of (\$4,903)	-	-	-	(7,897)	-	(7,897)
Change in pension funding status, net of tax effect of (\$752)	-	-	-	(1,215)	-	(1,215)
Comprehensive income						123,616
Exercise of stock options	146,396	366	2,407	-	-	2,773
Income tax benefit from exercise of stock options	-	-	1,484	-	-	1,484
Recognition of stock compensation	424,871	1,062	6,035	-	-	7,097
Repurchase of stock	(1,037,308)	(2,593)	(21,568)	-	-	(24,161)
Cash dividends declared, \$0.45 per share	-	-	-	-	(42,370)	(42,370)
Balance, December 31, 2016	93,696,687	\$ 234,242	\$ 271,292	\$ (50,937)	\$ 1,269,286	\$ 1,723,883

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows  
BancorpSouth, Inc. and Subsidiaries

Year Ended December 31,

2016                      2015                      2014

(In thousands)

Operating Activities:			
Net income	\$	132,728	\$ 127,491 \$ 116,750
Adjustment to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	4,000	(13,000)	-
Depreciation and amortization	25,629	26,288	27,272
Deferred taxes	10,521	(11,356)	(7,563)
Amortization of intangibles	3,636	3,963	4,443
Amortization of debt securities premium and discount, net	10,060	12,565	13,089
Share-based compensation expense	7,097	5,585	1,201
Security gains, net	(128)	(136)	(37)
Net deferred loan origination expense	(6,587)	(6,677)	(6,809)
Excess tax benefit from exercise of stock options	(1,484)	(1,079)	(1,856)
(Increase) decrease in interest receivable	(1,104)	1,084	165
Increase (decrease) in interest payable	904	(329)	(1,436)
Realized gain on mortgages sold	(56,047)	(46,058)	(31,941)
Proceeds from mortgages sold	1,698,588	1,468,729	914,084
Origination of mortgages held for sale	(1,651,981)	(1,440,411)	(920,689)
Loss on other real estate owned, net	2,954	5,703	14,545
Increase in bank-owned life insurance	(7,585)	(7,457)	(8,848)
Decrease in prepaid pension asset	-	-	26,263
Other, net	(27,705)	8,401	3,496
Net cash provided by operating activities	143,496	133,306	142,129
Investing Activities:			
Proceeds from calls and maturities of available-for-sale securities	419,197	415,795	584,260
Proceeds from sales of available-for-sale securities	35	1,110	-
Purchases of available-for-sale securities	(891,155)	(374,181)	(252,467)
Net increase in loans and leases	(449,100)	(663,573)	(803,858)
Purchases of premises and equipment	(25,091)	(30,401)	(17,211)
Proceeds from sale of premises and equipment	2,041	549	527
Acquisition of businesses, net of cash acquired	(11,197)	-	(7,060)
Proceeds from sale of other real estate owned	13,719	20,723	35,264
Purchases of bank-owned life insurance, net of proceeds from death benefits	470	2,999	1,206
Other, net	(156)	(25)	(20)
Net cash used in investing activities	(941,237)	(627,004)	(459,359)
Financing Activities:			
Net increase in deposits	356,980	358,822	198,503

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Net increase (decrease) in short-term borrowings and other liabilities	78,056	76,254	(32,877)
Redemption of junior subordinated debt securities	(10,310)	-	(8,248)
Advances of long-term debt	500,000	-	8,000
Repayment of long-term debt	(39,775)	(8,373)	(8,066)
Issuance of common stock	2,773	10,441	11,583
Repurchase of common stock	(24,161)	(70,438)	(711)
Excess tax benefit from exercise of stock options	1,484	1,079	1,856
Payment of cash dividends	(42,310)	(33,368)	(23,983)
Net cash provided by financing activities	822,737	334,417	146,057
Increase (decrease) in Cash and Cash Equivalents	24,996	(159,281)	(171,173)
Cash and Cash Equivalents at Beginning of Year	197,969	357,250	528,423
Cash and Cash Equivalents at End of Year	\$ 222,965	\$ 197,969	\$ 357,250

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

BancorpSouth, Inc. and Subsidiaries

December 31, 2016, 2015 and 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of BancorpSouth, Inc. (the “Company”) have been prepared in conformity with U.S. GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates. The Company’s subsidiaries are engaged in the business of banking, insurance, brokerage and other activities closely related to banking. The Company and its subsidiaries are subject to the regulations of certain federal and state regulatory agencies and undergo periodic examinations by those regulatory agencies. The following is a summary of the Company’s more significant accounting and reporting policies. Certain 2015 and 2014 amounts have been reclassified to conform with the 2016 presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, BancorpSouth Bank and its wholly owned subsidiaries (the “Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Flow Statements

Cash equivalents include cash and amounts due from banks, including interest bearing deposits with other banks. The Company paid interest of \$28.8 million, \$29.0 million and \$35.0 million and income taxes of \$47.4 million, \$78.4 million and \$60.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Loans and leases of \$17.0 million, \$26.7 million and \$25.0 million were charged-off during 2016, 2015 and 2014, respectively. Unsettled purchases of securities were \$10.0 million at December 31, 2014. There were no unsettled purchases of securities at December 31, 2016 and 2015. Loans foreclosed and transferred to OREO were \$9.8 million, \$7.4 million and \$14.7 million during 2016, 2015 and 2014, respectively. Loans to facilitate the sale of other real estate owned were approximately \$541,000, \$1.5 million and \$4.4 million for the years ended December 31, 2016, 2015 and 2014, respectively. The MSR and hedge market value adjustment was \$1.0 million, (\$1.2) million and (\$6.4) million for the years ended December 31, 2016, 2015 and 2014, respectively.

Securities

Securities are classified as either held-to-maturity, trading or available-for-sale. Held-to-maturity securities are debt securities for which the Company has the ability and management has the intent to hold to maturity. They are reported at amortized cost. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. They are reported at fair value, with unrealized gains and losses included

in earnings. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities. They are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, as a separate component of shareholders' equity until realized. Gains and losses on securities are determined on the identified certificate basis. Amortization of premium and accretion of discount are computed using the interest method.

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, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. 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. Also, the security is written to fair value if intent or ability is not to hold for recovery.

## Securities Purchased and Sold Under Agreements to Resell or Repurchase

Securities purchased under agreements to resell are accounted for as short-term investments and securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were acquired or sold plus accrued interest. The securities pledged as collateral are generally U.S. government and federal agency securities.

## Loans and Leases

Loans and leases are recorded at the face amount of the notes reduced by collections of principal. Loans and leases include net unamortized deferred origination costs and fees. Net deferred origination costs and fees are recognized as a component of income using the effective interest method. In the event of a loan pay-off, the remaining net deferred origination costs and fees are automatically recognized into income and/or expense. Where doubt exists as to the collectibility of the loans and leases, interest income is recorded as payment is received. Interest is recorded monthly as earned on all other loans.

Loans of \$500,000 or more that are identified as impaired loans are reviewed by the impairment group which approves the amount of specific reserve, if any, and/or chargeoff amounts. The impairment evaluation of real estate loans generally focuses on the fair value of underlying collateral less costs to sell 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.

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 received from outside appraisers, 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 and/or chargeoffs 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, 2016, impaired loans, excluding accruing TDRs totaled \$38.2 million, which was net of cumulative charge-offs of \$8.3 million. Additionally, the Company had specific reserves of \$4.4 million included in the allowance for credit losses. Impaired loans at December 31, 2016 were primarily from the Company's commercial real estate portfolio. Impaired loan charge-offs are determined necessary when management determines that the amount is not likely to be collected.



When a guarantor is relied upon as a source of repayment, the Company analyzes 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.

The Bank's policy provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless the loan or lease is both well-secured and in the process of collection. Once placed in non-accrual status, all accrued but uncollected interest related to the current fiscal year is reversed against the appropriate interest and fee

income on loans and leases account with any accrued but uncollected interest related to prior fiscal years reversed against the allowance for credit losses account.

In the normal course of business, management grants concessions to borrowers, which would not otherwise be considered, where the borrowers are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified time, the rescheduling of payments in accordance with a bankruptcy plan. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. 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. During 2016, the most common concessions involved rescheduling payments of principal and interest over a longer amortization period, granting a period of reduced principal payment or interest only payment for a limited time period, or the rescheduling of payments in accordance with a bankruptcy plan.

### Provision and Allowance for Credit Losses

The provision for credit losses is the periodic cost (or credit) of providing an allowance or reserve for estimated probable incurred losses on loans and leases. The Bank's Board of Directors has appointed a Credit Committee, composed of senior management and loan administration staff, which meets on a quarterly basis and more frequently if required 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 incurred losses that may exist in various segments of performing loans and leases based upon historical net loss experience; (2) specifically identified losses in individually analyzed credits; and (3) qualitative factors that address estimates of incurred losses not fully identified by historical net loss experience. 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. Estimates of incurred losses are influenced by the historical net losses experienced by the Bank for loans and leases of comparable creditworthiness and structure. Specific loss assessments are performed for loans and leases classified as impaired loans based upon the collateral protection or expected future cash flows to determine the amount of impairment under FASB ASC 310. In addition, qualitative factors such as changes in economic conditions, concentrations of risk, 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 estimated incurred loan 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.

The impairment group is responsible for evaluating individual loans that have been specifically identified as impaired loans 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 greater than \$500,000 and it is probable that the Company will be unable to

collect the contractual principal and interest on the loan and all loans restructured in a TDR. The impairment group also evaluates the circumstances surrounding the loan in order to determine the most appropriate method for measuring the impairment of the loan was used (i.e., present value of expected future cash flows, observable market price or fair value of the underlying collateral if the loan is collateral dependant). The impairment group meets on a monthly basis.

If concessions are granted to a borrower as a result of its financial difficulties, the loan is classified as a TDR and an impaired loan, with the amount of impairment, if any, determined as discussed above. TDRs are reserved in accordance with FASB ASC 310. Should the borrower's financial condition, collateral protection or performance deteriorate, warranting reassessment of the loan rating or impairment, additional reserves and/or chargeoffs may be required.

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. In addition, bank regulatory agencies periodically review the Bank’s allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further loan charge-offs, based on judgments different than those of management.

#### Loans Held for Sale

In the second quarter of 2014 the Company elected to carry loans held for sale at fair value. The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Loans held for sale are subjected to recurring fair value adjustments. Loan sales are recognized when the transaction closes, the proceeds are collected, ownership is transferred and, through the sales agreement, continuing involvement consists of the right to service the loan for a fee for the life of the loan, if applicable. Gains and losses on the sale of loans held for sale are recorded as part of mortgage banking revenue on the consolidated statement of income.

In the course of conducting the Company’s mortgage banking 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. Every loan closed by the Bank’s mortgage center is run through a government agency automated underwriting system. Any exceptions noted during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (i.e., make whole requests) if such failure cannot be cured by the Company within the specified period following discovery. During 2016, 25 mortgage loans totaling \$1.6 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately \$451,000 were recognized related to these repurchased and make whole loans. During 2015, 24 loans totaling approximately \$2.0 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately \$442,000 were recognized related to these repurchased and make whole loans. During 2014, 21 mortgage loans totaling \$2.1 million were repurchased or otherwise settled as a result of underwriting and appraisal standard exceptions or make whole requests. Losses of approximately \$913,000 were recognized related to these repurchased and make whole loans. At December 31, 2016, the Company had reserved \$1.7 million for potential losses from representation and warranty obligations.

Government National Mortgage Association (“GNMA”) optional repurchase programs allow financial institutions to buy back individual delinquent mortgage loans that meet certain criteria from the securitized loan pool for which the institution provides servicing. At the servicer’s option and without GNMA’s prior authorization, the servicer may repurchase such a delinquent loan for an amount equal to 100% of the remaining principal balance of the loan. Under FASB ASC 860, this buy-back option is considered a conditional option until the delinquency criteria are met, at which time the option becomes unconditional. When the Company is deemed to have regained effective control over these loans under the unconditional buy-back option, the loans can no longer be reported as sold and must be brought back onto the consolidated balance sheet as loans held for sale, regardless of whether the Company intends to exercise the buy-back option. These loans are reported as held for sale in accordance with U.S. GAAP with the offsetting liability being reported as other liabilities. At December 31, 2016, the amount of loans subject to buy back was \$22.3 million.

### Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Provisions for depreciation and amortization, computed using straight-line methods, are charged to expense over the shorter of the lease term or the estimated useful lives of the assets. Costs of major additions and improvements are capitalized. Expenditures for routine maintenance and repairs are charged to expense as incurred.

### Other Real Estate Owned

Real estate acquired through foreclosure, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis 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. Any excess of the loan balance at the time of foreclosure over

the fair value of the real estate, less costs to sell, held as collateral is charged to the allowance for credit losses. Based upon management's evaluation of the real estate acquired through foreclosure, additional expense may be recorded and included in other noninterest expense when necessary in an amount sufficient to reflect any declines in estimated fair value. Gains and losses realized on the disposition of the properties are included in other noninterest expense.

#### Goodwill and Other Intangible Assets

Goodwill represents costs in excess of the fair value of net assets acquired in connection with purchase business combinations. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of FASB ASC 350, Intangibles – Goodwill and Other. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB ASC 360, Property, Plant and Equipment. Goodwill and other intangible assets are reviewed annually within the fourth quarter for possible impairment, or sooner if a goodwill impairment indicator is identified. If impaired, the asset is written down to its estimated fair value. No impairment charges have been recognized through December 31, 2016. See Note 8, Goodwill and Other Intangible Assets, for additional information.

#### Mortgage Servicing Rights

The Company recognizes as assets the rights to service mortgage loans for others, known as MSR's. The Company records MSR's at fair value for all loans sold on a servicing retained basis with subsequent adjustments to fair value of MSR's in accordance with FASB ASC 860. An estimate of the fair value of the Company's MSR's 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 MSR's 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 has historically not hedged the MSR asset. At December 31, 2016 there was a hedge in place designed to cover approximately 4% of the MSR value. The Company is susceptible to fluctuations in their value in changing interest rate environments. MSR's are included in the other assets category of the consolidated balance sheet. Changes in the fair value of MSR's are recorded as part of mortgage banking noninterest revenue on the consolidated statement of income.

#### Pension and Postretirement Benefits Accounting

The Company accounts for its defined benefit pension plans using an actuarial model as required by FASB ASC 715. This model uses an approach that allocates pension costs over the service period of employees in the plan. The Company also accounts for its other postretirement benefits using the requirements of FASB ASC 715. FASB ASC 715 requires the Company to recognize net periodic postretirement benefit costs as employees render the services necessary to earn their postretirement benefits. The principle underlying the accounting as required by FASB ASC 715 is that employees render service ratably over the service period and, therefore, the income statement effects of the Company's defined benefit pension and postretirement benefit plans should follow the same pattern. The Company accounts for the over-funded or under-funded status of its defined benefit and other 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.

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 31, 2016 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 4.10% for the Basic Plan, 3.94% for the Restoration Plan and 3.35% for the Supplemental Plan based on a December 31, 2016 measurement date.

In 2016, the Company changed the method it uses to estimate the service and interest cost components of net periodic benefit cost for the defined benefit pension plans. Historically, the Company estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company has elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the

benefit obligation to the relevant projected cash flows. The Company has made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change does not affect the measurement of the total benefit obligations as the change in the service cost and interest cost is completely offset in the actuarial (gain) loss reported. The Company has accounted for this change as a change in estimate and, accordingly, has accounted for it prospectively starting in 2016. The discount rates that the Company used to measure service and interest cost during 2016 were 4.62% and 3.77% for the Basic Plan, 4.46% and 3.45% for the Restoration Plan and 3.84% and 2.69% for the Supplemental Plan. The discount rates that the Company measured at year end and would have been used for service and interest cost under the prior estimation technique were 4.44% for the Basic Plan, 4.20% for the Restoration Plan and 3.40% for the Supplemental Plan. The reductions in service cost and interest cost for 2016 associated with this change in estimate for the three plans are \$648,000 and \$1,710,000, respectively. The diluted earnings per share impact for 2016 of this change in estimate is \$0.02. The Company measured benefit obligations using the most recent RP-2014 mortality tables and MP-2016 mortality improvement scale in selecting mortality assumptions as of December 31, 2016.

### Stock-Based Compensation

At December 31, 2016, the Company had three stock-based employee compensation plans. The Company recognizes compensation costs related to these stock-based employee compensation plans in accordance with FASB ASC 718, Compensation – Stock Compensation (“FASB ASC 718”). See Note 15, Stock Incentive and Stock Option Plans, for further disclosures regarding stock-based compensation.

### Derivative Instruments

The derivative instruments held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual, fixed-rate mortgage loans. The Company’s objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges.

The Company also enters into derivative financial instruments to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of December 31, 2016, the notional amount of customer related derivative financial instruments was \$213.6 million with an average maturity of 30.2 months, an average interest receive rate of 2.9% and an average interest pay rate of 5.6%.

### Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to



apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets and liabilities are included in the other assets and other liabilities category of the consolidated balance sheet as applicable.

#### Insurance Commissions

Commission income is recorded as of the effective date of insurance coverage or the billing date, whichever is later. Contingent commissions and commissions on premiums billed and collected directly by insurance companies are recorded as revenue when received, which is our first notification of amounts earned. The income effects of subsequent premium and fee adjustments are recorded when the adjustments become known.

97

---

## Recent Pronouncements

In September 2014, the FASB issued an ASU regarding accounting for revenue from contracts with customers. This ASU implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was originally going to be effective on January 1, 2017; however, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606)—Deferral of the Effective Date" which deferred the effective date of ASU 2014-09 by one year to January 1, 2018. The Company is currently evaluating the potential impact of ASU 2014-09 on the financial statements.

In December 2014, the FASB issued an ASU regarding accounting for share-based payments. This ASU requires entities to apply existing guidance in Topic 718 to any performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The amendments in this update are effective for interim and annual periods beginning after December 15, 2015. This ASU did not have a material impact on the financial position and results of operations of the Company.

In February 2016, the FASB issued an ASU regarding accounting for leases. ASU 2016-02 requires all leases, except short-term leases, to be recognized on the lessee's balance sheet at commencement date as a lease liability for the obligation of lease payments and a right-of-use asset for the right to use/control a specified asset for the lease term. This ASU is effective for interim and annual periods beginning after December 15, 2018. This ASU is not expected to have a material impact on the financial position and results of operations of the Company.

In March 2016, the FASB issued an ASU regarding stock compensation and improvements to employee share-based payment accounting. This ASU changes five aspects of the accounting for share-based payment award transactions including 1) accounting for income taxes; 2) classification of excess tax benefits on the statement of cash flows; 3) forfeitures; 4) minimum statutory tax withholding requirements; 5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. This ASU is effective for interim and annual periods beginning after December 15, 2016. This ASU will not have a material impact on the financial position and results of operations of the Company.

In June 2016, the FASB issued an ASU regarding credit losses on financial instruments. This ASU will provide financial statement users with more information regarding the expected credit losses on financial instruments and other commitments to extend credit at each reporting date rather than the incurred loss impairment method. This ASU is effective for interim and annual periods after December 15, 2019. The Company is currently evaluating the potential impact of this ASU on the financial statements. A steering committee has been formed consisting of key employees to evaluate the changes that will need to be put into place to ensure an easy transition for when this ASU will take effect. Much progress has been made and management feels prepared to continue forward with the current documentation to provide the necessary information for the new methods.

In August 2016, the FASB issued an ASU regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow items whose objective is to reduce existing diversity in practice. This ASU is effective for interim and annual periods after December 15, 2017. The adoption of this ASU is not expected to have a material impact on the financial position and results of operations of the Company.

(2) BUSINESS COMBINATIONS

During 2016, the Company had two insurance agency acquisitions which were not material to the operations of the Company. An insurance agency, headquarters in Metairie, LA, and an insurance agency, headquarters in Baton Rouge, LA, were acquired in May and December 2016, respectively. No acquisitions were made during the year ended December 31, 2015.

On April 10, 2014, the Company purchased certain assets of Knox Insurance Group, LLC (“Knox”), an independent insurance agency located in Lafayette, Louisiana. Consideration paid to complete this transaction consisted

98

---

of cash paid to Knox shareholders in the aggregate amount of \$7.0 million. The provisions of the related purchase agreement also provide for additional aggregate consideration of up to \$2.4 million in cash to be paid in three annual installments if certain performance criteria are met. As of December 31, 2016, the Company has paid approximately \$352,000 in cash under this agreement. This acquisition was not material to the financial position or results of operations of the Company.

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. As of December 31, 2016, the Company has paid \$4.6 million in cash under this agreement. This acquisition was not material to the financial position or results of operations of the Company.

### (3) AVAILABLE-FOR-SALE SECURITIES

A comparison of amortized cost and estimated fair values of available-for-sale securities as of December 31, 2016 and 2015 follows:

	2016			
	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies	\$ 1,794,231	\$ 1,261	\$ 6,065	\$ 1,789,427
U.S. Government agency issued residential mortgage-backed securities	176,476	1,665	1,898	176,243
U.S. Government agency issued commercial mortgage-backed securities	171,840	1,648	1,209	172,279
Obligations of states and political subdivisions	346,609	15,547	2,151	360,005
FHLB and other securities	32,436	1,286	-	33,722
Total	\$ 2,521,592	\$ 21,407	\$ 11,323	\$ 2,531,676
	2015			
	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies	\$ 1,246,261	\$ 826	\$ 2,447	\$ 1,244,640
U.S. Government agency issued residential mortgage-backed securities	138,759	1,957	176	140,540
U.S. Government agency issued commercial mortgage-backed securities	261,544	2,414	3,265	260,693
Obligations of states and political subdivisions	394,769	22,813	83	417,499
FHLB and other securities	18,112	845	-	18,957
Total	\$ 2,059,445	\$ 28,855	\$ 5,971	\$ 2,082,329

At December 31, 2016, the Company's available-for-sale securities included FHLB stock with a carrying value of \$32.3 million compared to a required investment of \$31.0 million. At December 31, 2015, the Company's available-for-sale securities included FHLB stock with a carrying value of \$18.0 million compared to a required investment of \$9.1 million. FHLB stock is carried at cost in the financial statements.

99

---

Gross gains of approximately \$128,000 and no gross losses were recognized in 2016, gross gains of approximately \$136,000 and no gross losses were recognized in 2015 and gross gains of approximately \$49,000 and gross losses of approximately \$12,000 were recognized in 2014 on available-for-sale securities. No other-than-temporary impairment was recorded in 2016, 2015 or 2014.

Available-for-sale securities with a carrying value of \$1.6 billion at December 31, 2016 were pledged to secure public and trust funds on deposit and for other purposes. Included in available-for-sale securities at December 31, 2016, were securities with a carrying value of \$183.0 million issued by a political subdivision within the State of Mississippi and securities with a carrying value of \$54.1 million issued by a political subdivision within the State of Arkansas.

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equity securities are considered as maturing after ten years.

	Amortized Cost (Dollars in thousands)	Estimated Fair Value	Weighted Average Yield	
Maturing in one year or less	\$ 548,060	\$ 548,347	0.96	%
Maturing after one year through five years	1,331,619	1,326,489	1.30	
Maturing after five years through ten years	53,517	54,418	5.71	
Maturing after ten years	240,080	253,900	5.47	
Mortgage-backed securities	348,316	348,522	2.13	
Total	\$ 2,521,592	\$ 2,531,676		

A summary of temporarily impaired available-for-sale investments with continuous unrealized loss positions at December 31, 2016 and 2015 follows:

	2016		2015		Total	
	Less Than 12 Months Fair Value (In thousands)	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 1,082,573	\$ 6,065	\$ -	\$ -	\$ 1,082,573	\$ 6,065
U.S. Government agency issued residential	71,599	1,783	15,375	115	86,974	1,898

mortgage-backed securities							
U.S. Government agency issued commercial mortgage-backed securities	129,940	1,084	14,385	125	144,325	1,209	
Obligations of states and political subdivisions	46,798	2,151	-	-	46,798	2,151	
Total	\$ 1,330,910	\$ 11,083	\$ 29,760	\$ 240	\$ 1,360,670	\$ 11,323	

2015

Less Than 12 Months

Fair Value Unrealized Losses

12 Months or Longer

Fair Value Unrealized Losses

Total

Fair Value Unrealized Losses

(In thousands)

U.S. Government agencies	\$ 762,568	\$ 2,447	\$ -	\$ -	\$ 762,568	\$ 2,447	
U.S. Government agency issued residential mortgage-backed securities	34,238	176	-	-	34,238	176	
U.S. Government agency issued commercial mortgage-backed securities	193,621	2,710	31,166	555	224,787	3,265	
Obligations of states and political subdivisions	13,576	70	2,856	13	16,432	83	
Total	\$ 1,004,003	\$ 5,403	\$ 34,022	\$ 568	\$ 1,038,025	\$ 5,971	

Based upon a review of the credit quality of these securities, and considering that the issuers were in compliance with the terms of the securities, management has no intent to sell these securities until the full recovery of unrealized losses, which may be until maturity, and it was more likely than not that the Company would not be required to sell the securities prior to recovery of costs. Therefore, the impairments related to these securities were determined to be temporary. No other-than-temporary impairment was recorded in 2016 or 2015.

#### (4) LOANS AND LEASES

The Company's loan and lease portfolio is disaggregated into the following segments: commercial and industrial; real estate; credit card; and all other. The real estate segment is further disaggregated into the following classes: consumer mortgage; home equity; agricultural; commercial and industrial-owner occupied; construction, acquisition and development and commercial. A summary of gross loans and leases by segment and class at December 31, 2016 and 2015 follows:

	2016	2015
Commercial and industrial	\$ 1,615,608	\$ 1,752,273
Real estate		
Consumer mortgages	2,643,966	2,472,202
Home equity	628,846	589,752
Agricultural	245,377	259,360
Commercial and industrial-owner occupied	1,764,265	1,617,429
Construction, acquisition and development	1,157,248	945,045
Commercial real estate	2,237,719	2,188,048
Credit cards	109,656	112,165
All other	432,827	468,052
Gross loans and leases (1)	\$ 10,835,512	\$ 10,404,326
Less: Unearned income	23,521	31,548
Net loans and leases	\$ 10,811,991	\$ 10,372,778

(1)Gross loans and leases are net of deferred fees and costs of approximately \$282,000 and (\$232,000) at December 31, 2016 and 2015, respectively.



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table shows the Company's loans and leases, net of unearned income, as of December 31, 2016 by geographical location:

	Alabama and Florida Panhandle (In thousands)	Arkansas	Louisiana	Mississippi	Missouri	Tennessee	Texas
Commercial and industrial	\$ 150,644	\$ 194,141	\$ 181,338	\$ 594,016	\$ 78,450	\$ 122,403	\$ 1,000,000
Real estate							
Consumer mortgages	349,488	320,160	229,038	833,535	87,015	305,512	490,000
Home equity	98,427	44,608	71,030	230,337	22,734	145,079	150,000
Agricultural	6,579	87,424	26,624	67,797	5,481	13,482	37,000
Commercial and industrial-owner occupied	200,929	191,826	206,321	713,548	45,248	147,034	250,000
Construction, acquisition and development	122,912	74,124	53,071	370,193	25,741	176,539	330,000
Commercial real estate	315,091	374,388	226,718	558,378	199,968	190,228	370,000
Credit cards*	-	-	-	-	-	-	-
All other	55,318	43,212	25,540	209,058	3,511	24,898	44,000
<b>Total</b>	<b>\$ 1,299,388</b>	<b>\$ 1,329,883</b>	<b>\$ 1,019,680</b>	<b>\$ 3,576,862</b>	<b>\$ 468,148</b>	<b>\$ 1,125,175</b>	<b>\$ 1,000,000</b>

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

There are no other loan and lease concentrations which exceed 10% of total loans and leases not already reflected in the preceding tables. A substantial portion of construction, acquisition and development loans are secured by real estate in markets in which the Company is located. The Company's loan policy generally prohibits the use of interest reserves. Certain of the construction, acquisition and development loans were structured with interest-only terms. A portion of the consumer mortgage and commercial real estate portfolios were originated through the permanent financing of construction, acquisition and development loans. Future economic distress could negatively impact borrowers' and guarantors' ability to repay their debt which will make more of the Company's loans collateral dependent.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables provide details regarding the aging of the Company's loan and lease portfolio, net of unearned income, at December 31, 2016 and 2015:

	2016				Current	Total Outstanding	90+ Days Past Due still Accruing	
	30-59 Days Past Due (In thousands)	60-89 Days Past Due	90+ Days Past Due	Total Past Due				
Commercial and industrial Real estate	\$ 3,231	\$ 1,610	\$ 9,150	\$ 13,993	\$ 1,598,302	\$ 1,612,295	58	
Consumer mortgages	12,393	6,785	15,054	34,232	2,609,734	2,643,966	3,439	
Home equity	2,771	670	2,959	6,400	622,446	628,846	-	
Agricultural	969	354	247	1,570	243,807	245,377	-	
Commercial and industrial-owner occupied	2,551	530	4,342	7,423	1,756,842	1,764,265	-	
Construction, acquisition and development	2,101	440	1,443	3,984	1,153,264	1,157,248	14	
Commercial real estate	312	933	11,211	12,456	2,225,263	2,237,719	-	
Credit cards	466	297	501	1,264	108,392	109,656	472	
All other	550	148	230	928	411,691	412,619	-	
Total	\$ 25,344	\$ 11,760	\$ 45,130	\$ 82,250	\$ 10,729,741	\$ 10,811,990	3,983	

	2015				Current	Total Outstanding	90+ Days Past Due still Accruing	
	30-59 Days Past Due (In thousands)	60-89 Days Past Due	90+ Days Past Due	Total Past Due				
Commercial and industrial Real estate	\$ 2,038	\$ 817	\$ 4,731	\$ 7,586	\$ 1,740,188	\$ 1,747,774	\$ 60	
Consumer mortgages	13,827	4,692	13,604	32,123	2,440,079	2,472,202	1,655	
Home equity	2,589	268	1,896	4,753	584,999	589,752	-	
Agricultural	176	139	-	315	259,045	259,360	-	
Commercial and industrial-owner occupied	1,189	3,105	4,034	8,328	1,609,101	1,617,429	-	
Construction, acquisition and development	1,017	207	2,409	3,633	941,412	945,045	-	
	2,840	187	6,286	9,313	2,178,735	2,188,048	-	

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Commercial real  
estate

Credit cards	420	343	323	1,086	111,079	112,165	298
All other	628	262	105	995	440,008	441,003	-
Total	\$ 24,724	\$ 10,020	\$ 33,388	\$ 68,132	\$ 10,304,646	\$ 10,372,778	\$ 2,013

103

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

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

**Pass:** Loans which are performing as agreed with few or no signs of weakness. These loans show sufficient cash flow, capital and collateral to repay the loan as agreed.

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

**Substandard:** Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration. Loans are further characterized by the possibility that the Company will sustain some loss if the deficiencies are not corrected.

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

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

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

The following tables provide details of the Company's loan and lease portfolio, net of unearned income, by segment, class and internally assigned grade at December 31, 2016 and 2015:

	December 31, 2016						Total
	Pass (In thousands)	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	
Commercial and industrial	\$ 1,562,263	\$ -	\$ 41,618	\$ 100	\$ -	\$ 8,314	1,612,295
Real estate							
Consumer mortgages	2,579,905	522	61,602	282	-	1,655	2,643,966
Home equity	616,758	-	11,231	-	-	857	628,846

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Agricultural	233,939	-	10,577	-	-	861	245,377
Commercial and industrial-owner occupied	1,705,266	3,668	47,010	-	-	8,321	1,764,265
Construction, acquisition and development	1,135,618	-	15,697	-	-	5,933	1,157,248
Commercial real estate	2,179,318	634	45,471	-	-	12,296	2,237,719
Credit cards	109,656	-	-	-	-	-	109,656
All other	405,611	-	7,008	-	-	-	412,619
Total	\$ 10,528,334	\$ 4,824	\$ 240,214	\$ 38	\$ 38	-\$ 38,23	\$ 10,811,991

(1) Impaired loans are shown exclusive of accruing troubled debt restructurings and \$2.2 million of non accruing TDRs.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

December 31, 2015							
	Pass	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
	(In thousands)						
Commercial and industrial	\$ 1,721,118	\$ -	\$ 19,529	\$ -	\$ -	\$ 7,127	\$ 1,747,774
Real estate							
Consumer mortgages	2,399,081	-	68,768	363	-	3,990	2,472,202
Home equity	577,539	-	10,418	-	-	1,795	589,752
Agricultural	250,579	-	7,909	-	-	872	259,360
Commercial and industrial-owner occupied	1,554,984	-	50,304	-	-	12,141	1,617,429
Construction, acquisition and development	920,372	-	17,090	-	-	7,583	945,045
Commercial real estate	2,124,448	-	45,658	161	-	17,781	2,188,048
Credit cards	112,165	-	-	-	-	-	112,165
All other	433,333	-	7,465	102	-	103	441,003
<b>Total</b>	<b>\$ 10,093,619</b>	<b>\$ -</b>	<b>\$ 227,141</b>	<b>\$ 626</b>	<b>\$ -</b>	<b>\$ 51,392</b>	<b>\$ 10,372,778</b>

(1) Impaired loans are shown exclusive of accruing troubled debt restructurings and \$2.6 million of non accruing TDRs.

Loans considered impaired under FASB ASC 310 are loans greater than \$500,000 for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement and all loans restructured in a TDR. The Company's recorded investment in loans considered impaired at December 31, 2016 and 2015 was \$38.2 million and \$51.4 million, respectively. At December 31, 2016 and 2015, \$12.9 million and \$15.0 million, respectively, of those impaired loans had a valuation allowance of \$4.4 million and \$2.4 million, respectively. The remaining balance of impaired loans of \$25.3 million and \$36.4 million at December 31, 2016 and 2015, respectively, have sufficient collateral supporting the collection of all contractual principal and interest or were charged down to the underlying collateral's fair value, less estimated selling costs. Therefore, such loans did not have an associated valuation allowance. Impaired loans that were characterized as TDRs totaled \$12.6 million and \$12.5 million at December 31, 2016 and 2015, respectively.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables provide details regarding impaired loans and leases, net of unearned income, which exclude accruing TDRs, by segment and class as of and for the year ended December 31, 2016 and 2015:

	December 31, 2016				
	Recorded Investment in Impaired Loans (1) (In thousands)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial and industrial	\$ 6,222	\$ 11,856	\$ -	\$ 6,394	\$ 72
Real estate					
Consumer mortgages	1,655	2,305	-	1,851	22
Home equity	857	1,600	-	1,176	9
Agricultural	861	919	-	440	8
Commercial and industrial-owner occupied	8,321	9,520	-	10,314	355
Construction, acquisition and development	4,803	4,803	-	5,379	4
Commercial real estate	2,646	2,646	-	4,391	94
All other	-	-	-	-	-
Total	\$ 25,365	\$ 33,649	\$ -	\$ 29,945	\$ 564
With an allowance:					
Commercial and industrial	\$ 2,092	\$ 2,092	\$ 1,837	\$ 1,190	\$ 20
Real estate					
Consumer mortgages	-	-	-	431	-
Home equity	-	-	-	367	1
Agricultural	-	-	-	352	-
Commercial and industrial-owner occupied	-	-	-	741	-
Construction, acquisition and development	1,130	1,130	35	739	10
Commercial real estate	9,650	9,650	2,481	9,868	203
All other	-	-	-	-	-
Total	\$ 12,872	\$ 12,872	\$ 4,353	\$ 13,688	\$ 234
Total:					
Commercial and industrial	\$ 8,314	\$ 13,948	\$ 1,837	\$ 7,584	\$ 92
Real estate					
Consumer mortgages	1,655	2,305	-	2,282	22
Home equity	857	1,600	-	1,543	10
Agricultural	861	919	-	792	8
Commercial and industrial-owner occupied	8,321	9,520	-	11,055	355
Construction, acquisition and development	5,933	5,933	35	6,118	14

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Commercial real estate	12,296	12,296	2,481	14,259	297
All other	-	-	-	-	-
Total	\$ 38,237	\$ 46,521	\$ 4,353	\$ 43,633	\$ 798

(1) Excludes \$2.2 million of non-accruing TDRs.

(

106

---



Edgar Filing: BANCORPSOUTH INC - Form 10-K

December 31, 2015

	Recorded Investment in Impaired Loans (1) (In thousands)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial and industrial	\$ 7,055	\$ 13,986	\$ -	\$ 3,749	\$ 95
Real estate					
Consumer mortgages	3,990	4,545	-	3,579	76
Home equity	1,795	1,795	-	744	7
Agricultural	322	380	-	142	6
Commercial and industrial-owner occupied	12,141	13,332	-	6,904	226
Construction, acquisition and development	5,969	6,052	-	3,553	25
Commercial real estate	5,017	6,879	-	7,944	202
All other	103	103	-	172	3
Total	\$ 36,392	\$ 47,072	\$ -	\$ 26,787	\$ 640
With an allowance:					
Commercial and industrial	\$ 72	\$ 383	\$ 78	\$ 3,635	\$ 84
Real estate					
Consumer mortgages	-	-	-	368	9
Home equity	-	-	-	668	15
Agricultural	550	550	159	47	-
Commercial and industrial-owner occupied	-	-	326	1,866	51
Construction, acquisition and development	1,614	1,614	677	300	-
Commercial real estate	12,764	13,185	1,110	3,582	44
All other	-	-	-	-	-
Total	\$ 15,000	\$ 15,732	\$ 2,350	\$ 10,466	\$ 203
Total:					
Commercial and industrial	\$ 7,127	\$ 14,369	\$ 78	\$ 7,384	\$ 179
Real estate					
Consumer mortgages	3,990	4,545	-	3,947	85
Home equity	1,795	1,795	-	1,412	22
Agricultural	872	930	159	189	6
Commercial and industrial-owner occupied	12,141	13,332	326	8,770	277
Construction, acquisition and development	7,583	7,666	677	3,853	25
Commercial real estate	17,781	20,064	1,110	11,526	246
All other	103	103	-	172	3
Total	\$ 51,392	\$ 62,804	\$ 2,350	\$ 37,253	\$ 843

(1) Excludes \$2.6 million of non accruing TDRs.



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables provide details regarding impaired loans and leases, net of unearned income, which include accruing TDRs, by segment and class as of and for the year ended December 31, 2016 and 2015:

	December 31, 2016				
	Recorded Investment in Impaired Loans (In thousands)	Unpaid Principal Balance of Impaired Loans	Related Allowance for Credit Losses	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial and industrial	\$ 6,222	\$ 11,856	\$ -	\$ 6,394	\$ 72
Real estate					
Consumer mortgages	1,655	2,305	-	1,851	22
Home equity	857	1,600	-	1,176	9
Agricultural	861	919	-	440	8
Commercial and industrial-owner occupied	8,321	9,520	-	10,314	355
Construction, acquisition and development	4,803	4,803	-	5,379	4
Commercial real estate	2,646	2,646	-	4,391	94
All other	-	-	-	-	-
Total	\$ 25,365	\$ 33,649	\$ -	\$ 29,945	\$ 564
With an allowance:					
Commercial and industrial	\$ 12,401	\$ 12,424	\$ 1,938	\$ 4,045	\$ 160
Real estate					
Consumer mortgages	2,453	2,734	300	2,241	55
Home equity	3	13	1	377	1
Agricultural	76	76	1	424	4
Commercial and industrial-owner occupied	4,937	5,406	103	4,643	124
Construction, acquisition and development	1,373	1,373	47	1,551	35
Commercial real estate	16,187	16,400	2,532	12,888	336
Credit cards	823	823	58	881	347
All other	2,890	2,927	23	1,894	78
Total	\$ 41,143	\$ 42,176	\$ 5,003	\$ 28,944	\$ 1,140
Total:					
Commercial and industrial	\$ 18,623	\$ 24,280	\$ 1,938	\$ 10,439	\$ 232
Real estate					
Consumer mortgages	4,108	5,039	300	4,092	77
Home equity	860	1,613	1	1,553	10
Agricultural	937	995	1	864	12
Commercial and industrial-owner occupied	13,258	14,926	103	14,957	479
Construction, acquisition and development	6,176	6,176	47	6,930	39
Commercial real estate	18,833	19,046	2,532	17,279	430

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Credit cards	823	823	58	881	347
All other	2,890	2,927	23	1,894	78
Total	\$ 66,508	\$ 75,825	\$ 5,003	\$ 58,889	\$ 1,704

108

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	December 31, 2015				
	Recorded	Unpaid	Related	Average	Interest
	Investment	Principal	Allowance	Recorded	Income
	in Impaired	Balance of	for Credit	Investment	Recognized
	Loans	Impaired	Losses		
	(In thousands)				
With no related allowance:					
Commercial and industrial Real estate	\$ 7,055	\$ 13,986	\$ -	\$ 3,749	\$ 95
Consumer mortgages	3,990	4,545	-	3,579	76
Home equity	1,795	1,795	-	744	7
Agricultural	322	380	-	142	6
Commercial and industrial-owner occupied	12,141	13,332	-	6,904	226
Construction, acquisition and development	5,969	6,052	-	3,553	25
Commercial real estate	5,017	6,879	-	7,944	202
All other	103	103	-	172	3
Total	\$ 36,392	\$ 47,072	\$ -	\$ 26,787	\$ 640
With an allowance:					
Commercial and industrial Real estate	\$ 968	\$ 1,294	\$ 181	\$ 4,251	\$ 114
Consumer mortgages	1,787	1,896	226	2,056	75
Home equity	20	30	3	674	15
Agricultural	586	586	162	56	-
Commercial and industrial-owner occupied	5,900	6,245	518	6,816	235
Construction, acquisition and development	3,328	3,328	721	1,759	42
Commercial real estate	13,616	14,250	1,217	7,802	187
Credit cards	939	939	34	1,024	102
All other	405	604	30	213	7
Total	\$ 27,549	\$ 29,172	\$ 3,092	\$ 24,651	\$ 777
Total:					
Commercial and industrial Real estate	\$ 8,023	\$ 15,280	\$ 181	\$ 8,000	\$ 209
Consumer mortgages	5,777	6,441	226	5,635	151
Home equity	1,815	1,825	3	1,418	22
Agricultural	908	966	162	198	6
Commercial and industrial-owner occupied	18,041	19,577	518	13,720	461
Construction, acquisition and development	9,297	9,380	721	5,312	67
Commercial real estate	18,633	21,129	1,217	15,746	389
Credit cards	939	939	34	1,024	102
All other	508	707	30	385	10
Total	\$ 63,941	\$ 76,244	\$ 3,092	\$ 51,438	\$ 1,417



NPLs consist of non-accrual loans and leases, loans and leases 90 days or more past due and still accruing, and loans and leases that have been restructured because of the borrower's weakened financial condition. The following table presents information concerning NPLs at December 31, 2016 and 2015:

	2016	2015
	(In thousands)	
Non-accrual loans and leases	\$ 71,812	\$ 83,028
Loans and leases 90 days or more past due, still accruing	3,983	2,013
Restructured loans and leases still accruing	26,047	9,876
Total	\$ 101,842	\$ 94,917

The Bank's policy for all loan classifications provides that loans and leases are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless such loan or lease is both well-secured and in the process of collection. At December 31, 2016, the Company's geographic NPL distribution was concentrated primarily in its Mississippi, Arkansas and Texas markets. The following table presents the Company's nonaccrual loans and leases by segment and class at December 31, 2016 and 2015:

	2016	2015
	(In thousands)	
Commercial and industrial	\$ 13,679	\$ 8,493
Real estate		
Consumer mortgages	21,084	21,637
Home equity	3,817	4,021
Agricultural	1,546	921
Commercial and industrial-owner occupied	10,791	16,512
Construction, acquisition and development	7,022	9,130
Commercial real estate	13,402	21,741
Credit cards	161	188
All other	310	385
Total	\$ 71,812	\$ 83,028

The total amount of interest earned on NPLs was \$1.9 million, \$4.7 million and \$3.9 million in 2016, 2015 and 2014, respectively. The gross interest income which would have been recorded under the original terms of those loans and leases amounted to \$5.4 million, \$6.7 million and \$5.3 million in 2016, 2015 and 2014, respectively.

In the normal course of business, management will sometimes grant concessions, which would not otherwise be considered, to borrowers that are experiencing financial difficulty. Loans identified as meeting the criteria set out in FASB ASC 310 are identified as TDRs. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan. In most cases, the conditions of the credit also warrant nonaccrual status, even

after the restructure occurs. Other conditions that warrant a loan being considered a TDR include reductions in interest rates to below market rates due to bankruptcy plans or by the bank in an attempt to assist the borrower in working through liquidity problems. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. TDRs recorded as non-accrual loans may generally be returned to accrual status in years after the restructure if there has been at least a six-month period of sustained repayment performance by the borrower in accordance with the terms of the restructured loan.

110

---



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables summarize the financial effect of TDRs for the years ended December 31, 2016 and 2015:

	December 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial Real estate	25	\$ 14,469	\$ 14,305
Consumer mortgages	16	1,429	1,354
Home equity	1	3	3
Agricultural	2	79	79
Commercial and industrial-owner occupied	10	4,344	4,331
Commercial real estate	5	8,931	6,702
All other	8	3,622	3,608
Total	67	\$ 32,877	\$ 30,382

:

	December 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial Real estate	11	\$ 1,472	\$ 1,452
Consumer mortgages	21	1,230	1,144
Home equity	1	20	20
Agricultural	3	37	36
Commercial and industrial-owner occupied	13	6,357	6,329
Construction, acquisition and development	3	217	215
Commercial real estate	9	12,565	12,144
All other	7	94	88
Total	68	\$ 21,992	\$ 21,428



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables summarize TDRs modified within 2016 and 2015 for which there was a payment default during the indicated year (i.e., 30 days or more past due at any given time during 2016 or 2015):

	Year Ended December 31, 2016	
	Number of	Recorded
	Contracts	Investment
	(Dollars in thousands)	
Commercial and industrial Real estate	8	\$ 3,804
Consumer mortgages	7	597
Commercial and industrial-owner occupied	2	532
Construction, acquisition and development	1	14
Commercial real estate	1	9,336
All other	2	20
Total	21	\$ 14,303

	Year Ended December 31, 2015	
	Number of	Recorded
	Contracts	Investment
	(Dollars in thousands)	
Commercial and industrial Real estate	1	\$ 84
Consumer mortgages	4	226
Agricultural	1	20
Commercial and industrial-owner occupied	1	517
Commercial real estate	2	197
Total	9	\$ 1,044

During 2016, 2015 and 2014, the most common concessions involved rescheduling payments of principal and interest over a longer amortization period, granting a period of reduced principal payment or interest only payment for a limited time period, or the rescheduling of payments in accordance with a bankruptcy plan or a reduction in interest rates.

(5) ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
	(In thousands)		
Balance at beginning of year	\$ 126,458	\$ 142,443	\$ 153,236
Provision charged to expense	4,000	(13,000)	-
Recoveries	10,297	23,734	14,234
Loans and leases charged off	(17,019)	(26,719)	(25,027)
Balance at end of year	\$ 123,736	\$ 126,458	\$ 142,443

112

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables summarize the changes in the allowance for credit losses by segment and class for the years ended December 31, 2016 and 2015:

	2016 Balance, Beginning of Period (In thousands)	Charge-offs	Recoveries	Provision	Balance, End of Period
Commercial and industrial	\$ 17,583	\$ (4,551)	\$ 1,833	\$ 4,305	\$ 19,170
Real estate					
Consumer mortgages	33,198	(2,687)	1,694	(1,819)	30,386
Home equity	6,949	(1,884)	506	1,603	7,174
Agricultural	2,524	(110)	175	(417)	2,172
Commercial and industrial-owner occupied	14,607	(1,095)	544	(1,157)	12,899
Construction, acquisition and development	15,925	(521)	1,373	(2,820)	13,957
Commercial real estate	25,508	(1,129)	2,411	(1,945)	24,845
Credit cards	4,047	(2,845)	850	5,735	7,787
All other	6,117	(2,197)	911	515	5,346
Total	\$ 126,458	\$ (17,019)	\$ 10,297	\$ 4,000	\$ 123,736

	2015 Balance, Beginning of Period (In thousands)	Charge-offs	Recoveries	Provision	Balance, End of Period
Commercial and industrial	\$ 21,419	\$ (10,022)	\$ 2,035	\$ 4,151	\$ 17,583
Real estate					
Consumer mortgages	40,015	(3,995)	2,693	(5,515)	33,198
Home equity	9,542	(1,204)	639	(2,028)	6,949
Agricultural	3,420	(33)	384	(1,247)	2,524
Commercial and industrial-owner occupied	16,325	(1,800)	2,834	(2,752)	14,607
Construction, acquisition and development	9,885	(1,039)	11,727	(4,648)	15,925
Commercial real estate	23,562	(3,723)	1,656	4,013	25,508
Credit cards	6,514	(2,632)	658	(493)	4,047
All other	11,761	(2,271)	1,108	(4,481)	6,117
Total	\$ 142,443	\$ (26,719)	\$ 23,734	\$ (13,000)	\$ 126,458



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables provide the allowance for credit losses by segment and class based on impairment status at December 31, 2016 and 2015:

	December 31, 2016			
	Recorded Balance of Impaired Loans (In thousands)	Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	Total Allowance
Commercial and industrial	\$ 8,314	\$ 1,837	\$ 17,333	\$ 19,170
Real estate				
Consumer mortgages	1,655	-	30,386	30,386
Home equity	857	-	7,174	7,174
Agricultural	861	-	2,172	2,172
Commercial and industrial-owner occupied	8,321	-	12,899	12,899
Construction, acquisition and development	5,933	35	13,922	13,957
Commercial real estate	12,296	2,481	22,364	24,845
Credit cards	-	-	7,787	7,787
All other	-	-	5,346	5,346
Total	\$ 38,237	\$ 4,353	\$ 119,383	\$ 123,736

	December 31, 2015			
	Recorded Balance of Impaired Loans (In thousands)	Allowance for Impaired Loans and Leases	Allowance for All Other Loans and Leases	Total Allowance
Commercial and industrial	\$ 7,127	\$ 78	\$ 17,505	\$ 17,583
Real estate				
Consumer mortgages	3,990	-	33,198	33,198
Home equity	1,795	-	6,949	6,949
Agricultural	872	159	2,365	2,524
Commercial and industrial-owner occupied	12,141	326	14,281	14,607
Construction, acquisition and development	7,583	677	15,248	15,925
Commercial real estate	17,781	1,110	24,398	25,508
Credit cards	-	-	4,047	4,047
All other	103	-	6,117	6,117
Total	\$ 51,392	\$ 2,350	\$ 124,108	\$ 126,458

Management evaluates impaired loans individually in determining the adequacy of the allowance for impaired loans. As a result of the Company individually evaluating loans of \$500,000 or greater for impairment, further review of

remaining loans collectively, as well as the corresponding potential allowance, would be immaterial in the opinion of management.

114

---



## (6) OTHER REAL ESTATE OWNED

The following table presents the activity in OREO for the years ended December 31, 2016 and 2015:

	2016	2015
	(In thousands)	
Balance at beginning of year	\$ 14,759	\$ 33,984
Additions to foreclosed properties		
New foreclosed properties	9,752	7,422
Reductions in foreclosed properties		
Sales including realized gains and losses, net	(14,183)	(20,649)
Writedowns for unrealized losses	(2,518)	(5,998)
Balance at end of year	\$ 7,810	\$ 14,759

Substantially all of these amounts related to construction, acquisition and development projects that were either completed or were in various stages of construction during the year presented. The following table presents the OREO by collateral type at December 31, 2016 and 2015:

	December 31,	
	2016	2015
	(In thousands)	
Commercial and industrial Real estate	\$ -	\$ 84
Consumer mortgages	857	2,477
Home equity	39	101
Agricultural	22	25
Commercial and industrial-owner occupied	1,958	1,074
Construction, acquisition and development	3,746	10,212
Commercial real estate	1,128	678
All other	60	108
Total	\$ 7,810	\$ 14,759

The Company incurred total foreclosed property expenses of \$4.4 million, \$7.4 million and \$17.1 million in 2016, 2015 and 2014, respectively. Realized net losses on dispositions and holding losses on valuations of these properties, a component of total foreclosed property expenses, were \$3.0 million, \$5.7 million and \$14.5 million in 2016, 2015 and 2014, respectively.



## (7) PREMISES AND EQUIPMENT

A summary by asset classification at December 31, 2016 and 2015 follows:

	Estimated Useful Life (Years)	2016	2015
		(In thousands)	
Land	N/A	\$ 78,941	\$ 78,908
Buildings and improvements	10-40	337,216	335,304
Leasehold improvements	10-39	10,603	10,795
Equipment, furniture and fixtures	3-12	291,842	279,854
Construction in progress	N/A	20,365	21,123
Subtotal		738,967	725,984
Accumulated depreciation and amortization		433,406	417,859
Premises and equipment, net		\$ 305,561	\$ 308,125

## (8) GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present the changes in the carrying amount of goodwill by operating segment for the years ended December 31, 2016 and 2015:

	2016		
	Community Banking	Insurance Agencies	Total
	(In thousands)		
Balance as of January 1, 2016	\$ 217,618	\$ 73,880	\$ 291,498
Goodwill recorded during the year	-	9,300	9,300
Balance as of December 31, 2016	\$ 217,618	\$ 83,180	\$ 300,798

	2015		
	Community Banking	Insurance Agencies	Total
	(In thousands)		
Balance as of January 1, 2015	\$ 217,618	\$ 73,880	\$ 291,498
Goodwill recorded during the year	-	-	-

Balance as of December 31, 2015     \$     217,618     \$     73,880     \$     291,498

The goodwill recorded in the Company's Insurance Agencies reporting segment during 2016 was related to insurance agencies acquired during the second quarter and fourth quarter of 2016. No additional goodwill was recorded during 2015.

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 unit's fair value was less than its carrying value during the fourth quarter of 2016. Based on this assessment, it was determined that each of the Company's reporting segment's 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 2016. The Company's annual goodwill impairment evaluation for 2015 also indicated no impairment of goodwill for its reporting

Edgar Filing: BANCORPSOUTH INC - Form 10-K

segments. The Company will continue to test reporting segment goodwill for potential impairment on an annual basis in the Company's fourth quarter, or sooner if a goodwill impairment indicator is identified.

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

The following tables present information regarding the components of the Company's other identifiable intangible assets as of December 31, 2016 and 2015 and for the three-year period ended December 31, 2016:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:	(In thousands)			
Core deposit intangibles	\$ 27,801	\$ 23,721	\$ 27,801	\$ 23,269
Customer relationship intangibles	46,568	30,406	49,639	34,922
Non-solicitation intangibles	1,850	886	1,650	1,042
Total	\$ 76,219	\$ 55,013	\$ 79,090	\$ 59,233
Unamortized intangible assets:				
Trade names	\$ 688	\$ -	\$ 688	\$ -

	Year Ended		
	December 31, 2016	2015	2014
Aggregate amortization expense for:	(In thousands)		
Core deposit intangibles	\$ 452	\$ 487	\$ 526
Customer relationship intangibles	2,890	3,101	3,492
Non-solicitation intangibles	294	375	425
Total	\$ 3,636	\$ 3,963	\$ 4,443

The following table presents information regarding estimated amortization expense of the Company's amortizable identifiable intangible assets for the year ending December 31, 2017, and the succeeding four years:

Core Deposit Intangibles	Customer Relationship Intangibles	Non-Solicitation Intangibles	Total
--------------------------	-----------------------------------	------------------------------	-------

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Estimated amortization expense:	(In thousands)			
For the year ending December 31, 2017	\$ 419	\$ 3,147	\$ 448	\$ 4,014
For the year ending December 31, 2018	390	2,696	419	3,505
For the year ending December 31, 2019	363	2,298	97	2,758
For the year ending December 31, 2020	340	1,844	-	2,184
For the year ending December 31, 2021	251	1,591	-	1,842

117

---

(9) TIME DEPOSITS AND SHORT-TERM DEBT

Certificates of deposit and other time deposits of \$100,000 or more amounting to \$969.6 million and \$910.2 million were outstanding at December 31, 2016 and 2015, respectively. Total interest expense relating to certificates of deposit and other time deposits of \$100,000 or more totaled \$8.7 million, \$8.7 million and \$11.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

For time deposits with a remaining maturity of more than one year at December 31, 2016, the aggregate amount of time deposits maturing in each of the following five years is presented in the following table:

Maturing in (In thousands)	Amount
2018	\$ 274,928
2019	181,176
2020	181,906
2021	230,580
2022	111
Thereafter	-
Total	\$ 868,701

The following tables present information relating to short-term debt for the years ended December 31, 2016, 2015 and 2014:

	2016				Maximum Outstanding at any Month End
	End of Period		Daily Average		
	Balance	Interest Rate	Balance	Interest Rate	
	(Dollars in thousands)				
Federal funds purchased	\$ -	- %	\$ 1,678	0.51 %	\$ -
Securities sold under agreement to repurchase	454,002	0.26	449,672	0.15	562,614
Short-term FHLB advances	92,000	0.55	4,658	0.44	92,000
Total	\$ 546,002		\$ 456,008		\$ 654,614

2015

	End of Period		Daily Average		Maximum Outstanding at any
	Balance	Interest Rate	Balance	Interest Rate	

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	Balance	Rate	Balance	Rate	Month End
	(Dollars in thousands)				
Federal funds purchased	\$ -	- %	\$ 10,066	0.17 %	\$ 25,000
Securities sold under agreement to repurchase	405,937	0.12	416,172	0.09	558,107
Short-term FHLB advances	62,000	0.31	45,122	0.37	224,500
Total	\$ 467,937		\$ 471,360		\$ 807,607

118

---



	2014				Maximum Outstanding at any Month End
	End of Period		Daily Average		
	Balance	Interest Rate	Balance	Interest Rate	
	(Dollars in thousands)				
Federal funds purchased	\$ -	- %	\$ 4,247	0.18 %	\$ 10,000
Securities sold under agreement to repurchase	388,166	0.08	436,875	0.07	569,163
Short-term FHLB advances	3,500	4.83	3,108	2.60	3,500
Total	\$ 391,666		\$ 444,230		\$ 582,663

Federal funds purchased generally mature the day following the date of purchase while securities sold under repurchase agreements generally mature within 30 days from the date of sale. Federal Reserve discount window borrowings generally mature within 90 days following the date of purchase and short-term FHLB borrowings generally mature within 30 days following the date of purchase. At December 31, 2016, the Bank had established non-binding federal funds borrowing lines of credit with other banks aggregating \$795.0 million.

#### (10) LONG-TERM DEBT

The Bank has entered into a blanket floating lien security agreement with the FHLB of Dallas. Under the terms of this agreement, the Bank is required to maintain sufficient collateral to secure borrowings in an aggregate amount of the lesser of 75% of the book value (i.e., unpaid principal balance) of the Bank's eligible mortgage loans pledged as collateral or 35% of the Bank's assets. At December 31, 2016, there were no call features on long-term FHLB borrowings.

At December 31, 2016, long term debt was repayable as follows:

Final due date	Interest rate	Amount
		(In thousands)
2018	variable	\$ 500,000
2019	4.08%	30,000
Total		\$ 530,000

On August 8, 2013, the Company entered into a Credit Agreement (the "Credit Agreement") with U.S. Bank National Association ("U.S. Bank") as a lender and administrative agent, and First Tennessee Bank, National Association, as a lender. The Credit Agreement included an unsecured revolving loan of up to \$25.0 million that terminated and the outstanding balance of which was payable in full on August 8, 2015, which the bank did not renew, and an unsecured

multi-draw term loan of up to \$60.0 million, which commitment terminated on February 28, 2014. The proceeds from the term loan were used to repurchase trust preferred securities. All principal and interest due under the Credit Agreement were repaid in full in October 2016.

The Company had no long-term borrowings from U.S. Bank and long-term borrowings from the FHLB totaling \$530.0 million at December 31, 2016. The Company had long-term borrowings from U.S. Bank totaling \$39.8 million and long-term borrowings from the FHLB totaling \$30.0 million at December 31, 2015.

#### (11) JUNIOR SUBORDINATED DEBT SECURITIES

Pursuant to the merger with Business Holding Corporation on December 31, 2004, the Company assumed the liability for \$6.2 million in Junior Subordinated Debt Securities issued to Business Holding Company Trust I, a statutory trust. Business Holding Company Trust I used the proceeds from the issuance of 6,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate ("LIBOR") plus 2.85%. The Company redeemed the \$6.2 million in Junior Subordinated Debt Securities and the \$6.0 million of related trust preferred securities issued to Business Holding Company Trust I at par on January 9, 2017.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Pursuant to the merger with American State Bank Corporation on December 1, 2005, the Company assumed the liability for \$6.7 million in Junior Subordinated Debt Securities issued to American State Capital Trust I, a statutory trust. American State Capital Trust I used the proceeds from the issuance of 6,500 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 2.80%. The Company redeemed the \$6.7 million in Junior Subordinated Debt securities and the \$6.5 million of related trust preferred securities issued to American State Capital Trust I at par on January 9, 2017.

Pursuant to the merger with City Bancorp on March 1, 2007, the Company assumed the liability for \$8.2 million in Junior Subordinated Debt Securities issued to Signature Bancshares Preferred Trust I, a statutory trust. Signature Bancshares Preferred Trust I used the proceeds from the issuance of 8,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. The Company redeemed the \$8.2 million in Junior Subordinated Debt Securities and \$8.0 million of the related trust preferred securities at par on January 8, 2014.

Pursuant to the merger with City Bancorp on March 1, 2007, the Company also assumed the liability for \$10.3 million in Junior Subordinated Debt Securities issued to City Bancorp Preferred Trust I, a statutory trust. City Bancorp Preferred Trust I used the proceeds from the issuance of 10,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. The Company redeemed the \$10.3 million in Junior Subordinated Debt Securities and the \$10.0 million of related trust preferred securities at par on December 14, 2016.

(12) INCOME TAXES

Total income taxes for the years ended December 31, 2016, 2015 and 2014 were allocated as follows:

	2016	2015	2014
	(In thousands)		
Income tax expense	\$ 63,716	\$ 59,248	\$ 50,652
Shareholders' equity for other comprehensive income (loss)	(5,655)	1,145	(8,481)
Shareholders' equity for stock option plans	(1,484)	(1,079)	(1,856)
Total	\$ 56,577	\$ 59,314	\$ 40,315

The components of income tax expense attributable to operations were as follows for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Current:	(In thousands)		
Federal	\$ 46,836	\$ 62,369	\$ 51,014
State	6,359	8,235	7,201

Deferred:

Federal	9,361	(10,391)	(6,870)
State	1,160	(965)	(693)
Total	\$ 63,716	\$ 59,248	\$ 50,652

During 2016 and 2015, the Company recognized certain tax benefits related to stock options in the amount of \$1.5 million and \$1.1 million, respectively. Such benefits were recorded as a reduction of income taxes payable and an increase in capital surplus.

During 2016 and 2015, the Company reversed the deferred tax asset associated with stock options expiring during the current period in the amount of approximately \$400,000 and \$1.6 million, respectively. The reversal was recorded as a reduction of deferred tax assets and a reduction in capital surplus.

120

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Income tax expense differed from the amount computed by applying the U.S. federal income tax rate of 35% to income before income taxes resulting from the following:

	2016	2015	2014
	(In thousands)		
Tax expense at statutory rates	\$ 68,755	\$ 65,359	\$ 58,591
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax benefit	4,875	4,709	4,230
Tax-exempt interest revenue	(6,269)	(6,881)	(7,371)
Tax-exempt earnings on life insurance	(2,655)	(2,589)	(3,076)
Deductible dividends paid on 401(k) plan	(737)	(617)	(458)
Tax credits	(1,999)	(1,871)	(1,771)
Penalties	1,065	1	-
Meals and entertainment	469	481	486
Other, net	212	656	21
Total	\$ 63,716	\$ 59,248	\$ 50,652

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 were as follows:

	2016	2015
	(In thousands)	
Deferred tax assets:		
Loans, principally due to allowance for credit losses	\$ 46,721	\$ 47,825
Other real estate owned	989	3,069
Mark to market - securities	4,153	4,160
Accrued liabilities, principally due to compensation arrangements and vacation accruals	15,149	24,153
Other	84	106
Unrecognized pension expense	35,407	34,654
Total gross deferred tax assets	102,503	113,967
Less: valuation allowance	-	-
Deferred tax assets	\$ 102,503	\$ 113,967
Deferred tax liabilities:		
Lease transactions	\$ 14,302	\$ 18,868
Employment benefits	1,382	736
Premises and equipment, principally due to differences in depreciation	17,418	19,294
Mortgage servicing rights	24,638	21,652
Intangible assets	11,972	11,310
Investments, principally due to interest income recognition	1,974	2,387
Deferred loan points	6,065	4,785
Other assets, principally due to expense recognition	9	9
Unrealized net gains on available-for-sale securities	3,861	8,764

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Total gross deferred tax liabilities	81,621	87,805
Net deferred tax assets	\$ 20,882	\$ 26,162

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences existing at December 31, 2016.

There was no activity in unrecognized tax benefits for 2016, 2015 and 2014.

121

---

The Company recognizes accrued interest related to unrecognized tax benefits and penalties as a component of other noninterest expense. The Company accrued no interest for 2016, 2015, 2014.

Management does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company is subject to taxation in the United States and various states and local jurisdictions. The Company files a consolidated United States federal return. Based on the laws of the applicable state where the Company conducts business operations, the Company and its applicable subsidiaries either file a consolidated, combined or separate return. The tax years that remain open for examination for the Company's major jurisdictions of the United States – federal, Mississippi, Arkansas, Tennessee, Alabama, Louisiana, Texas and Missouri - are 2013, 2014 and 2015.

### (13) PENSION, OTHER POST RETIREMENT BENEFIT AND PROFIT SHARING PLANS

The Basic Plan is a non-contributory defined benefit pension plan managed by a trustee covering substantially all full-time employees who have at least one year of service and have attained the age of 21. For such employees hired prior to January 1, 2006, benefits are based on years of service and the employee's compensation until January 1, 2017, at which time benefits will be based on a 2.5% cash balance formula. For such employees hired on or after January 1, 2006, benefits accrue based on a cash balance formula, effective January 1, 2012. The Company's funding policy is to contribute to the Basic Plan the amount that meets the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Company determines to be appropriate. The difference between the plan assets and projected benefit obligation is included in other assets or other liabilities, as appropriate. Actuarial assumptions are evaluated periodically.

The Restoration Plan provides for the payment of retirement benefits to certain participants in the Basic Plan. The Restoration Plan is a non-qualified plan that covers any employee whose benefit under the Basic Plan is limited by the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and any employee who elects to participate in the BancorpSouth, Inc. Deferred Compensation Plan, which reduces the employee's benefit under the Basic Plan. For such employees hired prior to January 1, 2006, benefits are based on years of service and the employee's compensation until January 1, 2017, at which time benefits will be based on a 2.5% cash balance formula. For such employees hired on or after January 1, 2006, benefits accrue based on a cash balance formula, effective January 1, 2012. The Supplemental Plan is a non-qualified defined benefit supplemental retirement plan for certain key employees. Benefits commence when the employee retires and are payable over a period of ten years.

The Company measured benefit obligations using the most recent RP-2014 mortality tables and MP-2016 mortality improvement scale in selecting mortality assumptions as of December 31, 2016.

The Company uses a December 31 measurement date for its pension and other benefit plans.

Edgar Filing: BANCORPSOUTH INC - Form 10-K

A summary of the three defined benefit retirement plans at and for the years ended December 31, 2016, 2015 and 2014 follows:

	Pension Benefits		
	2016	2015	2014
Change in benefit obligations:	(In thousands)		
Projected benefit obligations at beginning of year	\$ 259,511	\$ 263,497	\$ 201,696
Service cost	8,852	10,460	8,936
Interest cost	9,364	10,351	9,358
Actuarial (gain) loss	9,302	(14,308)	53,131
Benefits paid	(10,343)	(10,078)	(9,029)
Administrative expenses paid	(702)	(411)	(595)
Projected benefit obligations at end of year	\$ 275,984	\$ 259,511	\$ 263,497
Change in plans' assets:			
Fair value of plans' assets at beginning of year	\$ 195,019	\$ 201,352	\$ 196,447
Actual return on assets	11,745	1,761	12,525
Employer contributions	19,395	2,395	2,004
Benefits paid	(10,343)	(10,078)	(9,029)
Administrative expenses paid	(702)	(411)	(595)
Fair value of plans' assets at end of year	\$ 215,114	\$ 195,019	\$ 201,352
Funded status:			
Projected benefit obligations	\$ (275,984)	\$ (259,511)	\$ (263,497)
Fair value of plans' assets	215,114	195,019	201,352
Net amount recognized	\$ (60,870)	\$ (64,492)	\$ (62,145)

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Benefits		
	2016	2015	2014
	(In thousands)		
Prepaid benefit cost	\$ 57,048	\$ 50,724	\$ 64,838
Accrued benefit liability	(25,352)	(24,617)	(23,902)
Accumulated other comprehensive loss adjustment	(92,566)	(90,599)	(103,081)
Net amount recognized	\$ (60,870)	\$ (64,492)	\$ (62,145)

Pre-tax amounts recognized in accumulated other comprehensive loss consisted of:



Edgar Filing: BANCORPSOUTH INC - Form 10-K

	December 31,	
	2016	2015
	(In thousands)	
Net prior service benefit	\$ (3,162)	\$ (3,880)
Net actuarial loss	95,728	94,479
Total accumulated other comprehensive loss	\$ 92,566	\$ 90,599

The net prior service benefit and net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are approximately (\$743,000) and \$6.9 million, respectively. No further transition obligation remains to be amortized.

123

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The components of net periodic benefit cost for the years ended December 31, 2016, 2015 and 2014 were as follows:

Components of net periodic benefit cost:	Pension Benefits		
	2016	2015	2014
	(In thousands)		
Service cost	\$ 8,852	\$ 10,460	\$ 8,936
Interest cost	9,364	10,351	9,358
Expected return on assets	(10,453)	(10,775)	(10,534)
Amortization of unrecognized transition amount	-	-	18
Recognized prior service benefit	(718)	(718)	(768)
Recognized net loss	6,761	7,905	3,702
Net periodic benefit cost	\$ 13,806	\$ 17,223	\$ 10,712

The weighted-average assumptions used to determine benefit obligations at December 31, 2016 and 2015 were as follows:

	Basic Plan		Restoration Plan		Supplemental Plan	
	2016	2015	2016	2015	2016	2015
Discount rate	4.10%	4.44%	3.94%	4.20%	3.35%	3.40%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2016, 2015 and 2014 were as follows:

	Basic Plan		
	2016	2015	2014
Discount rate	4.44%	4.10%	4.90%
Rate of compensation increase	3.00%	3.00%	3.00%
Expected rate of return on plan assets	5.50%	5.50%	5.50%

  

	Restoration Plan		
	2016	2015	2014
Discount rate	4.20%	3.90%	4.50%
Rate of compensation increase	3.00%	3.00%	3.00%
Expected rate of return on plan assets	N/A	N/A	N/A

  

	Supplemental Plan		
	2016	2015	2014
Discount rate	3.40%	3.10%	3.65%

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Rate of compensation increase	3.00%	3.00%	3.00%
Expected rate of return on plan assets	N/A	N/A	N/A

The following table presents information related to the defined benefit plans that had accumulated benefit obligations in excess of plan assets at December 31, 2016 and 2015:

	2016	2015
	(In thousands)	
Projected benefit obligation	\$ 275,984	\$ 259,511
Accumulated benefit obligation	274,326	252,949
Fair value of assets	215,114	195,019

124

---

In selecting the expected long-term rate of return on assets used for the Basic Plan, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan. This included considering the trust asset allocation and the expected returns likely to be earned over the life of the plan. This basis is consistent with the prior year. 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.

In 2016, the Company changed the method it uses to estimate the service and interest cost components of net periodic benefit cost for the defined benefit pension plans. Historically, the Company estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company has elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company has made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change does not affect the measurement of the total benefit obligations as the change in the service cost and interest cost is completely offset in the actuarial (gain) loss reported. The Company has accounted for this change as a change in estimate and, accordingly, has accounted for it prospectively starting in 2016. The discount rates that the Company used to measure service and interest cost during 2016 were 4.62% and 3.77% for the Basic Plan, 4.46% and 3.45% for the Restoration Plan and 3.84% and 2.69% for the Supplemental Plan. The discount rates that the Company measured at year end and would have been used for service and interest cost under the prior estimation technique were 4.45% for the Basic Plan, 4.20% for the Restoration Plan and 3.40% for the Supplemental Plan. The reductions in service cost and interest cost for 2016 associated with this change in estimate for the three plans are \$648,000 and \$1,710,000, respectively. The diluted earnings per share impact for 2016 of this change in estimate is \$0.02.

The Company's pension plan weighted-average asset allocations at December 31, 2016 and 2015 and the Company's target allocations for 2017, by asset category, were as follows:

Asset category:	Plan assets at		Target for
	December 31 2016	2015	
Equity securities	42%	33%	45%
Debt securities	53%	66%	55%
Cash and equivalents	5%	1%	0%
Total	100%	100%	

Equity securities held in the Basic Plan included shares of the Company's common stock with a fair value of \$2.6 million (1.19% of total plan assets) and \$2.0 million (1.01% of total plan assets) at December 31, 2016 and 2015, respectively. An analysis by management is performed annually to determine whether the Company will make a contribution to the Basic Plan.

The following table presents information regarding expected future benefit payments, which reflect expected service, as appropriate:

	Pension Benefits
Expected future benefit payments:	(In thousands)
2017	\$ 13,248
2018	14,733
2019	15,613
2020	15,567
2021	16,383
2022-2026	83,353

125

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table presents the fair value of each major category of plan assets held in the Basic Plan at December 31, 2016 and 2015:

	Pension Benefits	
	2016	2015
Investments, at fair value:	(In thousands)	
Cash	\$ 4,650	\$ -
U.S. agency debt obligations	43,533	65,406
Mutual funds	132,580	118,313
Common stock of BancorpSouth, Inc.	2,554	1,974
Money market funds	6,045	1,761
Brokered certificates of deposit	25,166	6,957
Total investments, at fair value	214,528	194,411
Accrued interest and dividends	586	608
Fair value of plan assets	\$ 215,114	\$ 195,019

Fair values are determined based on valuation techniques categorized as follows: Level 1 means the use of quoted prices for identical instruments in active markets; Level 2 means the use of quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; Level 3 means the use of unobservable inputs. Quoted market prices, when available, are used to value investments. Pension plan investments include funds which invest in various types of investment securities and in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported.

The following tables set forth by level, within the FASB ASC 820, Fair Value Measurement (“FASB ASC 820”), fair value hierarchy, the plan investments at fair value as of December 31, 2016 and 2015:

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
	(In thousands)			
Cash	\$ 4,650	\$ -	\$ -	\$ 4,650
U.S. agency debt obligations	-	43,533	-	43,533
Mutual funds	132,580	-	-	132,580
Common stock of BancorpSouth, Inc.	2,554	-	-	2,554
Money market funds	-	6,045	-	6,045
Brokered certificates of deposit	-	25,166	-	25,166
Total	\$ 139,784	\$ 74,744	\$ -	\$ 214,528

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
U.S. agency debt obligations	\$ -	\$ 65,406	\$ -	\$ 65,406
Mutual funds	118,313	-	-	118,313
Common stock of BancorpSouth, Inc.	1,974	-	-	1,974
Money market funds	-	1,761	-	1,761
Brokered certificates of deposit	-	6,957	-	6,957
Total	\$ 120,287	\$ 74,124	\$ -	\$ 194,411

There were no transfers between Levels of the fair value hierarchy in 2016 or 2015.

## Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following investments represented 5% or more of the total plan asset value as of December 31, 2016:

	2016 (In thousands)
Fidelity Advisor New Insights Institutional Fund	\$ 15,411
Fidelity Total Bond	10,733
Franklin Mutual Discovery Z Fund	12,450
T. Rowe Price Growth Stock Fund	11,080
Pioneer Multi-Asset Floating Rate Fund	24,662

The Company has a defined contribution plan (commonly referred to as a “401(k) Plan”). Pursuant to the 401(k) Plan, employees may contribute a portion of their compensation, as set forth in the 401(k) Plan, subject to the limitations as established by the Code. Employee contributions (up to 5% of defined compensation) are matched dollar-for-dollar by the Company. Employer contributions were \$10.7 million, \$10.2 million and \$9.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

### (14) FAIR VALUE DISCLOSURES

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

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

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

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



## Determination of Fair Value

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

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

**Mortgage servicing rights.** The Company records MSR's at fair value on a recurring basis with subsequent remeasurement of MSR's based on change in fair value. An estimate of the fair value of the Company's MSR's is

determined by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of the Company's MSR's are classified as Level 3.

Derivative instruments. The Company's derivative instruments consist of commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans. Fair value of these derivative instruments is measured on a recurring basis using recent observable market prices. The Company also enters into interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. The fair value of these instruments is either an observable market price or a discounted cash flow valuation using the terms of swap agreements but substituting original interest rates with prevailing interest rates ranging from 2.1% to 4.4%. The Company also considers the associated counterparty credit risk when determining the fair value of these instruments. The Company's interest rate swaps, commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans are classified as Level 3.

Loans held for sale. The fair value of loans held for sale is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics. Therefore, loans held for sale are subjected to recurring fair value adjustments and are classified as Level 2. The Company obtains quotes, bids, or pricing indications on all or part of these loans directly from the buyers. Premiums and discounts received or to be received on the quotes, bids or pricing indications are indicative of the fact that the cost is lower or higher than fair value.

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

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

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



Edgar Filing: BANCORPSOUTH INC - Form 10-K

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:	(In thousands)			
Available-for-sale securities:				
U.S. Government agencies	\$ -	\$ 1,789,427	\$ -	\$ 1,789,427
U.S. Government agency issued residential mortgage-back securities	-	176,243	-	176,243
U.S. Government agency issued commercial mortgage-back securities	-	172,279	-	172,279
Obligations of states and political subdivisions	-	360,005	-	360,005
Other	1,218	32,504	-	33,722
Mortgage servicing rights	-	-	65,263	65,263
Derivative instruments	-	-	15,761	15,761
Loans held for sale	-	166,927	-	166,927
Total	\$ 1,218	\$ 2,697,385	\$ 81,024	\$ 2,779,627
Liabilities:				
Derivative instruments	\$ -	\$ -	\$ 9,623	\$ 9,623

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:	(In thousands)			
Available-for-sale securities:				
U.S. Government agencies	\$ -	\$ 1,244,640	\$ -	\$ 1,244,640
U.S. Government agency issued residential mortgage-back securities	-	140,540	-	140,540
U.S. Government agency issued commercial mortgage-back securities	-	260,693	-	260,693
Obligations of states and political subdivisions	-	417,499	-	417,499
Other	776	18,181	-	18,957
Mortgage servicing rights	-	-	57,268	57,268
Derivative instruments	-	-	19,508	19,508
Loans held for sale	-	157,907	-	157,907
Total	\$ 776	\$ 2,239,460	\$ 76,776	\$ 2,317,012

Liabilities:

Derivative instruments	\$	-	\$	-	\$	16,251	\$	16,251
------------------------	----	---	----	---	----	--------	----	--------

129

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015:

	Mortgage Servicing Rights (In thousands)	Derivative Instruments
Balance at December 31, 2015	\$ 57,268	\$ 3,257
Total net gains for the year included in:		
Net (loss) gain	(6,711)	2,881
Other comprehensive income	-	-
Additions	14,706	-
Transfers in and/or out of Level 3	-	-
Balance at December 31, 2016	\$ 65,263	\$ 6,138
Net unrealized gains (losses) included in net income for the year relating to Level 3 assets and liabilities at December 31, 2016	\$ 1,526	\$ 2,881

	Mortgage Servicing Rights (In thousands)	Derivative Instruments
Balance at December 31, 2014	\$ 51,296	\$ 623
Total net gains for the year included in:		
Net (loss) gain	(8,167)	2,634
Other comprehensive income	-	-
Additions	14,139	-
Transfers in and/or out of Level 3	-	-
Balance at December 31, 2015	\$ 57,268	\$ 3,257
Net unrealized gains (losses) included in net income for the year relating to Level 3 assets and liabilities at December 31, 2015	\$ (1,161)	\$ 2,634

The Company had no purchases or settlements during 2016 and 2015.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following tables present the balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015:

Edgar Filing: BANCORPSOUTH INC - Form 10-K

	December 31, 2016				Year ended December 31, 2016
	Level 1	Level 2	Level 3	Total	Net Losses
Assets:	(In thousands)				
Impaired loans	-	-	\$ 38,237	\$ 38,237	\$ (2,560)
Other real estate owned	-	-	7,810	7,810	(653)

	December 31, 2015				Year ended December 31, 2015
	Level 1	Level 2	Level 3	Total	Net Losses
Assets:	(In thousands)				
Impaired loans	-	-	\$ 51,392	\$ 51,392	\$ (12,323)
Other real estate owned	-	-	14,759	14,759	(2,543)

130

---

## Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments (“FASB ASC 825”), requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions that are used by the Company in estimating fair values of financial instruments and that are not disclosed above in this Note 14 are set forth below.

**Cash and Due From Banks.** The carrying amounts for cash and due from banks approximate fair values due to their immediate and shorter-term maturities.

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

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

**Debt.** The carrying amounts for federal funds purchased and repurchase agreements approximate fair value because of their short-term maturity. The fair value of the Company’s fixed-term FHLB advances is based on the discounted value of contractual cash flows. The discount rate is estimated using the prevailing rates available for advances of similar maturities. The fair value of the Company’s long-term borrowings with U.S. Bank is based on the LIBOR rates plus an interest rate spread. The fair value of the Company’s junior subordinated debt is based on market prices or dealer quotes. The Company’s federal funds purchased, repurchase agreements and junior subordinated debt are classified as Level 1. FHLB advances and U.S. Bank advances are classified as Level 2.

**Lending Commitments.** The Company’s lending commitments are negotiated at prevailing market rates and are relatively short-term in nature. As a matter of policy, the Company generally makes commitments for fixed-rate loans for relatively short periods of time. Therefore, the estimated value of the Company’s lending commitments approximates the carrying amount and is immaterial to the financial statements. The Company’s lending commitments are classified as Level 2. The Company’s off-balance sheet commitments, including letters of credit, which totaled \$88.2 million at December 31, 2016, are funded at current market rates at the date they are drawn upon. It is management’s opinion that the fair value of these commitments would approximate their carrying value, if drawn upon. See Note 23, Commitments and Contingent Liabilities, for additional information regarding lending commitments.





Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table presents carrying and fair value information of financial instruments at December 31, 2016 and 2015:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
(In thousands)				
Cash and due from banks	\$ 184,152	\$ 184,152	\$ 154,192	\$ 154,192
Interest bearing deposits with other banks	38,813	38,813	43,777	43,777
Available for sale securities	2,531,676	2,531,676	2,082,329	2,082,329
Net loans and leases	10,688,255	10,692,820	10,246,320	10,331,043
Loans held for sale	166,927	166,927	157,907	157,907
Liabilities:				
Noninterest bearing deposits	3,250,537	3,250,537	3,031,528	3,031,528
Savings and interest bearing deposits	6,596,289	6,596,289	6,446,142	6,446,142
Other time deposits	1,841,315	1,857,506	1,853,491	1,867,034
Federal funds purchased and securities sold under agreement to repurchase and other short-term borrowings	546,002	545,002	467,946	467,263
Long-term debt and other borrowings	542,888	547,273	92,973	98,502
Derivative instruments:				
Forward commitments to sell fixed rate mortgage loans	2,903	2,903	109	109
Commitments to fund fixed rate mortgage loans	3,362	3,362	3,390	3,390
Interest rate swap position to receive	9,061	9,061	15,614	15,614
Interest rate swap position to pay	(9,175)	(9,175)	(15,856)	(15,856)

(15) STOCK INCENTIVE AND STOCK OPTION PLANS

Key employees and directors of the Company and its subsidiaries have been granted stock options under the Company's Long-Term Equity Incentive Plan, 1995 Non-Qualified Stock Option Plan for Non-Employees (the "1995 Plan") and 1998 Stock Option Plan (collectively, the "Plans"). Further, restricted stock and restricted stock units may be awarded under the 1995 Plan, and restricted stock, restricted stock units and performance shares may be awarded under the Long-Term Equity Incentive Plan. All options granted pursuant to these plans have an exercise price equal to the market value on the date of the grant and are exercisable over periods of one to ten years. Upon the exercise of stock options, new shares are issued by the Company.

FASB ASC 718 requires that compensation expense be measured using estimates of fair value of all stock-based awards. Compensation expense arising from stock options that has been charged against income for the Plans was approximately \$22,000 and approximately \$843,000 for 2015 and 2014, respectively. As of December 31, 2015, there was no unrecognized compensation cost related to nonvested stock options. No stock options were granted during 2016, 2015 or 2014.



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables present the stock option activity under the Plans as of December 31, 2016, 2015 and 2014 and changes during the years then ended:

	2016		Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
	Shares	Weighted-Average Exercise Price		
Options				
Outstanding at January 1, 2016	265,398	\$ 19.43		
Exercised	(146,396)	18.94		
Expired	(41,700)	24.66		
Outstanding at December 31, 2016	77,302	\$ 17.54	1.0	\$ 1,045
Exercisable at December 31, 2016	77,302	\$ 17.54	1.0	\$ 1,045

	2015		Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
	Shares	Weighted-Average Exercise Price		
Options				
Outstanding at January 1, 2015	1,056,977	\$ 20.67		
Exercised	(520,538)	20.06		
Cancelled or forfeited	(237,286)	23.22		
Expired	(33,755)	21.93		
Outstanding at December 31, 2015	265,398	\$ 19.43	1.4	\$ 1,268
Exercisable at December 31, 2015	265,398	\$ 19.43	1.4	\$ 1,268

	2014		Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
	Shares	Weighted- Average Exercise Price		
Options				
Outstanding at January 1, 2014	1,884,318	\$ 19.69		
Exercised	(662,721)	17.32		
Cancelled or forfeited	(19,500)	20.26		
Expired	(145,120)	23.26		
Outstanding at December 31, 2014	1,056,977	\$ 20.67	1.8	\$ 2,672
Exercisable at December 31, 2014	977,491	\$ 21.38	1.7	\$ 1,831

As of December 31, 2015, the Company had no nonvested options. No changes to vested options were made during 2016.

The intrinsic value of stock options exercised during the years ended December 31, 2016, 2015 and 2014 was approximately \$798,000, \$2.5 million and \$4.6 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2016:

Range of Exercise Prices	Options Outstanding and Exercisable		Weighted-Avg Exercise Price
	Number Outstanding	Weighted-Avg Remaining Life (years)	
\$11.93 to \$12.59	24,402	2.1	\$ 11.93
\$12.60 to \$18.86	20,500	0.9	13.25
\$18.87 to \$24.47	32,400	0.3	24.47
\$10.07 to \$25.31	77,302	1.0	\$ 17.54

The Company's Long-Term Equity Incentive plan allows for the issuance of performance shares. Performance shares entitle the recipient to receive shares of the Company's common stock upon the achievement of performance goals that are specified in the award over a specified performance period. The recipient of performance shares is not treated as a shareholder of the Company and is not entitled to vote or receive dividends until the performance conditions stated in the award are satisfied and the shares of stock are actually issued to the recipient. In January 2012, the Company granted 103,055 performance shares to employees for the two-year performance period from January 1, 2012 through December 31, 2013. In January 2013, the Company granted 83,620 performance shares to employees for the two-year performance period from January 1, 2013 through December 31, 2014. In January 2014, the Company granted 57,550 performance shares to employees for the two-year performance period from January 1, 2014 through December 31, 2015. In January 2015, the Company granted 84,494 performance shares to employees for the two-year performance

period from January 1, 2015 through December 31, 2016. In January 2016, the Company granted 99,277 performance shares to employees for the two-year performance period from January 1, 2016 through December 31, 2017. All of these performance shares vest over a three-year period and are valued at the fair value of the Company's stock at the grant date based upon the estimated number of shares expected to vest. Compensation expense of approximately \$153,000 was recognized in 2014 related to the 2012 grant of performance shares. Compensation expense of approximately \$458,000 and \$477,000 was recognized in 2015 and 2014, respectively, related to the 2013 grant of performance shares. Compensation expense of approximately \$575,000, \$842,000 and \$500,000 was recognized in 2016, 2015 and 2014, respectively, related to the 2014 grant of performance shares. Compensation expense of \$1.0 million and \$1.3 million

134

---

was recognized in 2016 and 2015 related to the 2015 grant of performance shares. Compensation expense of \$210,000 was recognized in 2016 related to the 2016 grant of performance shares.

In May 2013, the Company awarded 7,500 restricted stock units covering 7,500 shares of Company common stock to its directors with the shares of stock covered by this award issued to the directors in May 2014. In May 2014 the Company awarded 19,500 restricted stock units covering 19,500 shares of Company common stock to its directors with the shares of stock covered by the award to be issued to the directors in May 2015. In May 2015, the Company awarded 24,750 restricted stock units covering 24,750 shares of Company common stock to its directors with the shares of stock covered by the award to be issued to the directors in May 2016. In May 2016, the Company awarded 27,024 restricted stock units covering 27,024 shares of the Company common stock to its directors with the shares of stock covered by this award to be issued to the directors in May 2017. Compensation expense of approximately \$622,000, \$510,000, and \$330,000 was recognized in 2016, 2015, and 2014, respectively, related to the restricted stock units issued to the Company's directors.

In June 2012, pursuant to the Long-Term Equity Incentive Plan, the Company awarded 60,000 restricted stock units covering 60,000 shares of Company common stock to senior executives with the shares of stock covered by this award to be issued to the senior executives equally beginning in June 2013 over a five-year period. Compensation expense of approximately \$37,000, \$107,000 and \$180,000 was recognized in 2016, 2015 and 2014 related to the restricted stock units issued to the Company's senior executives.

In November 2012, pursuant to the Long-Term Equity Incentive Plan, the Company awarded 24,083 shares of restricted stock to a senior executive with the shares of stock covered by this award to be issued to the senior executive in November 2017. Compensation expense of approximately \$63,000, \$63,000 and \$63,000 was recorded in 2016, 2015 and 2014, respectively, related to the restricted stock issued to the Company's senior executive. Also in November 2012, pursuant to the Long-Term Equity Incentive Plan, the Company awarded 88,232 shares of restricted stock to a senior executive, with the shares of stock covered by this award to be issued to the senior executive in January 2015. Compensation expense of approximately \$554,000 was recorded in 2014 related to the restricted stock issued to the Company's senior executive.

In March 2013, pursuant to the Long-Term Equity Incentive Plan, the Company awarded 592,500 shares of restricted stock to employees, with the shares of stock covered by this award to be issued to employees in May 2018. Compensation expense of \$1.5 million, \$1.5 million and \$1.7 million was recorded in 2016, 2015 and 2014, respectively, related to the restricted stock issued to the Company's employees. Also in March 2013, pursuant to the Long-Term Equity Incentive Plan, the Company awarded 21,341 shares of restricted stock to a senior executive with the shares of stock covered by this award to be issued to the senior executive equally beginning in March 2014 over a three-year period. Compensation expense of approximately \$10,000, \$54,000 and \$126,000 was recorded in 2016, 2015 and 2014, respectively, related to the restricted stock issued to the Company's senior executive.

In 2014, at various dates, pursuant to the Long-term Equity Incentive Plan, the Company awarded a total of 349,900 shares of restricted stock to employees with 64,500 shares vesting in February 2015, 51,500 shares vesting in February 2018, 207,650 shares vesting in May 2019 and 26,250 shares vesting in May 2020. Compensation expense of \$1.2 million \$1.3 million and \$2.2 million was recorded in 2016, 2015 and 2014, respectively, related to these 2014 restricted stock awards issued to the Company's employees.

In 2015, at various dates, pursuant to the Long-term Equity Incentive Plan, the Company awarded a total of 273,269 shares of restricted stock to employees with 8,700 shares vesting in May 2018, 6,500 shares vesting in May 2019, and 258,069 shares vesting in May 2020. Compensation expense of \$1.2 million and \$1.0 million was recorded in 2016 and 2015 related to these 2015 restricted stock awards issued to the Company's employees.

In 2016, at various dates, pursuant to the Long-term Equity Incentive Plan, the Company awarded a total of 297,251 shares of restricted stock to employees with 16,750 shares vesting in May 2019, 203,000 shares vesting in May 2021,

and 77,500 shares vesting in May 2023. Compensation expense of \$1.0 million was recorded in 2016 related to these 2016 restricted stock awards issued to the Company's employees.

As of December 31, 2016, there was \$14.4 million of unrecognized compensation cost related to unvested restricted stock compensation that is expected to be recognized over a weighted average period of 3.6 years.

135

---



Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following table summarizes the Company's restricted stock activity for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31, 2016		2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	1,075,543	\$ 19.63	1,005,892	\$ 18.78	716,156	\$ 15.86
Granted	297,251	22.45	273,269	23.16	349,900	23.17
Forfeited	(17,253)	20.06	(43,772)	19.28	(53,050)	18.18
Vested	(7,113)	16.38	(159,846)	22.48	(7,114)	13
Nonvested at end of year	1,348,428	\$ 20.27	1,075,543	\$ 19.63	1,005,892	\$ 18.78

The following table presents information regarding the vesting of the Company's nonvested restricted stock at December 31, 2016:

Vesting in	Number of Shares
2017	24,083
2018	566,700
2019	211,700
2020	268,355
2021	200,090
2022	-
2023	77,500
Total Nonvested Shares	1,348,428

(16) EARNINGS PER SHARE AND DIVIDEND DATA

Basic earnings per share (“EPS”) are calculated using the two-class method. The two-class method provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of basic EPS. Diluted EPS is computed using the weighted-average number of shares determined for the basic EPS computation plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method. Weighted-average antidilutive stock options to purchase approximately 9,450, approximately 32,000 and 67,000 shares of Company common stock with a weighted average exercise price of \$25.31, \$25.31 and \$24.89 per share for 2016, 2015 and 2014, respectively, were excluded from diluted shares. There were no antidilutive other equity awards for 2016, 2015 and 2014.

136

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

The following tables provide a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2016, 2015 and 2014:

	2016		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	\$ 132,728	94,219	\$ 1.41
Effect of dilutive stock options	-	236	

Diluted EPS:			
Income available to common shareholders plus assumed exercise	\$ 132,728	94,455	\$ 1.41

	2015		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	\$ 127,491	95,825	\$ 1.33
Effect of dilutive stock options	-	299	

Diluted EPS:			
Income available to common shareholders plus assumed exercise	\$ 127,491	96,124	\$ 1.33

	2014		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	\$ 116,750	95,973	\$ 1.22
Effect of dilutive stock options	-	329	

Diluted EPS:			
Income available to common shareholders plus assumed exercise	\$ 116,750	96,302	\$ 1.21

Dividends to shareholders are paid from dividends paid to the Company by the Bank which are subject to approval by the applicable state regulatory authority.



## (17) OTHER COMPREHENSIVE INCOME

The following tables present the components of other comprehensive income (loss) and the related tax effects allocated to each component for the years ended December 31, 2016, 2015 and 2014:

	2016 Before Tax Amount (In thousands)	Tax (Expense) Benefit	Net of Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized (losses) gains arising during holding period	\$ (12,672)	\$ 4,854	\$ (7,818)
Reclassification adjustment for net (gains) losses realized in net income (1)	(128)	49	(79)
Recognized employee benefit plan net periodic benefit cost (2)	(1,967)	752	(1,215)
Other comprehensive (loss) income	\$ (14,767)	\$ 5,655	\$ (9,112)

	2015 Before Tax Amount (In thousands)	Tax (Expense) Benefit	Net of Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized (losses) gains arising during holding period	\$ (9,340)	\$ 3,577	\$ (5,763)
Reclassification adjustment for net (gains) losses realized in net income (1)	(136)	52	(84)
Recognized employee benefit plan net periodic benefit cost (2)	12,482	(4,774)	7,708
Other comprehensive income (loss)	\$ 3,006	\$ (1,145)	\$ 1,861

	2014 Before Tax Amount (In thousands)	Tax (Expense) Benefit	Net of Tax Amount
--	---	-----------------------------	-------------------------

Net unrealized gains on available-for-sale securities:

Unrealized gains (losses) arising during holding period	\$ 26,016	\$ (9,965)	\$ 16,051
Reclassification adjustment for net (gains) losses realized in net income (1)	(37)	14	(23)
Recognized employee benefit plan net periodic benefit cost (2)	(48,187)	18,432	(29,755)
Other comprehensive (loss) income	\$ (22,208)	\$ 8,481	\$ (13,727)

138

---

- (1) Reclassification adjustments for net gains on available-for-sale securities are reported as security gains, net on the consolidated statement of income.
- (2) Recognized employee benefit plan net periodic benefit cost include, recognized prior service cost and recognized net loss. For more information, see Footnote 14 – Pension, Other Post Retirement Benefit and Profit Sharing Plans.

#### (18) RELATED PARTY TRANSACTIONS

The Bank has made, and expects in the future to continue to make in the ordinary course of business, loans to directors and executive officers of the Company and their affiliates. In management’s opinion, these transactions with directors and executive officers were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present any other unfavorable features. A summary of such outstanding loans is as follows:

	Amount (In thousands)
Loans outstanding at December 31, 2015	\$ 16,166
New loans to related parties, net of repayments	6,141
Changes in directors and executive officers	(70)
Loans outstanding at December 31, 2016	\$ 22,237

#### (19) MORTGAGE SERVICING RIGHTS

MSRs, which are recognized as a separate asset on the date the corresponding mortgage loan is sold on a servicing retained basis,, are recorded at fair value as determined at each accounting period end. An estimate of the fair value of the Company’s MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Data and assumptions used in the fair value calculation related to MSRs as of December 31, 2016, 2015 and 2014 were as follows:

	2016	2015	2014
	(Dollars in thousands)		
Unpaid principal balance	\$6,384,649	\$6,011,236	\$5,686,756
Weighted-average prepayment speed (CPR)	9.4	10.3	11.6
Discount rate (annual percentage)	9.8	9.8	9.8
Weighted-average coupon interest rate (percentage)	3.9	4.0	4.1
Weighted-average remaining maturity (months)	323.0	319.0	314.0
Weighted-average servicing fee (basis points)	26.7	26.6	26.5

Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSR 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. As of December 31, 2016, the Company had a hedge in place designed to cover approximately 4% of the MSR. The Company is susceptible to fluctuations in the fair value of its MSR in changing interest rate environments.

139

---



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

	2016	2015
	(In thousands)	
Fair value at beginning of year	\$ 57,268	\$ 51,296
Additions:		
Origination of servicing assets	14,706	14,139
Changes in fair value:		
Due to payoffs/paydowns	(8,231)	(6,999)
Due to change in valuation inputs or assumptions used in the valuation model	1,526	(1,161)
Other changes in fair value	(6)	(7)
Fair value at end of year	\$ 65,263	\$ 57,268

All of the changes to the fair value of the MSR are recorded as part of mortgage banking noninterest revenue on the income statement. As part of mortgage banking noninterest revenue, the Company recorded contractual servicing fees of \$16.9 million, \$16.1 million and \$15.2 million and late and other ancillary fees of \$1.8 million, \$1.3 million and \$1.2 million in 2016, 2015, and 2014, respectively.

## (20) CAPITAL AND REGULATORY MATTERS

The Company is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Quantitative measures established by the Federal Reserve to ensure capital adequacy require the Company to maintain minimum capital amounts and ratios (risk-based capital ratios). All banking companies are required to have core capital ("Tier 1") of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets and a minimum Tier 1 leverage ratio of 4% of adjusted average assets. The regulations also define well capitalized levels of Common equity Tier 1 capital, Tier 1 capital, total capital and Tier 1 leverage as 6.5%, 8%, 10% and 5%, respectively. The Company and the Bank had common equity Tier 1, Tier 1, total capital and Tier 1 leverage above the well capitalized levels at December 31, 2016 and 2015, respectively, as set forth in the following table:

	2016		2015	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Common Equity Tier 1 capital (to risk-weighted assets)				
BancorpSouth, Inc.	\$ 1,467,979	12.23%	\$ 1,402,041	12.07%
BancorpSouth Bank	1,311,542	10.94	1,369,419	11.80
Tier 1 capital (to risk-weighted assets)				
BancorpSouth, Inc.	1,480,867	12.34	1,425,239	12.27%
BancorpSouth Bank	1,311,542	10.94	1,369,419	11.80
Total capital (to risk-weighted assets)				
BancorpSouth, Inc.	1,605,257	13.38	1,552,280	13.37
BancorpSouth Bank	1,435,932	11.97	1,496,460	12.90
Tier 1 leverage capital (to average assets)				
BancorpSouth, Inc.	1,480,867	10.32	1,425,239	10.61
BancorpSouth Bank	1,311,542	9.17	1,369,419	10.23

On December 11, 2014, the Company announced a stock repurchase program whereby the Company could acquire up to an aggregate of 6% or 5,764,000 shares of its common stock in the open market at prevailing market prices or in privately negotiated transactions during the period between December 11, 2014 through November 30, 2016. The extent and timing of any repurchases depended on market conditions and other corporate, legal and regulatory considerations. Repurchased shares are held as authorized but unissued shares. These authorized but unissued shares will be available for use in connection with the Company's stock option plans, other compensation programs, other transactions or for other corporate purposes as determined by the Company's Board of Directors. On January 27, 2016, the Company announced this stock repurchase plan was terminated. At the time of termination, 2,882,000 shares had been repurchased under this program.

On January 27, 2016, the Company announced a new stock repurchase program whereby the Company may acquire up to an aggregate of 7,000,000 shares of its common stock in the open market at prevailing market prices or in privately negotiated transactions during the period between January 27, 2016 through December 29, 2017. The extent and timing of any repurchases depends on market conditions and other corporate, legal and regulatory considerations. Repurchased shares are held as authorized but unissued shares. These authorized but unissued shares are available for use in connection with the Company's stock option plans, other compensation programs, other transactions or for other corporate purposes as determined by the Company's Board of Directors. At December 31, 2016, 988,060 shares had been repurchased under this program.

## (21) SEGMENT REPORTING

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

segment includes mortgage banking, trust services, credit card activities, investment services and other activities not allocated to the Community Banking or Insurance Agencies operating segments. Net income of the Community Banking operating segment increased in 2016 compared to 2015 and in 2015 compared to 2014. The increase in net income in 2016 compared to 2015 was due to the reduction of noninterest expenses while the increased net income of the Community Banking operating segment in 2015 compared to 2014 was primarily related to the corresponding decrease in the provision for credit losses. The net income of the General Corporate and Other operating segment remained consistent in 2016 compared to 2015 with the increase in 2015 compared to 2014 primarily related to the increase in noninterest revenue.

141

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Results of operations and selected financial information by operating segment for the years ended December 31, 2016, 2015 and 2014 were as follows:

	Community Banking (In thousands)	Insurance Agencies	General Corporate and Other	Total
<b>2016</b>				
<b>Results of Operations</b>				
Net interest revenue	\$ 414,706	\$ 60	\$ 38,686	\$ 453,452
Provision for credit losses	(641)	-	4,641	4,000
Net interest income after provision for credit losses	415,347	60	34,045	449,452
Noninterest revenue	80,996	116,167	81,867	279,030
Noninterest expense	323,939	101,259	106,840	532,038
Income before income taxes	172,404	14,968	9,072	196,444
Income tax expense	57,289	6,031	396	63,716
Net income	\$ 115,115	\$ 8,937	\$ 8,676	\$ 132,728
<b>Selected Financial Information</b>				
Total assets	\$ 10,991,377	\$ 213,070	\$ 3,519,941	\$ 14,724,388
Depreciation and amortization	21,446	4,281	3,537	29,264
	Community Banking (In thousands)	Insurance Agencies	General Corporate and Other	Total
<b>2015</b>				
<b>Results of Operations</b>				
Net interest revenue	\$ 397,204	\$ 100	\$ 38,378	\$ 435,682
Provision for credit losses	(12,859)	-	\$ (141)	(13,000)
Net interest income after provision for credit losses	410,063	100	38,519	448,682
Noninterest revenue	82,938	116,780	78,250	277,968
Noninterest expense	332,920	101,120	105,871	539,911
Income (loss) before income taxes	160,081	15,760	10,898	186,739
Income tax expense (benefit)	51,186	6,363	1,699	59,248
Net income	\$ 108,895	\$ 9,397	\$ 9,199	\$ 127,491
<b>Selected Financial Information</b>				
Total assets	\$ 10,127,861	\$ 199,668	\$ 3,471,133	\$ 13,798,662
Depreciation and amortization	21,874	4,736	3,641	30,251



Edgar Filing: BANCORPSOUTH INC - Form 10-K

	Community Banking (In thousands)	Insurance Agencies	General Corporate and Other	Total
2014				
Results of Operations				
Net interest revenue	\$ 381,467	\$ 117	\$ 35,078	\$ 416,662
Provision for credit losses	(4,757)	-	4,757	-
Net interest income after provision				
for credit losses	386,224	117	30,321	416,662
Noninterest revenue	95,752	115,541	57,853	269,146
Noninterest expense	329,893	97,620	90,893	518,406
Income (loss) before income taxes	152,083	18,038	(2,719)	167,402
Income tax expense (benefit)	47,482	7,255	(4,085)	50,652
Net income (loss)	\$ 104,601	\$ 10,783	\$ 1,366	\$ 116,750
Selected Financial Information				
Total assets	\$ 9,814,879	\$ 188,920	\$ 3,322,570	\$ 13,326,369
Depreciation and amortization	22,603	5,257	3,855	31,715

(22) DERIVATIVE INSTRUMENTS

The derivative instruments held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual, fixed-rate mortgage loans. The Company's objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges. At December 31, 2016, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$238.3 million, with a carrying value and fair value reflecting a gain of \$2.9 million. At December 31, 2015, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was \$211.2 million, with a carrying value and fair value reflecting a gain of approximately \$109,000. At December 31, 2016, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$140.9 million, with a carrying value and fair value reflecting a gain of \$3.4 million. At December 31, 2015, the notional amount of commitments to fund individual fixed-rate mortgage loans was \$142.1 million, with a carrying value and fair value reflecting a gain of \$3.4 million.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of December 31, 2016, the notional amount of customer related derivative financial instruments was \$213.6 million, with an average maturity of 30.2 months, an average interest receive rate of 2.9% and an average interest pay rate of 5.6%. As of December 31, 2015, the notional amount of customer related derivative financial instruments was \$255.6 million, with an average maturity of 42.1 months, an average interest receive rate of 2.6% and an average interest pay rate of 5.6%.

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

143

---

Edgar Filing: BANCORPSOUTH INC - Form 10-K

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

		December 31, 2016			Gross Amounts Not Offset in the Consolidated Balance Sheet							
		Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount					
		(In thousands)										
Financial assets:												
Derivatives:												
Forward commitments	\$	6,701	\$	-	\$	6,701	\$	-	\$	-	\$	6,701
Loan/lease interest rate swaps		9,175		-		9,175		-		-		9,175
Total financial assets	\$	15,876	\$	-	\$	15,876	\$	-	\$	-	\$	15,876
Financial liabilities:												
Derivatives:												
Forward commitments	\$	448	\$	-	\$	448	\$	-	\$	-	\$	448
Loan/lease interest rate swaps		9,175		-		9,175		-		(9,175)		-
Repurchase arrangements		454,002		-		454,002		(454,002)		-		-
Total financial liabilities	\$	463,625	\$	-	\$	463,625	\$	(454,002)	\$	(9,175)	\$	448



December 31, 2015

	Gross Amount			Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Recognized	Offset	Recognized	Financial Instruments	Financial Collateral Pledged	Net Amount
	(In thousands)					
Financial assets:						
Derivatives:						
Forward commitments	\$ 3,894	\$ -	\$ 3,894	\$ -	\$ -	\$ 3,894
Loan/lease interest rate swaps	15,856	-	15,856	-	-	15,856
Total financial assets	\$ 19,750	\$ -	\$ 19,750	\$ -	\$ -	\$ 19,750
Financial liabilities:						
Derivatives:						
Forward commitments	\$ 395	\$ -	\$ 395	\$ -	\$ -	\$ 395
Loan/lease interest rate swaps	15,856	-	15,856	-	(15,856)	-
Repurchase arrangements	405,937	-	405,937	(405,937)	-	-
Total financial liabilities	\$ 422,188	\$ -	\$ 422,188	\$ (405,937)	\$ (15,856)	\$ 395



## (23) COMMITMENTS AND CONTINGENT LIABILITIES

## Leases

Rent expense was \$8.0 million for 2016, \$8.1 million for 2015 and \$7.9 million for 2014. Future minimum lease payments for the following five years for all non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2016:

	Amount (In thousands)
2017	\$ 6,939
2018	4,883
2019	3,806
2020	2,856
2021	2,608
Thereafter	6,305
Total future minimum lease payments	\$ 27,397

## Mortgage Loans Serviced for Others

The Company services mortgage loans for others that are not included as assets in the Company's accompanying consolidated financial statements. Included in the \$6.4 billion of loans serviced for investors at December 31, 2016 was \$3.1 million of primary recourse servicing pursuant to which the Company is responsible for any losses incurred in the event of nonperformance by the mortgagor. The Company's exposure to credit loss in the event of such nonperformance is the unpaid principal balance at the time of default. This exposure is limited by the underlying collateral, which consists of single family residences and either federal or private mortgage insurance.

## Lending Commitments

In the normal course of business, there are outstanding various commitments and other arrangements for credit which are not reflected in the consolidated balance sheets. As of December 31, 2016, these included \$88.2 million for letters of credit and \$2.5 billion for interim mortgage financing, construction credit, credit card and revolving line of credit arrangements. The Company did not realize significant credit losses from these commitments and arrangements during the years ended December 31, 2016, 2015 and 2014.

## Litigation

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

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

145

---

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

The Company cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against it, its directors, management or employees, including remedies or damage awards. On at least a quarterly basis, the Company assesses its liabilities and contingencies in connection with outstanding legal proceedings as well as certain threatened claims (which are not considered incidental to the ordinary conduct of the Company's 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 the Company will incur a loss and the amount can be reasonably estimated, the Company establishes an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings and the potential loss, however, may turn out to be substantially higher than the amount accrued. Further, the Company's insurance has deductibles and will likely 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, if applicable, management believes that the litigation-related expense of \$3.5 million accrued as of December 31, 2016, which excludes amounts reserved for regulatory settlement expenses discussed below, is adequate and that any incremental liability arising from the Company's legal proceedings and threatened claims, including the matters described herein and those otherwise arising in the ordinary course of business, will not have a material adverse effect on the Company's business or consolidated financial condition. It is possible, however, that future developments could result in an unfavorable outcome for or resolution of any one or more of the lawsuits in which the Company or its subsidiaries are defendants, which may be material to the Company's results of operations for a given fiscal period.

On January 5, 2016, the Bank entered into an agreement to settle a class action lawsuit filed on May 18, 2010 by an Arkansas customer of the Bank in the U.S. District Court for the Northern District of Florida. The suit challenged the manner in which overdraft fees were charged and the policies related to the posting order of debit card and ATM transactions. The suit also made a claim under Arkansas' consumer protection statute. The plaintiff was seeking to recover damages in an unspecified amount and equitable relief. As a result of this agreement, the Company recorded an expense of \$16.5 million in the fourth quarter of 2015, representing amounts to be paid in connection with the settlement, net of amounts the Company had already accrued for this legal proceeding in previous periods. The settlement was approved by the court on July 15, 2016. Pursuant to the Court's order preliminarily approving the settlement, in the first quarter of 2016 the amounts accrued for settlement were paid into settlement escrow funds.

On July 31, 2014, the Company, its Chief Executive Officer and Chief Financial Officer were named in a purported class-action lawsuit filed in the U.S. District Court for the Middle District of Tennessee on behalf of certain purchasers of the Company's common stock. The complaint was subsequently amended to add the former President and Chief Operating Officer. The complaint alleges that the defendants made misleading statements concerning the Company's expectation that it would be able to close two merger transactions within a specified time period and the Company's compliance with certain Bank Secrecy Act and anti-money laundering requirements. On July 10, 2015, the District Court granted in part and denied in part the defendants' motion to dismiss and dismissed the claims concerning the Company's expectations about the closing of the mergers. Class certification was granted by the District Court on April 21, 2016, and a petition for immediate appeal of the class certification was filed and was granted. Class certification was vacated by the U.S. Sixth Circuit Court of Appeals, and the case was remanded to the District Court for further proceedings. The plaintiff seeks an unspecified amount of damages and awards of costs and attorneys' fees and such other equitable relief as the District Court may deem just and proper. At this stage of the lawsuit, management cannot determine the probability of an unfavorable outcome to the Company as it is uncertain whether the lead Plaintiff will be successful in certifying a class on its second attempt and the exact amount of damages (should the District Court grant class certification again) is uncertain. Although it is not possible to predict

the ultimate resolution or financial liability with respect to the 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 June 29, 2016, the Bank, the CFPB and the DOJ agreed to a settlement set forth in a consent order (the "Consent Order") related to the joint investigation by the CFPB and the DOJ of the Bank's fair lending program during the period between January 1, 2011 and December 31, 2013. The Consent Order was signed by the United States District Court for the Northern District of Mississippi (the "District Court") on July 25, 2016. In the first quarter of 2016, the Bank reserved \$13.8 million to cover costs related to this matter, \$10.3 million of which was reflected as

146

---

regulatory settlement expense and \$3.5 million of which was included in other noninterest expense. The settlement of this matter did not have a material financial impact on the second, third or fourth quarter 2016 financial results. For additional information regarding the terms of this settlement and the Consent Order, see the signed Consent Order and the Company's Current Report on Form 8-K filed on June 29, 2016 which is incorporated into this Report by reference.

(24) CONDENSED PARENT COMPANY INFORMATION

The following condensed financial information reflects the accounts and transactions of the Company (excluding its subsidiaries) at the dates and for the years indicated:

Condensed Balance Sheets	December 31,	
	2016	2015
Assets:	(In thousands)	
Cash on deposit with subsidiary bank	\$ 166,593	\$ 86,767
Investment in subsidiaries	1,567,834	1,623,640
Other assets	4,846	11,237
Total assets	\$ 1,739,273	\$ 1,721,644
Liabilities and shareholders' equity:		
Total liabilities	\$ 15,390	\$ 66,200
Shareholders' equity	1,723,883	1,655,444
Total liabilities and shareholders' equity	\$ 1,739,273	\$ 1,721,644

Condensed Statements of Income	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Dividends from subsidiaries	\$ 192,000	\$ 100,000	\$ 60,000
Other operating income (loss)	(404)	1,075	585
Total income	191,596	101,075	60,585
Operating expenses	7,547	8,419	6,867
Income before tax benefit and equity in undistributed earnings	184,049	92,656	53,718
Income tax benefit	3,051	2,818	2,420
Income before equity in undistributed earnings of subsidiaries	187,100	95,474	56,138
Equity in undistributed earnings of subsidiaries	(54,372)	32,017	60,612
Net income	\$ 132,728	\$ 127,491	\$ 116,750





Condensed Statements of Cash Flows	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Operating activities:			
Net income	\$ 132,728	\$ 127,491	\$ 116,750
Adjustments to reconcile net income to net cash provided by (used in) operating activities	60,882	(32,255)	(61,862)
Net cash provided by operating activities	193,610	95,236	54,888
Financing activities:			
Cash dividends	(42,310)	(33,368)	(23,983)
Redemption of junior subordinated debt	(10,310)	-	(8,248)
Advance of long-term debt	-	-	8,000
Repayment of long-term debt	(39,775)	(8,373)	(8,066)
Common stock transactions, net	(21,389)	(59,998)	13,928
Net cash used in financing activities	(113,784)	(101,739)	(18,369)
Increase (decrease) in cash and cash equivalents	79,826	(6,503)	36,519
Cash and cash equivalents at beginning of year	86,767	93,270	56,751
Cash and cash equivalents at end of year	\$ 166,593	\$ 86,767	\$ 93,270

#### (25) OTHER NONINTEREST INCOME AND EXPENSE

The following table details other noninterest income for the three years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
	(In thousands)		
Bank-owned life insurance	\$ 7,585	\$ 7,457	\$ 8,848
Other miscellaneous income	12,147	12,143	12,883
Total other noninterest income	\$ 19,732	\$ 19,600	\$ 21,731

The following table details other noninterest expense for the three years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
	(In thousands)		
Advertising	\$ 5,044	\$ 4,288	\$ 4,388

Edgar Filing: BANCORPSOUTH INC - Form 10-K

Foreclosed property expense	4,354	7,418	17,071
Telecommunications	5,087	5,226	5,625
Public relations	2,694	2,769	4,101
Data processing	26,835	24,148	23,830
Computer software	11,381	10,500	10,525
Amortization of intangibles	3,635	3,963	4,443
Legal fees	8,543	30,346	9,822
Merger expense	2	25	1,761
Postage and shipping	4,236	4,535	4,745
Other miscellaneous expense	56,684	57,540	57,863
Total other noninterest expense	\$ 128,495	\$ 150,758	\$ 144,174

148

---

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company, with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) as of the end of the period covered by this Report.

Based upon that evaluation and as of the end of the period covered by this Report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed in its reports that the Company files or submits to the SEC under the Exchange Act is recorded, processed, summarized and reported on a timely basis.

Pursuant to Section 404 of the Sarbanes-Oxley Act, the Company has included a report of management's assessment of the design and operating effectiveness of its internal controls as part of this Report. The Company's independent registered public accounting firm reported on the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's report are included with the Company's 2016 consolidated financial statements in Item 8 of this Report under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm."

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information concerning the directors and nominees of the Company appears under the caption “Proposal 1: Election of Directors” in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information regarding executive officers is included under the section captioned “Executive Officers of the Registrant” in Part I, Item 1, of this Report.

AUDIT COMMITTEE FINANCIAL EXPERT

Information regarding audit committee financial experts serving on the Audit Committee of the Company’s Board of Directors appears under the caption “Corporate Governance - Committees of the Board of Directors” in the

149

---

Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

#### IDENTIFICATION OF THE AUDIT COMMITTEE

Information regarding the Audit Committee and the identification of its members appears under the caption "Corporate Governance - Committees of the Board of Directors" in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference. In establishing the Audit Committee's compliance with Rule 10A-3 under the Exchange Act, each member of the Company's Audit Committee is relying upon the exemption provided by Rule 10A-3(b)(1)(iv)(B) of the Exchange Act because each member of the Audit Committee is also a member of the Bank's Board of Directors.

#### MATERIAL CHANGES TO PROCEDURES BY WHICH SECURITY HOLDERS MAY RECOMMEND NOMINEES

The Company has not made any material changes to the procedures by which its shareholders may recommend nominees to the Company's Board of Directors since the date of the Company's Definitive Proxy Statement for its 2016 Annual Meeting of Shareholders.

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Information regarding the Section 16(a) beneficial ownership compliance of each of the Company's directors and executive officers or each person who owns more than 10% of the outstanding shares of the Company's common stock appears under the caption "General Information - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

#### CERTAIN CORPORATE GOVERNANCE DOCUMENTS

The Company has adopted a code of business conduct and ethics that applies to its directors, chief executive officer, chief financial officer, other officers, other financial reporting persons and employees. The Company has also adopted Corporate Governance Principles for its Board of Directors. These documents, as well as the charters of the Audit Committee, Executive Compensation and Stock Incentive Committee and Nominating Committee of the Board of Directors, are available on the Company's website at [www.bancorpsouth.com](http://www.bancorpsouth.com) on the Investors Relations webpage under the captions "Corporate Information - Governance Documents" and "- Committee Charting," or shareholders may

request a free copy of these documents from:

BancorpSouth, Inc.

Corporate Secretary

One Mississippi Plaza

201 South Spring Street

Tupelo, Mississippi 38804

(662) 680-2000

The Company intends to disclose any amendments to its code of business conduct and ethics and any waiver from a provision of the code, as required by the SEC, on the Company's website within four business days following such amendment or waiver.

#### ITEM 11. EXECUTIVE COMPENSATION.

This information appears under the captions "Executive Compensation," "Compensation Discussion and Analysis," "Director Compensation" and "Executive Compensation and Stock Incentive Committee Report" in the

150

---

Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information regarding the security ownership of certain beneficial owners and directors, nominees and executive officers of the Company appears under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

The following table provides information as of December 31, 2016 with respect to compensation plans (including individual compensation arrangements) under which shares of Company common stock are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities related to column (a)) (c)
Equity compensation plans approved by shareholders (1)	77,302	\$ 17.54	3,459,342
Equity compensation plans not approved by shareholders (2)	-	-	382,262
Total	77,302	\$ 17.54	3,841,604

(1) Excludes 1,348,428 restricted shares that were unvested, 37,024 restricted stock units that were unvested and 313,066 performance shares that were unearned as of December 31, 2016. Equity compensation plans approved by shareholders include the BancorpSouth, Inc. Director Stock Plan, the BancorpSouth, Inc. Executive Performance Incentive Plan, as amended, the BancorpSouth, Inc. Long-Term Equity Incentive Plan, as amended, and the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-employee Directors, as amended.

(2) Equity compensation plans not approved by shareholders include the BancorpSouth, Inc. 1998 Stock Option Plan, as amended, and the plan assumed in connection with the merger of Business Holding Corporation, which was effective December 31, 2004.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information regarding certain relationships and related transactions with management and others appears under the caption “Certain Relationships and Related Transactions” in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference. Information regarding director independence appears under the caption “Corporate Governance – Director Independence” in the Company’s Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

151

---



ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information regarding accountant fees and services appears under the caption "Independent Registered Public Accounting Firm" in the Company's Definitive Proxy Statement for its 2017 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits:

1 Consolidated Financial Statements: See "Item 8. Financial Statements and Supplementary Data."

2 Consolidated Financial Statement Schedules:

All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

3 Exhibits:

- (2)
  - (a) Agreement and Plan of Reorganization, dated as of January 22, 2014, by and between BancorpSouth, Inc. and Central Community Corporation. (21)(27)
  - (b) Amendment No. 1 to Agreement and Plan of Reorganization, dated July 21, 2014, by and between BancorpSouth, Inc. and Central Community Corporation. (22)
  - (c) Amendment No. 2 to Agreement and Plan of Merger, dated June 30, 2015, by and between BancorpSouth, Inc. and Central Community Corporation. (25)
  - (d) Amendment No. 3 to Agreement and Plan of Merger, dated October 13, 2016, by and between BancorpSouth, Inc. and Central Community Corporation. (29)
- (3)
  - (a) Amended and Restated Articles of Incorporation. (1)
  - (b) Amended and Restated Bylaws. (2)
- (4)
  - (a) Specimen Common Stock Certificate. (3)
  - (b) Certain instruments defining the rights of certain holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.
- (10)
  - (a) BancorpSouth, Inc. Supplemental Executive Retirement Plan, as amended and restated. (4)(28)
  - (b) Amendment to BancorpSouth, Inc Supplemental Executive Retirement Plan. (5)(28)
  - (c) BancorpSouth, Inc. Amended and Restated Long-Term Equity Incentive Plan. (6)(28)
  - (d)

Edgar Filing: BANCORPSOUTH INC - Form 10-K

- Amendment to BancorpSouth, Inc. Amended and restated Long-Term Equity Incentive Plan. (24) (28)
- (e) BancorpSouth, Inc. Amended and Restated Executive Performance Incentive Plan. (7)(28)
  - (f) Form of Performance Share Award Agreement (8) (28)
  - (g) Form of Long-Term Equity Incentive Plan Restricted Stock Agreement. (7)(28)
  - (h) BancorpSouth, Inc. Director Stock Plan, as amended and restated. (6)(28)
  - (i) BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (9)(28)
  - (j) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (10)(28)

Edgar Filing: BANCORPSOUTH INC - Form 10-K

- (k) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (11)(28)
- (l) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (24)(28)
- (m) BancorpSouth, Inc. 1998 Stock Option Plan. (12)(28)
- (n) Amendment to the BancorpSouth, Inc. 1998 Stock Option Plan. (13)(28)
- (o) BancorpSouth, Inc. Restoration Plan, as amended and restated. (4)(28)
- (p) BancorpSouth, Inc. Amended and Restated Deferred Compensation Plan. (4)(28)
- (q) BancorpSouth, Inc. Home Office Incentive Plan. (14)(28)
- (r) Description of Dividend Reinvestment Plan. (15)(28)
- (s) BancorpSouth, Inc., Amended and Restated Salary Deferral-Profit Sharing Employee Stock Ownership Plan. (16)(28)
- (t) Executive Employment Agreement with James D. Rollins III. (6)(28)
- (u) Amendment to Executive Employment Agreement with James D. Rollins III. (7)(28)
- (v) BancorpSouth, Inc. Long-Term Equity Incentive Plan Restricted Stock Agreement with James D. Rollins. (7)(28)
- (w) Form of BancorpSouth, Inc. Change in Control Agreement. (17)(28)
- (x) Form of Amendment to BancorpSouth, Inc. Change in Control Agreement. (4)(28)
- (y) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for William L. Prater. (26)(28)
- (z) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for James D. Rollins III. (26)(28)
- (aa) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for W. James Threadgill, Jr. (26)(28)
- (bb) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for Chris A. Bagley. (26)(28)
- (cc) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for James R. Hodges. (26)(28)
- (dd) BancorpSouth, Inc. Deferred Directors' Fee Unfunded Plan. (4)(28)
- (ee) Premier Bancorp, Inc. 1998 Stock Option Plan. (18)(28)
- (ff) Premier Bancorp, Inc. 1998 Outside Director Stock Option Plan. (18)(28)
- (gg) Form of Stock Option Agreement for converted Business Holding Corporation Options (Vesting). (18)(28)
- (hh) Form of Stock Option Agreement for converted Business Holding Corporation Options (Non-Vesting). (18)(28)
- (ii) Salary Continuation Agreement with Gordon R. Lewis. (19)(28)
- (jj) Retirement and Noncompetition Agreement with Gordon R. Lewis. (23)(28)
- (kk) Credit Agreement, dated as of August 8, 2013, among BancorpSouth, Inc., U.S. Bank National Association and First Tennessee Bank, National Association. (20)
- (ll) Employment Details for Chris Bagley. (24)
- (mm) Consent Order (30)
- (nn) Retirement and Consulting Agreement, dated November 4, 2016, by and between BancorpSouth, Inc., BancorpSouth Bank and W. James Threadgill, Jr. (31)

- Retirement and Consulting Agreement, dated November 4, 2016, by and between BancorpSouth, Inc., BancorpSouth Bank and William L. Prater. (32)
- (11) Statement re computation of per share earnings. \*
- (21) Subsidiaries of the Registrant.\*
- (23) Consent of Independent Registered Public Accounting Firm.\*
- (31.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (31.2) Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (32.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of
- (32.2) 2002.\*\*
- Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*
- (101) Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2016, is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2016 and 2015 (ii) the Consolidated Statements of Income for the each of the years ended December 31, 2016, 2015 and 2014, (iii) the Consolidated Statements of Comprehensive Income for each of the years ended December 31, 2016, 2015 and 2014, (iv) the Consolidated Statement of Shareholders' Equity for each of the years ended December 31, 2016, 2015 and 2014, (v) the Consolidated Statements of Cash Flows for each of the years ended December 31, 2016, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.\*
- (1) Filed as an exhibit to the company's Current Report on Form 8-K filed on April 27, 2016 (file number 1-12991) and incorporated by reference thereto.
- (2) Filed as an exhibit to the company's Current Report on Form 8-K filed on April 27, 2016 (file number 1-12991) and incorporated by reference thereto.
- (3) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (file number 0-10826) and incorporated by reference thereto.
- (4) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (file number 1-12991) and incorporated by reference thereto.
- (5) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2012 (file number 1-12991) and incorporated by reference thereto.
- (6) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (file number 1-12991) and incorporated by reference thereto.
- (7) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (file number 1-12991) and incorporated by reference thereto.
- (8) Filed as an exhibit to the Company's Current Report on Form 8-K filed on March 7, 2007 (file number 1-12991) and incorporated by reference thereto.

- (9) Filed as an exhibit to the Company's Form 10-Q for the three months ended March 31, 1998 (file number 0-10826) and incorporated by reference thereto.
- (10) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2005 (file number 1-12991) and incorporated by reference thereto.
- (11) Filed as an exhibit to the Company's Current Report on Form 8-K filed on April 29, 2008 (file number 1-12991) and incorporated by reference thereto.
- (12) Filed as an exhibit to the Company's Post-Effective Amendment No. 5 on Form S-3 to Form S-4 filed on February 23, 1999 (Registration No. 333-280181)

and  
incorporated by  
reference  
thereto.

- (13) Filed as an exhibit to the Company's registration statement on Form S-3 filed on March 13, 2007 (Registration No. 333-141250) and incorporated by reference thereto.

- (14) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (file number 1-12991) and incorporated by reference thereto.

- (15) Filed as the Company's prospectus pursuant to Rule 424(b)(2) filed on January 5, 2004 (Registration No. 033-03009) and incorporated by reference thereto.

- (16) Filed as an exhibit to the Company's registration statement on

Form S-8 filed  
on April 19,  
2006  
(Registration  
No.  
333-133390)  
and  
incorporated by  
reference  
thereto.

(17) Filed as an  
exhibit to the  
Company's  
Annual Report  
on Form 10-K  
for the year  
ended  
December 31,  
2003 (file  
number  
1-12991) and  
incorporated by  
reference  
thereto.

(18) Filed as an  
exhibit to the  
Company's  
registration  
statement on  
Form S-8 filed  
on December  
30, 2004  
(Registration  
No.  
333-121785)  
and  
incorporated by  
reference  
thereto.

(19) Filed as an  
exhibit to the  
Company's  
Quarterly  
Report on Form  
10-Q for the  
three months  
ended March  
31, 2012 (file  
number  
1-12991) and  
incorporated by

reference  
thereto.

- (20) Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 8, 2013 (file number 1-12991) and incorporated by reference thereto.
- (21) Filed as Annex A to the Company's registration statement on Form S-4 filed on February 28, 2014 (file number 333-194233 and incorporated by reference thereto.
- (22) Filed as an exhibit to the Company's Current Report on Form 8-K filed on July 24, 2014 (file number 1-12991) and incorporated by reference thereto.
- (23) Filed as an exhibit to the Company's Current Report on Form 8-K filed on December 9, 2014 (file number 1-12991) and incorporated by reference



- thereto.
- (24) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (file number 1-12991) and incorporated by reference thereto.
- (25) Filed as an exhibit to the Company's Current Report on Form 8-K filed on July 1, 2015 (file number 1-12991) and incorporated by reference thereto.
- (26) Filed as an exhibit to the Company's Current Report on Form 8-K filed on December 23, 2015 (file number 1-12991) and incorporated by reference thereto.
- (27) The Schedule to the Agreement and Plan of Reorganization, dated as of January 22, 2014, by and between BancorpSouth, Inc. and Central Community

Corporation  
have been  
omitted  
pursuant to Item  
601(b)(2) of  
Regulation S-K.  
The Company  
hereby agrees to  
furnish  
supplementally  
a copy of such  
schedules to the  
SEC upon  
request.

- (28) Management contracts, compensatory plans or arrangements.
- (29) Filed as an exhibit to the Company's Current Report on Form 8-K filed on October 14, 2016 (file number 1-12991) and incorporated by reference thereto.

(30) Filed as an exhibit to the Company's Current Report on Form 8-K filed on June 29, 2016 (file number 1-12991) and incorporated by reference thereto.

(31) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2016 (file number 1-12991) and incorporated by reference thereto.

(32) Filed as an exhibit to the Company's Current Report on Form 8-K filed on November 16, 2016 (file number 1-12991) and incorporated by reference thereto.

\* Filed herewith

\*\* Furnished herewith



ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCORPSOUTH, INC.

DATE: February 27, 2017 By: /s/James D. Rollins III  
James D. Rollins III  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/James D. Rollins III James D. Rollins III	Chief Executive Officer (Principal Executive Officer) and Director	February 27, 2017
/s/William L. Prater William L. Prater	Treasurer and Chief Financial Officer (Principal Financial Officer)	February 27, 2017
/s/ Gus J. Blass III Gus J. Blass III	Director	February 27, 2017
/s/ Shannon A. Brown Shannon A. Brown	Director	February 27, 2017
/s/James E. Campbell III James E. Campbell III	Director	February 27, 2017
/s/ Deborah Cannon Deborah Cannon	Director	February 27, 2017

Edgar Filing: BANCORPSOUTH INC - Form 10-K

/s/W. G. Holliman Jr.      Director      February 27, 2017  
W. G. Holliman, Jr.

/s/Warren A. Hood Jr.      Director      February 27, 2017  
Warren A. Hood, Jr.

/s/Keith J. Jackson      Director      February 27, 2017  
Keith J. Jackson

157

---

/s/Larry G. Kirk            Director February 27, 2017  
Larry G. Kirk

/s/Guy W. Mitchell III    Director February 27, 2017  
Guy W. Mitchell III

/s/Robert C. Nolan        Director February 27, 2017  
Robert C. Nolan

/s/Alan W. Perry           Director February 27, 2017  
Alan W. Perry

/s/Tom Stanton             Director February 27, 2017  
Tom Stanton

158

---

INDEX TO EXHIBITS

Exhibit No. Description

- (2) (a) Agreement and Plan of Reorganization, dated as of January 22, 2014, by and between BancorpSouth, Inc. and Central Community Corporation. (21)(27)
- (b) Amendment No. 1 to Agreement and Plan of Reorganization, dated July 21, 2014, by and between BancorpSouth, Inc. and Central Community Corporation. (22)
- (c) Amendment No. 2 to Agreement and Plan of Merger, dated June 30, 2015, by and between BancorpSouth, Inc. and Central Community Corporation. (25)
- (d) Amendment No. 3 to Agreement and Plan of Merger, dated October 13, 2016, by and between BancorpSouth, Inc. and Central Community Corporation. (29)
- (3) (a) Amended and Restated Articles of Incorporation. (1)
- (b) Amended and Restated Bylaws. (2)
- (4) (a) Specimen Common Stock Certificate. (3)
- (b) Certain instruments defining the rights of certain holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.
- (10) (a) BancorpSouth, Inc. Supplemental Executive Retirement Plan, as amended and restated. (4)(28)
- (b) Amendment to BancorpSouth, Inc Supplemental Executive Retirement Plan. (5)(28)
- (c) BancorpSouth, Inc. Amended and Restated Long-Term Equity Incentive Plan. (6)(28)
- (d) Amendment to BancorpSouth, Inc. Amended and restated Long-Term Equity Incentive Plan. (24) (28)
- (e) BancorpSouth, Inc. Amended and Restated Executive Performance Incentive Plan. (7)(28)
- (f) Form of Performance Share Award Agreement (8) (28)
- (g) Form of Long-Term Equity Incentive Plan Restricted Stock Agreement. (7)(28)
- (h) BancorpSouth, Inc. Director Stock Plan, as amended and restated. (6)(28)
- (i) BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (9)(28)
- (j) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (10)(28)
- (k) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (11)(28)
- (l) Amendment to the BancorpSouth, Inc. 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (24)(28)
- (m) BancorpSouth, Inc. 1998 Stock Option Plan. (12)(28)
- (n) Amendment to the BancorpSouth, Inc. 1998 Stock Option Plan. (13)(28)
- (o) BancorpSouth, Inc. Restoration Plan, as amended and restated. (4)(28)
- (p) BancorpSouth, Inc. Amended and Restated Deferred Compensation Plan. (4)(28)
- (q) BancorpSouth, Inc. Home Office Incentive Plan. (14)(28)
- (r) Description of Dividend Reinvestment Plan. (15)(28)
- (s) BancorpSouth, Inc., Amended and Restated Salary Deferral-Profit Sharing Employee Stock Ownership Plan. (16)(28)
- (t) Executive Employment Agreement with James D. Rollins III. (6)(28)





Edgar Filing: BANCORPSOUTH INC - Form 10-K

- (u) Amendment to Executive Employment Agreement with James D. Rollins III. (7)(28)
- (v) BancorpSouth, Inc. Long-Term Equity Incentive Plan Restricted Stock Agreement with James D. Rollins. (7)(28)
- (w) Form of BancorpSouth, Inc. Change in Control Agreement. (17)(28)
- (x) Form of Amendment to BancorpSouth, Inc. Change in Control Agreement. (4)(28)
- (y) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for William L. Prater. (26)(28)
- (z) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for James D. Rollins III. (26)(28)
- (aa) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for W. James Threadgill, Jr. (26)(28)
- (bb) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for Chris A. Bagley. (26)(28)
- (cc) BancorpSouth, Inc. Amended and Restated Change in Control Agreement for James R. Hodges. (26)(28)
- (dd) BancorpSouth, Inc. Deferred Directors' Fee Unfunded Plan. (4)(28)
- (ee) Premier Bancorp, Inc. 1998 Stock Option Plan. (18)(28)
- (ff) Premier Bancorp, Inc. 1998 Outside Director Stock Option Plan. (18)(28)
- (gg) Form of Stock Option Agreement for converted Business Holding Corporation Options (Vesting). (18)(28)
- (hh) Form of Stock Option Agreement for converted Business Holding Corporation Options (Non-Vesting). (18)(28)
- (ii) Salary Continuation Agreement with Gordon R. Lewis. (19)(28)
- (jj) Retirement and Noncompetition Agreement with Gordon R. Lewis. (23)(28)
- (kk) Credit Agreement, dated as of August 8, 2013, among BancorpSouth, Inc., U.S. Bank National Association and First Tennessee Bank, National Association. (20)
- (ll) Employment Details for Chris Bagley. (24)
- (mm) Consent Order (30)
- (nn) Retirement and Consulting Agreement, dated November 4, 2016, by and between BancorpSouth, Inc., BancorpSouth Bank and W. James Threadgill, Jr. (31)
- (oo) Retirement and Consulting Agreement, dated November 4, 2016, by and between BancorpSouth, Inc., BancorpSouth Bank and William L. Prater. (32)
- (11) Statement re computation of per share earnings. \*
- (21) Subsidiaries of the Registrant.\*
- (23) Consent of Independent Registered Public Accounting Firm.\*
- (31.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (31.2) Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (32.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- (32.2) Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \*\*

- (101) Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2016, is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2016 and 2015 (ii) the Consolidated Statements of Income for the each of the years ended December 31, 2016, 2015 and 2014, (iii) the Consolidated Statements of Comprehensive Income for each of the years ended December 31, 2016, 2015 and 2014, (iv) the Consolidated Statement of Shareholders' Equity for each of the years ended December 31, 2016, 2015 and 2014, (v) the Consolidated Statements of Cash Flows for each of the years ended December 31, 2016, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text.\*
- (1) Filed as an exhibit to the company's Current Report on Form 8-K filed on April 27, 2016 (file number 1-12991) and incorporated by reference thereto.
  - (2) Filed as an exhibit to the company's Current Report on Form 8-K filed on April 27, 2016 (file number 1-12991) and incorporated by reference thereto.
  - (3) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (file number 0-10826) and incorporated by reference thereto.
  - (4) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (file number 1-12991) and incorporated by reference thereto.
  - (5) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2012 (file number 1-12991) and incorporated by reference thereto.
  - (6) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (file number 1-12991) and incorporated by reference thereto.
  - (7) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (file number 1-12991) and incorporated by reference thereto.
  - (8) Filed as an exhibit to the Company's Current Report on Form 8-K filed on March 7, 2007 (file number 1-12991) and incorporated by reference thereto.
  - (9) Filed as an exhibit to the Company's Form 10-Q for the three months ended March 31, 1998 (file number 0-10826) and incorporated by reference thereto.
  - (10) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2005 (file number 1-12991) and incorporated by reference thereto.
  - (11) Filed as an exhibit to the Company's Current Report on Form 8-K filed on April 29, 2008 (file number 1-12991) and incorporated by reference thereto.
  - (12) Filed as an exhibit to the Company's Post-Effective Amendment No. 5 on Form S-3 to Form S-4 filed on February 23, 1999 (Registration No. 333-280181) and incorporated by reference thereto.
  - (13) Filed as an exhibit to the Company's registration statement on Form S-3 filed on March 13, 2007 (Registration No. 333-141250) and incorporated by reference thereto.
  - (14) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (file number 1-12991) and incorporated by reference thereto.
  - (15) Filed as the Company's prospectus pursuant to Rule 424(b)(2) filed on January 5, 2004 (Registration No. 033-03009) and incorporated by reference thereto.
  - (16) Filed as an exhibit to the Company's registration statement on Form S-8 filed on April 19, 2006 (Registration No. 333-133390) and incorporated by reference thereto.



- (17) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (file number 1-12991) and incorporated by reference thereto.
- (18) Filed as an exhibit to the Company's registration statement on Form S-8 filed on December 30, 2004 (Registration No. 333-121785) and incorporated by reference thereto.
- (19) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2012 (file number 1-12991) and incorporated by reference thereto.
- (20) Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 8, 2013 (file number

- 1-12991) and incorporated by reference thereto.
- (21) Filed as Annex A to the Company's registration statement on Form S-4 filed on February 28, 2014 (file number 333-194233 and incorporated by reference thereto.
- (22) Filed as an exhibit to the Company's Current Report on Form 8-K filed on July 24, 2014 (file number 1-12991) and incorporated by reference thereto.
- (23) Filed as an exhibit to the Company's Current Report on Form 8-K filed on December 9, 2014 (file number 1-12991) and incorporated by reference thereto.
- (24) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (file

number  
1-12991) and  
incorporated by  
reference  
thereto.

(25) Filed as an  
exhibit to the  
Company's  
Current Report  
on Form 8-K  
filed on July 1,  
2015 (file  
number  
1-12991) and  
incorporated by  
reference  
thereto.

(26) Filed as an  
exhibit to the  
Company's  
Current Report  
on Form 8-K  
filed on  
December 23,  
2015 (file  
number  
1-12991) and  
incorporated by  
reference  
thereto.

(27) The Schedule to  
the Agreement  
and Plan of  
Reorganization,  
dated as of  
January 22,  
2014, by and  
between  
BancorpSouth,  
Inc. and Central  
Community  
Corporation  
have been  
omitted  
pursuant to Item  
601(b)(2) of  
Regulation S-K.  
The Company  
hereby agrees to  
furnish  
supplementally

a copy of such schedules to the SEC upon request.

- (28) Management contracts, compensatory plans or arrangements.
- (29) Filed as an exhibit to the Company's Current Report on Form 8-K filed on October 14, 2016 (file number 1-12991) and incorporated by reference thereto.
- (30) Filed as an exhibit to the Company's Current Report on form 8-K filed on June 29, 2016 (file number 1-12991) and incorporated by reference thereto.
- (31) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2016 (file number 1-12991) and incorporated by reference thereto.
- (32) Filed as an exhibit to the Company's



Current Report  
on Form 8-K  
filed on  
November 16,  
2016 (file  
number  
1-12991) and  
incorporated by  
reference  
thereto.

- \* Filed herewith
- \*\* Furnished  
herewith

162

---