RENASANT CORP
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014
Or

o 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 001-13253

RENASANT CORPORATION
(Exact name of registrant as specified in its charter)

Mississippi	64-0676974
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
209 Troy Street, Tupelo, Mississippi	38804-4827
(Address of principal executive offices)	(Zip Code)

(662) 680-1001
(Registrant's telephone number, including area code)

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 ý No o

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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 31, 2014, 31,535,373 shares of the registrant's common stock, $5.00 par value per share, were outstanding. The registrant has no other classes of securities outstanding.

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Renasant Corporation and Subsidiaries
Form 10-Q
For the Quarterly Period Ended September 30, 2014
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
Renasant Corporation and Subsidiaries
Consolidated Balance Sheets

(In Thousands, Except Share Data)

	(Unaudited) September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 56,560	$ 87,342
Interest-bearing balances with banks	85,034	159,306
Cash and cash equivalents	141,594	246,648
Securities held to maturity (fair value of $444,926 and $408,576, respectively)	434,705	412,075
Securities available for sale, at fair value	545,623	501,254
Mortgage loans held for sale, at fair value	30,451	33,440
Loans, net of unearned income:		
Acquired and covered by FDIC loss-share agreements ("covered loans")	155,319	181,674
Acquired and non-covered by FDIC loss-share agreements ("acquired non-covered loans")	636,628	813,543
Not acquired	3,165,492	2,885,801
Total loans, net of unearned income	3,957,439	3,881,018
Allowance for loan losses	(44,569)	(47,665)
Loans, net	3,912,870	3,833,353
Premises and equipment, net	109,098	101,525
Other real estate owned:		
Covered under FDIC loss-share agreements	4,033	12,942
Not covered under FDIC loss-share agreements	30,026	39,945
Total other real estate owned, net	34,059	52,887
Goodwill	274,658	276,100
Other intangible assets, net	23,951	28,230
FDIC loss-share indemnification asset	17,033	26,273
Other assets	227,669	234,485
Total assets	$ 5,751,711	$ 5,746,270
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 935,544	$ 856,020
Interest-bearing	3,828,126	3,985,892
Total deposits	4,763,670	4,841,912
Short-term borrowings	65,646	2,283
Long-term debt	162,018	169,592
Other liabilities	59,902	66,831
Total liabilities	5,051,236	5,080,618
Shareholders' equity		
Preferred stock, $.01 par value – 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $5.00 par value – 75,000,000 shares authorized, 32,656,166 and 32,656,182 shares issued, respectfully; 31,533,703 and 31,387,668 shares outstanding,	163,281	163,281

respectively		
Treasury stock, at cost	(21,919)	(23,023)
Additional paid-in capital	344,549	342,552
Retained earnings	222,670	194,815
Accumulated other comprehensive loss, net of taxes	(8,106)	(11,973)
Total shareholders’ equity	700,475	665,652
Total liabilities and shareholders’ equity	$ 5,751,711	$ 5,746,270

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)
(In Thousands, Except Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income				
Loans	$49,833	$39,308	$150,658	$108,031
Securities				
Taxable	4,144	3,282	12,998	9,504
Tax-exempt	2,308	2,001	6,821	5,844
Other	73	47	335	149
Total interest income	56,358	44,638	170,812	123,528
Interest expense				
Deposits	3,915	4,313	12,424	12,488
Borrowings	1,971	1,577	5,776	4,507
Total interest expense	5,886	5,890	18,200	16,995
Net interest income	50,472	38,748	152,612	106,533
Provision for loan losses	2,217	2,300	5,117	8,350
Net interest income after provision for loan losses	48,255	36,448	147,495	98,183
Noninterest income				
Service charges on deposit accounts	6,747	5,361	18,856	14,370
Fees and commissions	6,237	4,982	16,724	14,661
Insurance commissions	2,270	1,295	6,221	3,107
Wealth management revenue	2,197	2,091	6,511	5,530
Gains on sales of securities	375	—	375	54
BOLI income	811	1,904	2,288	3,268
Gains on sales of mortgage loans held for sale	2,635	2,788	6,226	10,223
Other	1,291	514	3,449	2,417
Total noninterest income	22,563	18,935	60,650	53,630
Noninterest expense				
Salaries and employee benefits	29,569	25,689	87,807	68,869
Data processing	2,906	2,236	8,451	6,324
Net occupancy and equipment	5,353	4,576	15,106	11,852
Other real estate owned	1,101	1,537	3,870	5,359
Professional fees	1,018	1,542	3,607	4,019
Advertising and public relations	1,133	1,514	4,549	4,250
Intangible amortization	1,381	724	4,279	1,361
Communications	1,079	1,310	4,462	3,572
Merger-related expenses	—	3,763	195	4,148
Other	4,635	3,722	12,890	12,193
Total noninterest expense	48,175	46,613	145,216	121,947
Income before income taxes	22,643	8,770	62,929	29,866
Income taxes	7,108	2,133	18,944	7,639
Net income	$15,535	$6,637	$43,985	$22,227
Basic earnings per share	$0.49	$0.24	$1.40	$0.86
Diluted earnings per share	$0.49	$0.24	$1.39	$0.85
Cash dividends per common share	$0.17	$0.17	$0.51	$0.51

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)
(In Thousands, Except Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$15,535	$6,637	$43,985	$22,227
Other comprehensive income (loss), net of tax:				
Securities:				
Net change in unrealized holding gains (losses) on securities	866	782	4,856	(6,091)
Reclassification adjustment for (gains) losses realized in net income	(232)	—	(232)	71
Amortization of unrealized holding losses on securities transferred to the held to maturity category	(38)	(49)	(121)	(169)
Total securities	596	733	4,503	(6,189)
Derivative instruments:				
Net change in unrealized holding (losses) gains on derivative instruments	42	(297)	(773)	902
Reclassification adjustment for gains realized in net income	—	(22)	—	(126)
Totals derivative instruments	42	(319)	(773)	776
Defined benefit pension and post-retirement benefit plans:				
Net gain arising during the period	—	—	—	—
Less amortization of net actuarial loss recognized in net periodic pension cost	47	113	137	270
Total defined benefit pension and post-retirement benefit plans	47	113	137	270
Other comprehensive income (loss), net of tax	685	527	3,867	(5,143)
Comprehensive income	$16,220	$7,164	$47,852	$17,084

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net cash provided by operating activities	$90,232	$124,122
Investing activities		
Purchases of securities available for sale	(100,129)	(106,521)
Proceeds from sales of securities available for sale	724	9,015
Proceeds from call/maturities of securities available for sale	60,202	62,606
Purchases of securities held to maturity	(154,126)	(70,075)
Proceeds from sales of securities held to maturity	—	4,461
Proceeds from call/maturities of securities held to maturity	130,206	84,667
Net increase in loans	(82,319)	(190,010)
Purchases of premises and equipment	(12,494)	(8,685)
Net cash received in acquisition	—	170,061
Net cash used in investing activities	(157,936)	(44,481)
Financing activities		
Net increase in noninterest-bearing deposits	79,524	20,770
Net (decrease) increase in interest-bearing deposits	(157,766)	26,735
Net increase (decrease) in short-term borrowings	63,363	(5,394)
Repayment of long-term debt	(7,864)	(7,326)
Cash paid for dividends	(16,135)	(13,951)
Cash received on exercise of stock-based compensation	401	99
Excess tax benefit from stock-based compensation	1,127	155
Net cash (used) provided by financing activities	(37,350)	21,088
Net (decrease) increase in cash and cash equivalents	(105,054)	100,729
Cash and cash equivalents at beginning of period	246,648	132,420
Cash and cash equivalents at end of period	$141,594	$233,149
Supplemental disclosures		
Cash paid for interest	$18,674	$16,900
Cash paid for income taxes	$9,300	$9,393
Noncash transactions:		
Transfers of loans to other real estate owned	$8,318	$13,747
Financed sales of other real estate owned	$860	$6,783

See Notes to Consolidated Financial Statements.

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note A – Summary of Significant Accounting Policies
Nature of Operations: Renasant Corporation (referred to herein as the "Company") owns and operates Renasant Bank ("Renasant Bank" or the "Bank") and Renasant Insurance, Inc. The Company offers a diversified range of financial, fiduciary and insurance services to its retail and commercial customers through its subsidiaries and full service offices located throughout north and north central Mississippi, Tennessee, north and central Alabama and north Georgia.
Basis of Presentation: The accompanying unaudited consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information regarding the Company's significant accounting policies, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 11, 2014.

On September 1, 2013, the Company completed its acquisition of First M&F Corporation ("First M&F"). The financial condition and results of operation for First M&F are included in the Company's financial statements since the date of the acquisition. See Note M, "Mergers and Acquisitions," in these Notes to Consolidated Financial Statements for further details regarding the terms and conditions of the Company's merger with First M&F.
Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Subsequent Events: The Company has evaluated, for consideration of recognition or disclosure, subsequent events that have occurred through the date of issuance of its financial statements, and has determined that no significant events occurred after September 30, 2014 but prior to the issuance of these financial statements that would have a material impact on its Consolidated Financial Statements.

Note B – Securities
(In Thousands, Except Number of Securities)
The amortized cost and fair value of securities held to maturity were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
September 30, 2014					
Obligations of other U.S. Government agencies and corporations	$125,573	$1	$(4,336	)	$121,238
Obligations of states and political subdivisions	309,132	14,927	(371	)	323,688
	$434,705	$14,928	$(4,707	)	$444,926
December 31, 2013					
Obligations of other U.S. Government agencies and corporations	$125,061	$14	$(8,727	)	$116,348
Obligations of states and political subdivisions	287,014	7,897	(2,683	)	292,228
	$412,075	$7,911	$(11,410	)	$408,576

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

In light of the ongoing fiscal uncertainty in state and local governments, the Company analyzes its exposure to potential losses in its security portfolio on at least a quarterly basis. Management reviews the underlying credit rating and analyzes the financial condition of
the respective issuers. Based on this analysis, the Company sold certain securities representing obligations of state and political subdivisions that were classified as held to maturity during 2013. The securities sold showed significant credit deterioration in that an analysis of the financial condition of the respective issuers showed the issuers were operating at net deficits with little to no financial cushion to offset future contingencies. The securities sold during the first nine months of 2013 had a carrying value of $4,292, and the Company recognized a net gain of $169 on the sale. No such securities were sold during the same period in 2014.

The amortized cost and fair value of securities available for sale were as follows as of the dates presented:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Obligations of other U.S. Government agencies and corporations	$6,126	$150	$(163)	$6,113
Residential mortgage backed securities:				
Government agency mortgage backed securities	289,008	3,718	(2,042)	290,684
Government agency collateralized mortgage obligations	157,135	1,480	(3,643)	154,972
Commercial mortgage backed securities:				
Government agency mortgage backed securities	45,938	1,457	(308)	47,087
Government agency collateralized mortgage obligations	5,146	180	—	5,326
Trust preferred securities	26,738	142	(7,307)	19,573
Other debt securities	18,044	451	(106)	18,389
Other equity securities	2,331	1,148	—	3,479
	$550,466	$8,726	$(13,569)	$545,623

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Obligations of other U.S. Government agencies and corporations	$6,144	$125	$(201)	$6,068
Residential mortgage backed securities:				
Government agency mortgage backed securities	261,659	2,747	(4,414)	259,992
Government agency collateralized mortgage obligations	149,682	1,542	(4,679)	146,545
Commercial mortgage backed securities:				
Government agency mortgage backed securities	41,252	1,373	(584)	42,041
	5,007	59	—	5,066

Government agency collateralized mortgage obligations				
Trust preferred securities	27,531	73	(9,933)	17,671
Other debt securities	19,544	240	(230)	19,554
Other equity securities	2,775	1,542	—	4,317
	$513,594	$7,701	$(20,041)	$501,254

Gross realized gains and gross realized losses on sales of securities available for sale for the three and nine months ended September 30, 2014 and 2013 were as follows:

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross gains on sales of securities available for sale	$375	$—	$375	$—
Gross losses on sales of securities available for sale	—	—	—	(115)
Loss on sales of securities available for sale, net	$375	$—	$375	$(115)

At September 30, 2014 and December 31, 2013, securities with a carrying value of $636,313 and $604,571, respectively, were pledged to secure government, public and trust deposits. Securities with a carrying value of $15,099 and $7,626 were pledged as collateral for short-term borrowings and derivative instruments at September 30, 2014 and December 31, 2013, respectively.
The amortized cost and fair value of securities at September 30, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$10,976	$11,093	$—	$—
Due after one year through five years	51,890	53,654	1,067	1,141
Due after five years through ten years	232,081	232,491	5,059	4,972
Due after ten years	139,758	147,688	26,738	19,573
Residential mortgage backed securities:				
Government agency mortgage backed securities	—	—	289,008	290,684
Government agency collateralized mortgage obligations	—	—	157,135	154,972
Commercial mortgage backed securities:				
Government agency mortgage backed securities	—	—	45,938	47,087
Government agency collateralized mortgage obligations	—	—	5,146	5,326
Other debt securities	—	—	18,044	18,389
Other equity securities	—	—	2,331	3,479
	$434,705	$444,926	$550,466	$545,623

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The following table presents the age of gross unrealized losses and fair value by investment category as of the dates presented:

	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Held to Maturity:									
September 30, 2014									
Obligations of other U.S. Government agencies and corporations	1	$1,486	$(5)	27	$118,251	$(4,331)	28	$119,737	$(4,336)
Obligations of states and political subdivisions	7	6,102	(29)	28	15,697	(342)	35	21,799	(371)
Total	8	$7,588	$(34)	55	$133,948	$(4,673)	63	141,536	$(4,707)
December 31, 2013									
Obligations of other U.S. Government agencies and corporations	26	$105,747	$(7,826)	2	$9,090	$(901)	28	$114,837	$(8,727)
Obligations of states and political subdivisions	111	59,503	(2,578)	2	933	(105)	113	60,436	(2,683)
Total	137	$165,250	$(10,404)	4	$10,023	$(1,006)	141	$175,273	$(11,410)
Available for Sale:									
September 30, 2014									
Obligations of other U.S. Government agencies and corporations	0	$—	$—	1	$3,837	$(163)	1	$3,837	$(163)
Residential mortgage backed securities:									
Government agency mortgage backed securities	15	67,667	(195)	18	65,621	(1,847)	33	133,288	(2,042)
Government agency collateralized mortgage obligations	6	29,885	(377)	18	67,360	(3,266)	24	97,245	(3,643)
Commercial mortgage backed securities:									
Government agency mortgage backed securities	1	5,220	(52)	3	10,569	(256)	4	15,789	(308)
	0	—	—	0	—	—	0	—	—

Government agency collateralized mortgage obligations									
Trust preferred securities	0	—	—	2	18,315	(7,307)	2	18,315	(7,307)
Other debt securities	0	—	—	3	4,419	(106)	3	4,419	(106)
Total	22	$102,772	$(624)	45	$170,121	$(12,945)	67	$272,893	$(13,569)
December 31, 2013									
Obligations of other U.S. Government agencies and corporations	1	$3,799	$(201)	0	$—	$—	1	$3,799	$(201)
Residential mortgage backed securities:									
Government agency mortgage backed securities	32	134,858	(3,451)	3	13,239	(963)	35	148,097	(4,414)
Government agency collateralized mortgage obligations	17	68,496	(3,468)	4	16,750	(1,211)	21	85,246	(4,679)
Commercial mortgage backed securities:									
Government agency mortgage backed securities	4	16,570	(584)	0	—	—	4	16,570	(584)
Government agency collateralized mortgage obligations	0	—	—	0	—	—	0	—	—
Trust preferred securities	0	—	—	3	16,456	(9,933)	3	16,456	(9,933)
Other debt securities	3	7,100	(217)	1	1,897	(13)	4	8,997	(230)
Other equity securities	0	—	—	0	—	—	0	—	—
Total	57	$230,823	$(7,921)	11	$48,342	$(12,120)	68	$279,165	$(20,041)

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Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

The Company evaluates its investment portfolio for other-than-temporary-impairment (“OTTI”) on a quarterly basis. Impairment is assessed at the individual security level. The Company considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis. Impairment is considered to be other-than-temporary if the Company intends to sell the investment security or if the Company does not expect to recover the entire amortized cost basis of the security before the Company is required to sell the security or before the security’s maturity.

The Company holds investments in pooled trust preferred securities that had an amortized cost basis of $26,738 and $27,531 and a fair value of $19,573 and $17,671, at September 30, 2014 and December 31, 2013, respectively. The investments in pooled trust preferred securities consist of four securities representing interests in various tranches of trusts collateralized by debt issued by over 320 financial institutions. Management’s determination of the fair value of each of its holdings in pooled trust preferred securities is based on the current credit ratings, the known deferrals and defaults by the underlying issuing financial institutions and the degree to which future deferrals and defaults would be required to occur before the cash flow for the Company’s tranches is negatively impacted. In addition, management continually monitors key credit quality and capital ratios of the issuing institutions. This determination is further supported by quarterly valuations, which are performed by third parties, of each security obtained by the Company. The Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of the investments’ amortized cost, which may be maturity. At September 30, 2014, management did not, and does not currently, believe such securities will be settled at a price less than the amortized cost of the investment, but the Company previously concluded that it was probable that there had been an adverse change in estimated cash flows for all four trust preferred securities and recognized credit related impairment losses on these securities in 2010 and 2011. No additional impairment was recognized during the three or nine months ended September 30, 2014.

The Company's analysis of the pooled trust preferred securities during the previous quarter supported a return to accrual status for two of the four securities (XIII and XXIII.) An observed history of principal and interest payments combined with improved qualitative and quantitative factors described above justified the accrual of interest on these securities. However, one of the remaining securities (XXIV) is still in "payment in kind" status where interest payments are not expected until a future date, and, although the Company has received principal payments from the fourth security (XXVI), the Company's analysis of the qualitative and quantitative factors described above does not justify a return to accrual status at this time. As a result, pooled trust preferred securities XXIV and XXVI remain classified as nonaccruing assets at September 30, 2014, and investment interest is recorded on the cash-basis method until qualifying for return to accrual status.

The following table provides information regarding the Company’s investments in pooled trust preferred securities at September 30, 2014:

Name	Single/ Pooled	Class/ Tranche	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Rating	Issuers Currently in Deferral or Default
XIII	Pooled	B-2	$1,116	$1,258	$142	Caa1	24 %
XXIII	Pooled	B-2	8,701	5,917	(2,784)	Baa3	20 %
XXIV	Pooled	B-2	12,076	8,585	(3,491)	Ca	34 %
XXVI	Pooled	B-2	4,845	3,813	(1,032)	B3	27 %
			$26,738	$19,573	$(7,165)		

The following table provides a summary of the cumulative credit related losses recognized in earnings for which a portion of OTTI has been recognized in other comprehensive income:

	2014	2013
Balance at January 1	$(3,337)	$(3,337)
Additions related to credit losses for which OTTI was not previously recognized	—	—
Increases in credit loss for which OTTI was previously recognized	—	—
Balance at September 30	$(3,337)	$(3,337)

Renasant Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note C – Loans and the Allowance for Loan Losses
(In Thousands, Except Number of Loans)
The following is a summary of loans as of the dates presented:

	September 30, 2014	December 31, 2013
Commercial, financial, agricultural	$450,559	$468,963
Lease financing	5,564	53
Real estate – construction	197,066	161,436
Real estate – 1-4 family mortgage	1,221,579	1,208,233
Real estate – commercial mortgage	1,991,052	1,950,572
Installment loans to individuals	91,806	91,762
Gross loans	3,957,626	3,881,019
Unearned income	(187)	(1)
Loans, net of unearned income	3,957,439	3,881,018
Allowance for loan losses	(44,569)	(47,665)
Net loans	$3,912,870	$3,833,353

Past Due and Nonaccrual Loans
Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, the recognition of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and other retail loans are typically charged-off no later than the time the loan is 120 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Loans may be placed on nonaccrual regardless of whether or not such loans are considered past due. All interest accrued for the current year, but not collected, for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table provides an aging of past due and nonaccrual loans, segregated by class, as of the dates presented:

	Accruing Loans				Nonaccruing Loans				
	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	Total Loans
September 30, 2014									
Commercial, financial, agricultural	$1,056	$599	$446,907	$448,562	$650	$953	$394	$1,997	$450,559
Lease financing	—	—	5,564	5,564	—	—	—	—	5,564
Real estate – construction	237	281	194,900	195,418	—	1,648	—	1,648	197,066
Real estate – 1-4 family mortgage	6,739	5,248	1,193,594	1,205,581	208	6,197	9,593	15,998	1,221,579
Real estate – commercial mortgage	7,966	11,381	1,937,174	1,956,521	2,641	20,803	11,087	34,531	1,991,052
Installment loans to individuals	250	22	91,431	91,703	—	90	13	103	91,806
Unearned income	—	—	(187)	(187)	—	—	—	—	(187)
Total	$16,248	$17,531	$3,869,383	$3,903,162	$3,499	$29,691	$21,087	$54,277	$3,957,439
December 31, 2013									
Commercial, financial, agricultural	$2,067	$607	$463,521	$466,195	$138	$1,959	$671	$2,768	$468,963
Lease financing	—	—	53	53	—	—	—	—	53
Real estate – construction	664	—	159,124	159,788	—	1,648	—	1,648	161,436
Real estate – 1-4 family mortgage	10,168	2,206	1,179,703	1,192,077	1,203	6,041	8,912	16,156	1,208,233
Real estate – commercial mortgage	8,870	1,286	1,888,745	1,898,901	966	37,439	13,266	51,671	1,950,572
Installment loans to individuals	706	88	90,880	91,674	—	80	8	88	91,762
Unearned income	—	—	(1)	(1)	—	—	—	—	(1)
Total	$22,475	$4,187	$3,782,025	$3,808,687	$2,307	$47,167	$22,857	$72,331	$3,881,018

Restructured loans that are not performing in accordance with their restructured terms that are either contractually 90 days past due or placed on nonaccrual status are reported as nonperforming loans. Restructured loans contractually 90 days past due or more totaled $0 at December 31, 2013. This balance increased to $1,872 in restructured loans contractually 90 days past due or more at September 30, 2014. The outstanding balance of restructured loans on nonaccrual status was $12,709 and $10,078 at September 30, 2014 and December 31, 2013, respectively.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial, consumer and construction loans above a minimum dollar amount threshold by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are evaluated collectively for impairment. When the ultimate collectability of an impaired loan’s principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the recorded balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged-off. For impaired loans, a specific reserve is established to adjust the carrying value of the loan to its estimated net realizable value.

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Impaired loans recognized in conformity with Financial Accounting Standards Board Accounting Standards Codification Topic ("ASC") 310, “Receivables” (“ASC 310”), segregated by class, were as follows as of the dates presented:

	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With No Allowance	Total Recorded Investment	Related Allowance
September 30, 2014					
Commercial, financial, agricultural	$5,513	$349	$2,383	$2,732	$229
Real estate – construction	2,723	—	1,768	1,768	48
Real estate – 1-4 family mortgage	31,657	15,576	8,440	24,016	2,316
Real estate – commercial mortgage	105,441	30,921	32,373	63,294	10,681
Installment loans to individuals	433	50	56	106	—
Total	$145,767	$46,896	$45,020	$91,916	$13,274
December 31, 2013					
Commercial, financial, agricultural	$6,575	$743	$2,043	$2,786	$260
Real estate – construction	2,447	—	1,648	1,648	—
Real estate – 1-4 family mortgage	42,868	25,374	8,542	33,916	7,353
Real estate – commercial mortgage	108,963	30,624	38,517	69,141	7,036
Installment loans to individuals	620	183	77	260	1
Totals	$161,473	$56,924	$50,827	$107,751	$14,650

The following table presents the average recorded investment and interest income recognized on impaired loans for the periods presented:

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized[(1)]
Commercial, financial, agricultural	$4,167	$160	$5,183	$4
Real estate – construction	1,997	96	1,650	—
Real estate – 1-4 family mortgage	26,378	808	32,274	158
Real estate – commercial mortgage	74,648	3,110	75,312	379
Installment loans to individuals	141	13	—	—
Total	$107,331	$4,187	$114,419	$541

(1) Includes interest income recognized using the cash-basis method of income recognition of $0. No interest income was recognized using the cash-basis method of income recognition during the three months ended September 30, 2014.

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Average Recorded	Interest Income	Average Recorded	Interest Income

	Investment	Recognized	Investment	Recognized[1]
Commercial, financial, agricultural	$4,399	$165	$5,123	$4
Real estate – construction	2,023	98	1,650	—
Real estate – 1-4 family mortgage	27,122	843	33,181	449
Real estate – commercial mortgage	80,402	3,174	75,997	845
Installment loans to individuals	147	13	—	—
Total	$114,093	$4,293	$115,951	$1,298

(1) Includes interest income recognized using the cash-basis method of income recognition of $0. No interest income was recognized using the cash-basis method of income recognition during the nine months ended September 30, 2014.

Restructured Loans

Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition and which are performing in accordance with the new terms. Such concessions may include reduction in interest rates or deferral of interest or principal payments. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest.

The following table presents restructured loans segregated by class as of the dates presented:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
September 30, 2014			
Commercial, financial, agricultural	—	$—	$—
Real estate – construction	—	—	—
Real estate – 1-4 family mortgage	32	6,739	5,165
Real estate – commercial mortgage	16	11,686	10,439
Installment loans to individuals	—	—	—
Total	48	$18,425	$15,604
December 31, 2013			
Commercial, financial, agricultural	1	$20	$19
Real estate – construction	—	—	—
Real estate – 1-4 family mortgage	23	19,371	10,354
Real estate – commercial mortgage	16	12,785	10,934
Installment loans to individuals	1	182	171
Total	41	$32,358	$21,478

Changes in the Company’s restructured loans are set forth in the table below:

	Number of Loans	Recorded Investment
Totals at January 1, 2014	41	$21,478
Additional loans with concessions	17	2,622
Reductions due to:		
Reclassified as nonperforming	(3)	(1,895)
Paid in full	(7)	(6,008)
Charge-offs	—	—
Transfer to other real estate owned	—	—
Principal paydowns	—	(593)
Lapse of concession period	—	—
Totals at September 30, 2014	48	$15,604

The allocated allowance for loan losses attributable to restructured loans was $1,805 and $2,984 at September 30, 2014 and December 31, 2013, respectively. The Company had $0 and $93 in remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2014 and December 31, 2013, respectively.

Credit Quality

For loans originated for commercial purposes, internal risk-rating grades are assigned by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the portfolio balances of these loans. Loan grades range between 1 and 9, with 1 being loans with the least credit risk. Loans that migrate toward the “Pass” grade (those with a risk rating between 1 and 4) or within the “Pass” grade generally have a lower risk of loss and therefore a lower risk factor. The “Watch” grade (those with a risk rating of 5) is utilized on a temporary basis for “Pass” grade loans where a significant adverse risk-modifying action is anticipated in the near term. Loans that migrate toward the “Substandard” grade (those with a risk rating between 6 and 9) generally have a higher risk of loss and therefore a higher risk factor applied to those related loan balances. The following table presents the Company’s loan portfolio by risk-rating grades as of the dates presented:

	Pass	Watch	Substandard	Total
September 30, 2014				
Commercial, financial, agricultural	$314,774	$5,156	$1,383	$321,313
Real estate – construction	131,329	1,173	—	132,502
Real estate – 1-4 family mortgage	125,625	10,020	8,226	143,871
Real estate – commercial mortgage	1,402,321	30,728	42,649	1,475,698
Installment loans to individuals	2,537	—	—	2,537
Total	$1,976,586	$47,077	$52,258	$2,075,921
December 31, 2013				
Commercial, financial, agricultural	$328,959	$10,588	$4,266	$343,813
Real estate – construction	114,428	588	—	115,016
Real estate – 1-4 family mortgage	126,916	13,864	23,370	164,150
Real estate – commercial mortgage	1,338,340	32,892	35,121	1,406,353
Installment loans to individuals	19	—	—	19

Total	$1,908,662	$57,932	$62,757	$2,029,351

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For portfolio balances of consumer, consumer mortgage and certain other loans originated for other than commercial purposes, allowance factors are determined based on historical loss ratios by portfolio for the preceding eight quarters and may be adjusted by other qualitative criteria. The following table presents the performing status of the Company's loan portfolio not subject to risk rating as of the dates presented:

	Performing	Non-Performing	Total
September 30, 2014			
Commercial, financial, agricultural	$103,391	$159	$103,550
Lease financing	5,377	—	5,377
Real estate – construction	62,635	161	62,796
Real estate – 1-4 family mortgage	987,332	3,512	990,844
Real estate – commercial mortgage	258,092	938	259,030
Installment loans to individuals	84,798	68	84,866
Total	$1,501,625	$4,838	$1,506,463
December 31, 2013			
Commercial, financial, agricultural	$89,490	$176	$89,666
Lease financing	53	—	53
Real estate – construction	43,535	—	43,535
Real estate – 1-4 family mortgage	938,994	2,527	941,521
Real estate – commercial mortgage	242,363	666	243,029
Installment loans to individuals	84,855	79	84,934
Total	$1,399,290	$3,448	$1,402,738

Loans Acquired with Deteriorated Credit Quality

Loans acquired in business combinations that exhibited, at the date of acquisition, evidence of deterioration of the credit quality since origination, such that it was probable that all contractually required payments would not be collected, were as follows as of the dates presented:

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
September 30, 2014				
Commercial, financial, agricultural	$—	$7,699	$17,997	$25,696
Lease financing	—	—	—	—
Real estate – construction	—	1,648	120	1,768
Real estate – 1-4 family mortgage	1,254	45,100	40,510	86,864
Real estate – commercial mortgage	11,986	87,594	156,744	256,324
Installment loans to individuals	—	38	4,365	4,403
Total	$13,240	$142,079	$219,736	$375,055
December 31, 2013				
Commercial, financial, agricultural	$—	$9,546	$25,938	$35,484
Lease financing	—	—	—	—
Real estate – construction	—	1,648	1,237	2,885
Real estate – 1-4 family mortgage	835	53,631	48,096	102,562
Real estate – commercial mortgage	23,684	92,302	185,204	301,190

Installment loans to individuals	—	28	6,781	6,809
Total	$24,519	$157,155	$267,256	$448,930

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The references in the table above and elsewhere in these Notes to "covered loans" and "not covered loans" (as well as to "covered OREO" and "not covered OREO") refer to loans (or OREO, as applicable) covered and not covered, respectively, by loss-share agreements with the FDIC. See Note E, "FDIC Loss-Share Indemnification Asset," below for more information.

The following table presents the fair value of loans determined to be impaired at the time of acquisition and determined not to be impaired at the time of acquisition at September 30, 2014:

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
Contractually-required principal and interest	$52,678	$176,021	$256,592	$485,291
Nonaccretable difference[1]	(39,437)	(30,500)	(32,676)	(102,613)
Cash flows expected to be collected	13,241	145,521	223,916	382,678
Accretable yield[2]	(1)	(3,442)	(4,180)	(7,623)
Fair value	$13,240	$142,079	$219,736	$375,055

(1) Represents contractual principal and interest cash flows of $93,738 and $8,875, respectively, not expected to be collected.
(2) Represents contractual interest payments of $5,182 expected to be collected and purchase discount of $3,336.

Changes in the accretable yield of loans acquired with deteriorated credit quality were as follows:

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
Balance at January 1, 2014	$(13)	$(6,705)	$(3,010)	$(9,728)
Reclasses from nonaccretable difference	(63)	(2,511)	(10,899)	(13,473)
Accretion	75	5,774	9,729	15,578
Balance at September 30, 2014	$(1)	$(3,442)	$(4,180)	$(7,623)

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management based on its ongoing analysis of the loan portfolio to absorb probable credit losses inherent in the entire loan portfolio, including collective impairment as recognized under ASC 450, “Contingencies”. Collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under ASC 310. The balance of these loans and their related allowance is included in management’s estimation and analysis of the allowance for loan losses. Management and the internal loan review staff evaluate the adequacy of the allowance for loan losses quarterly. The allowance for loan losses is evaluated based on a continuing assessment of problem loans, the types of loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories and other factors, including its risk rating system, regulatory guidance and economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is established through a provision for loan losses charged to earnings resulting from measurements of inherent credit risk in the loan portfolio and estimates of probable losses or impairments of individual loans. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The following table provides a roll forward of the allowance for loan losses and a breakdown of the ending balance of the allowance based on the Company's impairment methodology for the periods presented:

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[1]	Total
Three Months Ended September 30, 2014						
Allowance for loan losses:						
Beginning balance	$ 3,264	$ 1,267	$ 11,797	$ 29,771	$ 1,205	$ 47,304
Charge-offs	(1,206)	—	(1,271)	(3,513)	(112)	(6,102)
Recoveries	103	6	751	267	23	1,150
Net (charge-offs) recoveries	(1,103)	6	(520)	(3,246)	(89)	(4,952)
Provision for loan losses	1,007	109	(491)	4,043	107	4,775
Benefit attributable to FDIC loss-share agreements	(19)	—	(189)	(3,169)	—	(3,377)
Recoveries payable to FDIC	22	—	16	781	—	819
Provision for loan losses charged to operations	1,010	109	(664)	1,655	107	2,217
Ending balance	$ 3,171	$ 1,382	$ 10,613	$ 28,180	$ 1,223	$ 44,569
Nine Months Ended September 30, 2014						
Allowance for loan losses:						
Beginning balance	$ 3,090	$ 1,091	$ 18,629	$ 23,688	$ 1,167	$ 47,665
Charge-offs	(1,325)	—	(4,143)	(4,056)	(404)	(9,928)
Recoveries	215	14	1,108	325	53	1,715
Net (charge-offs) recoveries	(1,110)	14	(3,035)	(3,731)	(351)	(8,213)
Provision for loan losses	1,095	276	(5,182)	12,045	407	8,641
Benefit attributable to FDIC loss-share agreements	(87)	—	(324)	(4,640)	—	(5,051)
Recoveries payable to FDIC	183	1	525	818	—	1,527
Provision for loan losses charged to operations	1,191	277	(4,981)	8,223	407	5,117
Ending balance	$ 3,171	$ 1,382	$ 10,613	$ 28,180	$ 1,223	$ 44,569
Period-End Amount Allocated to:						
Individually evaluated for impairment	$ —	$ —	$ 1,260	$ 6,820	$—	$ 8,080
Collectively evaluated for impairment	3,171	1,382	9,353	21,360	1,223	36,489
Acquired with deteriorated credit quality	—	—	—	—	—	—
Ending balance	$ 3,171	$ 1,382	$ 10,613	$ 28,180	$ 1,223	$ 44,569

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	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[1]	Total
Three Months Ended September 30, 2013						
Allowance for loan losses:						
Beginning balance	$3,478	$863	$19,432	$22,239	$1,022	$47,034
Charge-offs	(887)	—	(1,251)	(1,107)	(81)	(3,326)
Recoveries	54	7	120	38	23	242
Net (charge-offs) recoveries	(833)	7	(1,131)	(1,069)	(58)	(3,084)
Provision for loan losses	364	44	370	1,976	14	2,768
Benefit attributable to FDIC loss-share agreements	(67)	—	(326)	(129)	—	(522)
Recoveries payable to FDIC	5	—	45	4	—	54
Provision for loan losses charged to operations	302	44	89	1,851	14	2,300
Ending balance	$2,947	$914	$18,390	$23,021	$978	$46,250
Nine Months Ended September 30, 2013						
Allowance for loan losses:						
Beginning balance	$3,307	$711	$18,347	$21,416	$566	$44,347
Charge-offs	(1,167)	—	(2,517)	(4,226)	(434)	(8,344)
Recoveries	301	70	591	885	50	1,897
Net (charge-offs) recoveries	(866)	70	(1,926)	(3,341)	(384)	(6,447)
Provision for loan losses	874	132	2,088	5,762	796	9,652
Benefit attributable to FDIC loss-share agreements	(397)	—	(956)	(840)	—	(2,193)
Recoveries payable to FDIC	29	1	837	24	—	891
Provision for loan losses charged to operations	506	133	1,969	4,946	796	8,350
Ending balance	$2,947	$914	$18,390	$23,021	$978	$46,250
Period-End Amount Allocated to:						
Individually evaluated for impairment	$260	$—	$7,569	$7,079	$—	$14,908
Collectively evaluated for impairment	2,687	914	10,821	15,942	978	31,342
Acquired with deteriorated credit quality	—	—	—	—	—	—
Ending balance	$2,947	$914	$18,390	$23,021	$978	$46,250

(1) Includes lease financing receivables.

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The following table provides the recorded investment in loans, net of unearned income, based on the Company's impairment methodology as of the dates presented:

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[(1)]	Total
September 30, 2014						
Individually evaluated for impairment	$349	$—	$15,576	$30,921	$50	$46,896
Collectively evaluated for impairment	424,514	195,298	1,119,139	1,703,807	92,730	3,535,488
Acquired with deteriorated credit quality	25,696	1,768	86,864	256,324	4,403	375,055
Ending balance	$450,559	$197,066	$1,221,579	$1,991,052	$97,183	$3,957,439
December 31, 2013						
Individually evaluated for impairment	$743	$—	$25,374	$30,624	$183	$56,924
Collectively evaluated for impairment	432,736	158,551	1,080,297	1,618,758	84,822	3,375,164
Acquired with deteriorated credit quality	35,484	2,885	102,562	301,190	6,809	448,930
Ending balance	$468,963	$161,436	$1,208,233	$1,950,572	$91,814	$3,881,018

(1) Includes lease financing receivables.

Note D – Other Real Estate Owned
(In Thousands)
The following table provides details of the Company's other real estate owned ("OREO") covered and not covered under a loss-share agreement, net of valuation allowances and direct write-downs as of the dates presented:

	Covered OREO	Not Covered OREO	Total OREO
September 30, 2014			
Residential real estate	$763	$4,993	$5,756
Commercial real estate	1,360	8,783	10,143
Residential land development	534	6,837	7,371
Commercial land development	1,376	9,413	10,789
Total	$4,033	$30,026	$34,059
December 31, 2013			
Residential real estate	$2,133	$6,767	$8,900
Commercial real estate	3,598	8,984	12,582
Residential land development	1,161	12,334	13,495
Commercial land development	6,050	11,860	17,910
Other	—	—	—
Total	$12,942	$39,945	$52,887

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Changes in the Company’s OREO covered and not covered under a loss-share agreement were as follows:

	Covered OREO	Not Covered OREO	Total OREO
Balance at January 1, 2014	$12,942	$39,945	$52,887
Transfers of loans	3,497	5,090	8,587
Capitalized improvements	—	—	—
Impairments[1]	(2,932)	(1,315)	(4,247)
Dispositions	(9,138)	(13,564)	(22,702)
Other	(336)	(130)	(466)
Balance at September 30, 2014	$4,033	$30,026	$34,059

(1) Of the total impairment charges of $2,932 recorded for covered OREO, $586 was included in the Consolidated Statements of Income for the nine months ended September 30, 2014, while the remaining $2,346 increased the FDIC loss-share indemnification asset.

Components of the line item “Other real estate owned” in the Consolidated Statements of Income were as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Repairs and maintenance	$223	$565	$1,760	$1,473
Property taxes and insurance	148	163	445	820
Impairments	856	594	1,901	2,829
Net losses (gains) on OREO sales	(85)	293	(97)	511
Rental income	(41)	(78)	(139)	(274)
Total	$1,101	$1,537	$3,870	$5,359

Note E – FDIC Loss-Share Indemnification Asset
(In Thousands)

As part of the loan portfolio and OREO fair value estimation in connection with FDIC-assisted acquisitions, a FDIC loss-share indemnification asset is established, which represents the present value as of the acquisition date of the estimated losses on covered assets to be reimbursed by the FDIC. Pursuant to the terms of both of our loss-share agreements, the FDIC is obligated to reimburse the Bank for 80% of all eligible losses with respect to covered assets, beginning with the first dollar of loss incurred. The Bank has a corresponding obligation to reimburse the FDIC for 80% of eligible recoveries with respect to covered assets. The estimated losses are based on the same cash flow estimates used in determining the fair value of the covered assets. The FDIC loss-share indemnification asset is reduced as losses are recognized on covered assets and loss-share payments are received from the FDIC. Realized losses in excess of estimates as of the date of the acquisition increase the FDIC loss-share indemnification asset. Conversely, when realized losses are less than these estimates, the portion of the FDIC loss-share indemnification asset no longer expected to result in a payment from the FDIC is amortized into interest income using the effective interest method.

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Changes in the FDIC loss-share indemnification asset were as follows:

Balance at January 1, 2014	$26,273	
Changes in expected cash flows from initial estimates on:		
Covered Loans	(1,754	)
Covered OREO	1,261	
Reimbursable expenses	850	
Accretion	—	
Reimbursements received from the FDIC	(9,597	)
Balance at September 30, 2014	$17,033	

Note F – Mortgage Servicing Rights
(In Thousands)
The Company retains the right to service certain mortgage loans that it sells to secondary market investors. These mortgage servicing rights, included in “Other assets” on the Consolidated Balance Sheets, are recognized as a separate asset on the date the corresponding mortgage loan is sold. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. These servicing rights are carried at the lower of amortized cost or fair value. Fair value is determined using an income approach with various assumptions including expected cash flows, prepayment speeds, market discount rates, servicing costs, and other factors. Mortgage servicing rights were carried at amortized cost at September 30, 2014 and December 31, 2013.
Impairment losses on mortgage servicing rights are recognized to the extent by which the unamortized cost exceeds fair value. No impairment losses on mortgage servicing rights were recognized in earnings for the three or nine months ended September 30, 2014 or 2013.
Changes in the Company’s mortgage servicing rights were as follows:

Balance at January 1, 2014	$8,993	
Capitalization	2,949	
Amortization	(904	)
Balance at September 30, 2014	$11,038	

Data and key economic assumptions related to the Company’s mortgage servicing rights as of September 30, 2014 are as follows:

Unpaid principal balance	$1,104,384	
Weighted-average prepayment speed (CPR)	6.02	%
Estimated impact of a 10% increase	$(1,044	)
Estimated impact of a 20% increase	(1,376	)
Discount rate	11.26	%
Estimated impact of a 10% increase	$(1,085	)
Estimated impact of a 20% increase	(1,448	)
Weighted-average coupon interest rate	3.82	%

Weighted-average servicing fee (basis points)	25.09
Weighted-average remaining maturity (in years)	24.50

Note G - Employee Benefit and Deferred Compensation Plans
(In Thousands, Except Share Data)
The plan expense for the Company-sponsored noncontributory defined benefit pension plan ("Pension Benefits") and post-retirement health and life plans ("Other Benefits") for the periods presented was as follows:

	Pension Benefits Three Months Ended September 30,		Other Benefits Three Months Ended September 30,	
	2014	2013	2014	2013
Service cost	$—	$—	$1	$8
Interest cost	328	222	19	21
Expected return on plan assets	(539)	(359)	—	—
Prior service cost recognized	—	—	—	—
Recognized actuarial loss	59	114	18	70
Net periodic benefit cost (return)	$(152)	$(23)	$38	$99

	Pension Benefits Nine Months Ended September 30,		Other Benefits Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	$—	$—	$13	$21
Interest cost	964	597	65	48
Expected return on plan assets	(1,617)	(979)	—	—
Prior service cost recognized	—	—	—	—
Recognized actuarial loss	150	313	72	125
Net periodic benefit cost (return)	$(503)	$(69)	$150	$194

In January 2013, the Company granted stock options which generally vest and become exercisable in equal installments of 33 1/3% upon completion of one, two and three years of service measured from the grant date. There were no stock options granted during the nine months ended September 30, 2014. The fair value of stock option grants is estimated on the grant date using the Black-Scholes option-pricing model. The Company employed the following assumptions with respect to its stock option grants in 2013:

	2013 Grant
Shares granted	52,500
Dividend yield	3.55%
Expected volatility	37%
Risk-free interest rate	0.76%
Expected lives	6 years
Weighted average exercise price	$19.14
Weighted average fair value	$4.47

In connection with its merger with First M&F during the third quarter of 2013, the Company assumed First M&F's 2005 Equity Incentive Plan and Stock Option Plan, under which options to purchase an aggregate of 11,557 shares of the Company's common stock were outstanding as of the date of assumption. The assumed options had a weighted average exercise price of $21.16 and a weighted average remaining contractual life of 2.05 years at the date of assumption. The fair value of the stock options assumed on the date of assumption was $68 and was estimated using the Black-Scholes option-pricing model. No additional options or other forms of equity incentives will be granted or awarded under these plans. At September 30, 2014, there were 6,035 remaining shares of the Company's common stock outstanding related to the First M&F Equity Incentive Plan and Stock Option Plan. The remaining options have a weighted average exercise price of $24.54 and a weighted average remaining contractual life of 1.17 years.

The following table summarizes the changes in stock options as of and for the nine months ended September 30, 2014:

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	1,060,350	$18.64
Granted	—	—
Exercised	(183,082)	17.37
Forfeited	(1,899)	20.77
Options outstanding at end of period	875,369	$18.90

The Company awards performance-based restricted stock to executives and time-based restricted stock to directors and other officers and employees under a long-term equity incentive plan. The performance-based restricted stock vests upon completion of a one-year service period and the attainment of certain performance goals. Performance-based restricted stock is issued at the target level; the number of shares ultimately awarded is determined at the end of each year and may be increased or decreased depending on the Company falling short of, meeting or exceeding financial performance measures defined by the Board of Directors. Time-based restricted stock vests at the end of the service period defined in the respective grant. The fair value of each restricted stock award is the closing price of the Company's common stock on the day immediately preceding the award date. The following table summarizes the changes in restricted stock as of and for the nine months ended September 30, 2014:

	Performance-Based Restricted Stock	Weighted Average Grant-Date Fair Value	Time- Based Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	69,850	$19.14	22,338	$24.30
Awarded	78,250	31.46	34,336	30.26
Vested	(69,850)	19.14	(6,338)	22.09
Cancelled	—	—	—	—
Nonvested at end of period	78,250	$31.46	50,336	$28.64

During the nine months ended September 30, 2014, the Company reissued 146,035 shares from treasury in connection with the exercise of stock options and award of restricted stock. The Company recorded total stock-based compensation expense of $1,341 and $477 for the three months ended September 30, 2014 and 2013, respectively, and $3,162 and $955 for the nine months ended September 30, 2014 and 2013, respectively.

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Note H – Segment Reporting
(In Thousands)
The operations of the Company's reportable segments are described as follows:

- The Community Banks segment delivers a complete range of banking and financial services to individuals and small to medium-sized businesses including checking and savings accounts, business and personal loans, equipment leasing, as well as safe deposit and night depository facilities.
- The Insurance segment includes a full service insurance agency offering all major lines of commercial and personal insurance through major carriers.
- The Wealth Management segment offers a broad range of fiduciary services which includes the administration and management of trust accounts including personal and corporate benefit accounts, self-directed IRA's, and custodial accounts. In addition, the Wealth Management segment offers annuities, mutual funds and other investment services through a third party broker-dealer.

In order to give the Company's divisional management a more precise indication of the income and expenses they can control, the results of operations for the Community Banks, the Insurance and the Wealth Management segments reflect the direct revenues and expenses of each respective segment. Indirect revenues and expenses, including but not limited to income from the Company's investment portfolio, as well as certain costs associated with data processing and back office functions, primarily support the operations of the community banks and, therefore, are included in the results of the Community Banks segment. Included in "Other" are the operations of the holding company and other eliminations which are necessary for purposes of reconciling to the consolidated amounts.
The following table provides financial information for the Company's operating segments for the periods presented:

	Community Banks	Insurance	Wealth Management	Other	Consolidated
Three months ended September 30, 2014					
Net interest income	$51,298	$65	$338	$(1,229)	$50,472
Provision for loan losses	2,227	—	(10)	—	2,217
Noninterest income	17,551	2,261	2,353	398	22,563
Noninterest expense	44,130	1,656	2,176	213	48,175
Income (loss) before income taxes	22,492	670	525	(1,044)	22,643
Income taxes	7,251	262	—	(405)	7,108
Net income (loss)	$15,241	$408	$525	$(639)	$15,535
Total assets	$5,671,079	$18,834	$46,527	$15,271	$5,751,711
Goodwill	271,891	2,767	—	—	274,658
Three months ended September 30, 2013					
Net interest income	$39,133	$29	$331	$(745)	$38,748
Provision for loan losses	2,307	—	(7)	—	2,300
Noninterest income	16,160	1,428	1,325	22	18,935
Noninterest expense	43,590	1,021	1,768	234	46,613
Income (loss) before income taxes	9,396	436	(105)	(957)	8,770
Income taxes	2,428	77	—	(372)	2,133
Net income (loss)	$6,968	$359	$(105)	$(585)	$6,637
Total assets	$5,662,257	$16,661	$42,291	$14,839	$5,736,048

Goodwill	272,545	2,783	—	—	275,328

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	Community Banks	Insurance	Wealth Management	Other	Consolidated
Nine months ended September 30, 2014					
Net interest income	$154,678	$177	$969	$(3,212)	$152,612
Provision for loan losses	5,117	—	—	—	5,117
Noninterest income	46,763	6,792	6,650	445	60,650
Noninterest expense	133,785	4,814	6,043	574	145,216
Income (loss) before income taxes	62,539	2,155	1,576	(3,341)	62,929
Income taxes	19,397	844	—	(1,297)	18,944
Net income (loss)	$43,142	$1,311	$1,576	$(2,044)	$43,985
Total assets	$5,671,079	$18,834	$46,527	$15,271	$5,751,711
Goodwill	271,891	2,767	—	—	274,658
Nine months ended September 30, 2013					
Net interest income	$107,061	$76	$950	$(1,554)	$106,533
Provision for loan losses	8,214	—	136	—	8,350
Noninterest income	46,282	3,434	3,866	48	53,630
Noninterest expense	113,613	2,647	5,085	602	121,947
Income (loss) before income taxes	31,516	863	(405)	(2,108)	29,866
Income taxes	8,230	242	—	(833)	7,639
Net income (loss)	$23,286	$621	$(405)	$(1,275)	$22,227
Total assets	$5,662,257	$16,661	$42,291	$14,839	$5,736,048
Goodwill	272,545	2,783	—	—	275,328

Note I – Fair Value Measurements
(In Thousands)
Fair Value Measurements and the Fair Level Hierarchy
ASC 820, “Fair Value Measurements and Disclosures,” provides guidance for using fair value to measure assets and liabilities and also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to a valuation based on quoted prices in active markets for identical assets and liabilities (Level 1), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable in the market (Level 2), and the lowest priority to a valuation based on assumptions that are not observable in the market (Level 3).
Recurring Fair Value Measurements
The Company carries certain assets and liabilities at fair value on a recurring basis in accordance with applicable standards. The Company’s recurring fair value measurements are based on the requirement to carry such assets and liabilities at fair value or the Company’s election to carry certain eligible assets and liabilities at fair value. Assets and liabilities that are required to be carried at fair value on a recurring basis include securities available for sale and derivative instruments. The Company has elected to carry mortgage loans held for sale at fair value on a recurring basis as permitted under the guidance in ASC 825, “Financial Instruments” (“ASC 825”).
The following methods and assumptions are used by the Company to estimate the fair values of the Company’s financial assets and liabilities that are measured on a recurring basis:

Securities available for sale: Securities available for sale consist primarily of debt securities, such as obligations of U.S. Government agencies and corporations, mortgage-backed securities, trust preferred securities, and other debt and equity securities. Where quoted market prices in active markets are available, securities are classified within Level 1 of the fair value hierarchy. If quoted prices from active markets are not available, fair values are based on quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active, or model-based valuation techniques where all significant assumptions are observable in the market. Such instruments are classified within Level 2 of the fair value hierarchy. When assumptions used in model-based valuation techniques are not observable in the market, the assumptions used by management reflect estimates of assumptions used by other market participants in determining fair value. When there is limited transparency around the inputs to the valuation, the instruments are classified within Level 3 of the fair value hierarchy.

Derivative instruments: The Company uses derivatives to manage various financial risks. Most of the Company’s derivative contracts are extensively traded in over-the-counter markets and are valued using discounted cash flow models which incorporate observable market based inputs including current market interest rates, credit spreads, and other factors. Such instruments are categorized within Level 2 of the fair value hierarchy and include interest rate swaps and other interest rate contracts such as interest rate caps and/or floors. The Company’s interest rate lock commitments are valued using current market prices for mortgage-backed securities with similar characteristics, adjusted for certain factors including servicing and risk. The value of the Company’s forward commitments is based on current prices for securities backed by similar types of loans. Because these assumptions are observable in active markets, the Company’s interest rate lock commitments and forward commitments are categorized within Level 2 of the fair value hierarchy.

Mortgage loans held for sale: Mortgage loans held for sale are primarily agency loans which trade in active secondary markets. The fair value of these instruments is derived from current market pricing for similar loans, adjusted for differences in loan characteristics, including servicing and risk. Because the valuation is based on external pricing of similar instruments, mortgage loans held for sale are classified within Level 2 of the fair value hierarchy.

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The following table presents assets and liabilities that are measured at fair value on a recurring basis as of the dates presented:

	Level 1	Level 2	Level 3	Totals
September 30, 2014				
Financial assets:				
Securities available for sale:				
Obligations of other U.S. Government agencies and corporations	$—	$6,113	$—	$6,113
Residential mortgage-backed securities:				
Government agency mortgage backed securities	—	290,684	—	290,684
Government agency collateralized mortgage obligations	—	154,972	—	154,972
Commercial mortgage-backed securities:				
Government agency mortgage backed securities	—	47,087	—	47,087
Government agency collateralized mortgage obligations	—	5,326	—	5,326
Trust preferred securities	—	—	19,573	19,573
Other debt securities	—	18,389	—	18,389
Other equity securities	—	3,479	—	3,479
Total securities available for sale	—	526,050	19,573	545,623
Derivative instruments:				
Interest rate swaps	—	—	—	—
Interest rate contracts	—	1,083	—	1,083
Interest rate lock commitments	—	1,630	—	1,630
Forward commitments	—	29	—	29
Total derivative instruments	—	2,742	—	2,742
Mortgage loans held for sale	—	30,451	—	30,451
Total financial assets	$—	$559,243	$19,573	$578,816
Financial liabilities:				
Derivative instruments:				
Interest rate swaps	$—	$2,472	$—	$2,472
Interest rate contracts	—	1,083	—	1,083
Interest rate lock commitments	—	—	—	—
Forward commitments	—	237	—	237
Total derivative instruments	—	3,792	—	3,792
Total financial liabilities	$—	$3,792	$—	$3,792

	Level 1	Level 2	Level 3	Totals
December 31, 2013				
Financial assets:				
Securities available for sale:				
Obligations of other U.S. Government agencies and corporations	$—	$6,068	$—	$6,068
Residential mortgage-backed securities:				
Government agency mortgage backed securities	—	259,992	—	259,992
Government agency collateralized mortgage obligations	—	146,545	—	146,545
Commercial mortgage-backed securities:				
Government agency mortgage backed securities	—	42,041	—	42,041
Government agency collateralized mortgage obligations	—	5,066	—	5,066
Trust preferred securities	—	—	17,671	17,671
Other debt securities	—	19,554	—	19,554
Other equity securities	—	4,317	—	4,317
Total securities available for sale	—	483,583	17,671	501,254
Derivative instruments:				
Interest rate swap	—	208	—	208
Interest rate contracts	—	1,812	—	1,812
Interest rate lock commitments	—	464	—	464
Forward commitments	—	335	—	335
Total derivative instruments	—	2,819	—	2,819
Mortgage loans held for sale	—	33,440	—	33,440
Total financial assets	$—	$519,842	$17,671	$537,513
Financial liabilities:				
Derivative instruments:				
Interest rate swaps	$—	$1,428	$—	$1,428
Interest rate contracts	—	1,812	—	1,812
Interest rate lock commitments	—	52	—	52
Forward commitments	—	24	—	24
Total derivative instruments	—	3,316	—	3,316
Total financial liabilities	$—	$3,316	$—	$3,316

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the Company’s ability to observe inputs to the valuation may cause reclassification of certain assets or liabilities within the fair value hierarchy. Transfers between levels of the hierarchy are deemed to have occurred at the end of period. There were no such transfers between levels of the fair value hierarchy during the three or nine months ended September 30, 2014.

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The following tables provide a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, during the three and nine months ended September 30, 2014 and 2013, respectively:

	Securities available for sale		
Three Months Ended September 30, 2014	Trust preferred securities	Other equity securities	Total
Balance at July 1, 2014	$18,309	$—	$18,309
Realized gains included in net income	—	—	—
Unrealized gains included in other comprehensive income	1,896	—	1,896
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(632)	—	(632)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at September 30, 2014	$19,573	$—	$19,573

	Securities available for sale		
Three Months Ended September 30, 2013	Trust preferred securities	Other equity securities	Total
Balance at July 1, 2013	$15,960	$—	$15,960
Realized gains included in net income	—	—	—
Unrealized gains included in other comprehensive income	875	—	875
Reclassification adjustment	—	—	—
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(82)	—	(82)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at September 30, 2013	$16,753	$—	$16,753

	Securities available for sale		
Nine Months Ended September 30, 2014	Trust preferred securities	Other equity securities	Total
Balance at January 1, 2014	$17,671	$—	$17,671
Realized gains included in net income	16	—	16
Unrealized gains included in other comprehensive income	2,695	—	2,695
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(809)	—	(809)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at September 30, 2014	$19,573	$—	$19,573

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Nine Months Ended September 30, 2013	Securities available for sale		
	Trust preferred securities	Other equity securities	Total
Balance at January 1, 2013	$15,068	$—	$15,068
Realized gains included in net income	—	—	—
Unrealized gains included in other comprehensive income	2,669	—	2,669
Reclassification adjustment	—	—	—
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(984)	—	(984)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at September 30, 2013	$16,753	$—	$16,753

For the three and nine months ended September 30, 2014 and 2013, there were no gains or losses included in earnings that were attributable to the change in unrealized gains or losses related to assets or liabilities held at the end of each respective period that were measured on a recurring basis using significant unobservable inputs.
The following table presents information as of September 30, 2014 about significant unobservable inputs (Level 3) used in the valuation of assets and liabilities measured at fair value on a recurring basis:

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Trust preferred securities	$19,573	Discounted cash flows	Default rate	0-100%

Nonrecurring Fair Value Measurements
Certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of the application of the lower of cost or market accounting or a write-down occurring during the period. The following table provides the fair value measurement for assets measured at fair value on a nonrecurring basis that were still held on the Consolidated Balance Sheets as of the dates presented and the level within the fair value hierarchy each is classified:

September 30, 2014	Level 1	Level 2	Level 3	Totals
Impaired loans	$—	$—	$7,048	$7,048
OREO	—	—	7,151	7,151
Total	$—	$—	$14,199	$14,199

December 31, 2013	Level 1	Level 2	Level 3	Totals
Impaired loans	$—	$—	$11,900	$11,900
OREO	—	—	36,306	36,306
Total	$—	$—	$48,206	$48,206

The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities measured on a nonrecurring basis:

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Impaired loans: Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including but not limited to equipment, inventory and accounts receivable. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The fair value of the business assets is generally based on amounts reported on the business's financial statements. Appraised and reported values may be adjusted based on changes in market conditions from the time of valuation and management's knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified. Impaired loans covered under loss-share agreements were recorded at their fair value upon the acquisition date, and no fair value adjustments were necessary for the three or nine months ended September 30, 2014 and 2013, respectively. Impaired loans not covered under loss-share agreements that were measured or re-measured at fair value had a carrying value of $8,426 and $12,998 at September 30, 2014 and December 31, 2013, respectively, and a specific reserve for these loans of $1,378 and $1,098 was included in the allowance for loan losses for the periods ended on such respective dates.
Other real estate owned: OREO is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. OREO covered under loss-share agreements is recorded at its fair value on its acquisition date. OREO not covered under loss-share agreements acquired in settlement of indebtedness is recorded at the fair value of the real estate less estimated costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for declines in fair value. Fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management's estimates of costs to sell. Accordingly, values for OREO are classified as Level 3.
The following table presents OREO measured at fair value on a nonrecurring basis that was still held in the Consolidated Balance Sheets as of the dates presented:

	September 30, 2014	December 31, 2013
OREO covered under loss-share agreements:		
Carrying amount prior to remeasurement	$4,299	$13,067
Impairment recognized in results of operations	(353)	(707)
Increase in FDIC loss-share indemnification asset	(1,413)	(2,829)
Receivable from other guarantor	(127)	(768)
Fair value	$2,406	$8,763
OREO not covered under loss-share agreements:		
Carrying amount prior to remeasurement	$6,060	$30,436
Impairment recognized in results of operations	(1,315)	(2,893)
Fair value	$4,745	$27,543

The following table presents information as of September 30, 2014 about significant unobservable inputs (Level 3) used in the valuation of assets and liabilities measured at fair value on a nonrecurring basis:

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Impaired loans	$7,048	Appraised value of collateral less estimated costs to sell	Estimated costs to sell	4-10%
OREO	7,151	Appraised value of property less estimated costs to sell	Estimated costs to sell	4-10%

Fair Value Option
The Company elected to measure all mortgage loans originated for sale on or after July 1, 2012 at fair value under the fair value option as permitted under ASC 825. Electing to measure these assets at fair value reduces certain timing differences and better matches the changes in fair value of the loans with changes in the fair value of derivative instruments used to economically hedge them.

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Net losses of $58 and $47 resulting from fair value changes of these mortgage loans were recorded in income during the three and nine months ended September 30, 2014, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both mortgage loans held for sale and the related derivative instruments are recorded in "Gains on sales of mortgage loans held for sale" in the Consolidated Statements of Income.
The Company's valuation of mortgage loans held for sale incorporates an assumption for credit risk; however, given the short-term period that the Company holds these loans, valuation adjustments attributable to instrument-specific credit risk is nominal. Interest income on mortgage loans held for sale measured at fair value is accrued as it is earned based on contractual rates and is reflected in loan interest income on the Consolidated Statements of Income.
The following table summarizes the differences between the fair value and the principal balance for mortgage loans held for sale measured at fair value as of:

September 30, 2014	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
Mortgage loans held for sale measured at fair value	$30,451	$30,276	$175
Past due loans of 90 days or more	—	—	—
Nonaccrual loans	—	—	—

Fair Value of Financial Instruments
The carrying amounts and estimated fair values of the Company's financial instruments, including those assets and liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis, were as follows as of the dates presented:

		Fair Value			
As of September 30, 2014	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$141,594	$141,594	$—	$—	$141,594
Securities held to maturity	434,705	—	444,926	—	444,926
Securities available for sale	545,623	—	526,050	19,573	545,623
Mortgage loans held for sale	30,451	—	30,451	—	30,451
Loans covered under loss-share agreements	155,319	—	—	155,839	155,839
Loans not covered under loss-share agreements, net	3,802,120	—	—	3,708,781	3,708,781
FDIC loss-share indemnification asset	17,033	—	—	17,033	17,033
Mortgage servicing rights	11,038	—	—	12,159	12,159
Derivative instruments	2,742	—	2,742	—	2,742
Financial liabilities					
Deposits	$4,763,670	$3,408,037	$1,363,925	$—	$4,771,962
Short-term borrowings	65,646	65,646	—	—	65,646
Federal Home Loan Bank advances	67,540	—	131,157	—	131,157
Junior subordinated debentures	94,477	—	82,888	—	82,888
Derivative instruments	3,792	—	3,792	—	3,792

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As of December 31, 2013	Carrying Value	Fair Value Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$246,648	$246,648	$—	$—	$246,648
Securities held to maturity	412,075	—	408,567	—	408,567
Securities available for sale	501,254	—	483,583	17,671	501,254
Mortgage loans held for sale	33,440	—	33,440	—	33,440
Loans covered under loss-share agreements	181,674	—	—	182,244	182,244
Loans not covered under loss-share agreements, net	3,651,679	—	—	3,590,446	3,590,446
FDIC loss-share indemnification asset	26,273	—	—	26,273	26,273
Mortgage servicing rights	8,994	—	—	9,840	9,840
Derivative instruments	2,819	—	2,819	—	2,819
Financial liabilities					
Deposits	$4,841,912	$3,327,688	$1,520,667	$—	$4,848,355
Short-term borrowings	228	2,283	—	—	2,283
Federal Home Loan Bank advances	75,405	—	80,989	—	80,989
Junior subordinated debentures	94,187	—	78,301	—	78,301
Derivative instruments	3,316	—	3,316	—	3,316

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed previously.
Cash and cash equivalents: Cash and cash equivalents consist of cash and due from banks and interest-bearing balances with banks. The carrying amount reported in the Consolidated Balance Sheets for cash and cash equivalents approximates fair value based on the short-term nature of these assets.
Securities held to maturity: Securities held to maturity consist of debt securities such as obligations of U.S. Government agencies, states, and other political subdivisions. Where quoted market prices in active markets are available, securities are classified within Level 1 of the fair value hierarchy. If quoted prices from active markets are not available, fair values are based on quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active, or model-based valuation techniques where all significant assumptions are observable in the market. Such instruments are classified within Level 2 of the fair value hierarchy. When assumptions used in model-based valuation techniques are not observable in the market, the assumptions used by management reflect estimates of assumptions used by other market participants in determining fair value. When there is limited transparency around the inputs to the valuation, the instruments are classified within Level 3 of the fair value hierarchy.
Loans covered under loss-share agreements: The fair value of loans covered under loss-share agreements is based on the net present value of future cash proceeds expected to be received using discount rates that are derived from current market rates and reflect the level of interest risk in the covered loans.
Loans not covered under loss-share agreements: For variable-rate loans not covered under loss-share agreements that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values of fixed-rate loans not covered under loss-share agreements, including mortgages and commercial, agricultural and consumer loans, are estimated using a discounted cash flow analysis based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FDIC loss-share indemnification asset: The fair value of the FDIC loss-share indemnification asset is based on the net present value of future cash flows expected to be received from the FDIC under the provisions of the loss-share agreements using a discount rate that is based on current market rates for the underlying covered loans. Current market rates are used in light of the uncertainty of the timing and receipt of the loss-share reimbursement from the FDIC.

Mortgage servicing rights: The Company retains the right to service certain mortgage loans that it sells to secondary market investors. These servicing rights are carried at the lower of amortized cost or fair value. Fair value is determined using an income approach with various assumptions including expected cash flows, market discount rates, prepayment speeds, servicing costs, and other factors. Because these factors are not all observable and include management's assumptions, mortgage servicing rights are classified within Level 3 of the fair value hierarchy. Mortgage servicing rights were carried at amortized cost at September 30, 2014 and December 31, 2013, and no impairment charges were recognized in earnings for the three or nine months ended September 30, 2014 and 2013, respectively.

Deposits: The fair values disclosed for demand deposits, both interest-bearing and noninterest-bearing, are, by definition, equal to the amount payable on demand at the reporting date. Such deposits are classified within Level 1 of the fair value hierarchy. The fair values of certificates of deposit and individual retirement accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of deposits. These deposits are classified within Level 2 of the fair value hierarchy.

Short-term borrowings: Short-term borrowings consist of securities sold under agreements to repurchase and federal funds purchased. The fair value of these borrowings approximates the carrying value of the amounts reported in the Consolidated Balance Sheets for each respective account given the short-term nature of the liabilities.

Federal Home Loan Bank advances: The fair value for Federal Home Loan Bank ("FHLB") advances is determined by discounting the expected future cash outflows using current market rates for similar borrowings, or Level 2 inputs.

Junior subordinated debentures: The fair value for the Company's junior subordinated debentures is determined by discounting the future cash flows using the current market rate.

Note J - Derivative Instruments

(In Thousands)

The Company utilizes derivative financial instruments, including interest rate contracts such as swaps, caps and/or floors, as part of its ongoing efforts to mitigate its interest rate risk exposure and to facilitate the needs of its customers. The Company also from time to time enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with these customer contracts, the Company enters into an offsetting derivative contract position. The Company manages its credit risk, or potential risk of default by its commercial customers, through credit limit approval and monitoring procedures. At September 30, 2014, the Company had notional amounts of $75,462 on interest rate contracts with corporate customers and $75,462 in offsetting interest rate contracts with other financial institutions to mitigate the Company's rate exposure on its corporate customers' contracts and certain fixed-rate loans.

On June 5, 2014, the Company entered into two forward interest rate swap contracts on floating rate liabilities at the Bank level with notional amounts of $15.0 million each. The interest rate swap contracts are accounted for as a cash flow hedge with the objective of protecting against any interest rate volatility on future FHLB borrowings for a four-year and five-year period beginning June 1, 2018 and December 3, 2018 and ending June 2022 and June 2023, respectively. Under these contracts, Renasant Bank will pay a fixed interest rate of 3.593% and 3.738%, respectively, and will receive a variable interest rate based on the three-month LIBOR, with quarterly net settlements.

In March and April 2012, the Company entered into two interest rate swap agreements effective March 30, 2014 and March 17, 2014, respectively. The Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The agreements, which both terminate in March 2022, are accounted for as cash flow hedges to reduce the variability in cash flows resulting from changes in interest rates on $32,000 of the Company's junior subordinated debentures.

In connection with its merger with First M&F, the Company assumed an interest rate swap designed to convert floating rate interest payments into fixed rate payments. Based on the terms of the agreement, which terminates in March 2018, the Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The interest rate swap is accounted for as a cash flow hedge to reduce the variability in cash flows resulting from changes in interest rates on $30,000 of the junior subordinated debentures assumed in the merger with First M&F.

In May 2010, the Company terminated two interest rate swaps, each designated as a cash flow hedge, designed to convert the variable interest rate on an aggregate of $75,000 of loans to a fixed rate. As of the termination date, there were $1,679 of deferred gains related to the swaps, which are being amortized into interest income over the designated hedging periods ending in August

2012 and August 2013, respectively. Deferred gains amortized into net interest income were $0 and $37 for the three months ended September 30, 2014 and 2013, respectively, and $0 and $203 for the nine months ended September 30, 2014 and 2013, respectively.

The Company enters into interest rate lock commitments with its customers to mitigate the interest rate risk associated with the commitments to fund fixed-rate residential mortgage loans. The notional amount of commitments to fund fixed-rate mortgage loans was $79,172 and $54,807 at September 30, 2014 and December 31, 2013, respectively. The Company also enters into forward commitments to sell residential mortgage loans to secondary market investors. The notional amount of commitments to sell residential mortgage loans to secondary market investors was $75,000 and $50,000 at September 30, 2014 and December 31, 2013, respectively.

The following table provides details on the Company’s derivative financial instruments as of the dates presented:

	Balance Sheet Location	Fair Value September 30, 2014	December 31, 2013
Derivative assets:			
Designated as hedging instruments			
Interest rate swap	Other Assets	$—	$208
Totals		$—	$208
Not designated as hedging instruments:			
Interest rate contracts	Other Assets	$1,083	$1,812
Interest rate lock commitments	Other Assets	1,630	464
Forward commitments	Other Assets	29	335
Totals		$2,742	$2,611
Derivative liabilities:			
Designated as hedging instruments:			
Interest rate swap	Other Liabilities	$2,472	$1,428
Totals		$2,472	$1,428
Not designated as hedging instruments:			
Interest rate contracts	Other Liabilities	$1,083	$1,812
Interest rate lock commitments	Other Liabilities	—	52
Forward commitments	Other Liabilities	237	24
Totals		$1,320	$1,888

Gains (losses) included in the Consolidated Statements of Income related to the Company’s derivative financial instruments were as follows as of the periods presented:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Derivatives designated as hedging instruments:				
Interest rate swaps (terminated May 2010):				
Included in interest income on loans	$—	$37	$—	$203
Total	$—	$37	$—	$203
Derivatives not designated as hedging instruments:				
Interest rate contracts:				
Included in interest income on loans	$750	$798	$2,296	$2,398
Included in other noninterest expense	—	2	—	69
Interest rate lock commitments:				
Included in gains on sales of mortgage loans held for sale	(261)	2,905	1,232	804
Forward commitments				
Included in gains on sales of mortgage loans held for sale	460	(3,599)	15	1,276
Total	$949	$106	$3,543	$4,547

Offsetting

Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet when the "right of setoff" exists or when the instruments are subject to an enforceable master netting agreement, which includes the right of the non-defaulting party or non-affected party to offset recognized amounts, including collateral posted with the counterparty, to determine a net receivable or net payable upon early termination of the agreement. Certain of the Company's derivative instruments are subject to master netting agreements; however, the Company has not elected to offset such financial instruments in the consolidated balance sheets. The following table presents the Company's gross derivative positions as recognized in the consolidated balance sheets as well as the net derivative positions, including collateral pledged to the extent the application of such collateral did not reduce the net derivative liability position below zero, had the Company elected to offset those instruments subject to an enforceable master netting agreement:

	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Gross amounts recognized	$2,742	$2,818	$3,792	$3,315
Gross amounts offset in the consolidated balance sheets	—	—	—	—
Net amounts presented in the consolidated balance sheets	2,742	2,818	3,792	3,315
Gross amounts not offset in the consolidated balance sheets				
Financial instruments	37	1,664	37	1,664
Financial collateral pledged	—	—	3,540	—
Net amounts	$2,705	$1,154	$215	$1,651

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Note K – Other Comprehensive Income
(In Thousands)
Changes in the components of other comprehensive income were as follows for the periods presented:

	Pre-Tax	Tax Expense (Benefit)	Net of Tax
Three months ended September 30, 2014			
Securities available for sale:			
Unrealized holding gains on securities	$1,402	$536	$866
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	(375)	(143)	(232)
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(61)	(23)	(38)
Total securities available for sale	966	370	596
Derivative instruments:			
Unrealized holding losses on derivative instruments	68	26	42
Reclassification adjustment for gains realized in net income	—	—	—
Total derivative instruments	68	26	42
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	76	29	47
Total defined benefit pension and post-retirement benefit plans	76	29	47
Total other comprehensive income	$1,110	$425	$685
Three months ended September 30, 2013			
Securities available for sale:			
Unrealized holding gains on securities	$1,269	$487	$782
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	—	—	—
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(80)	(31)	(49)
Total securities available for sale	1,189	456	733
Derivative instruments:			
Unrealized holding losses on derivative instruments	(481)	(184)	(297)
Reclassification adjustment for gains realized in net income	(35)	(13)	(22)
Total derivative instruments	(516)	(197)	(319)
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	183	70	113
Total defined benefit pension and post-retirement benefit plans	183	70	113
Total other comprehensive income	$856	$329	$527

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	Pre-Tax	Tax Expense (Benefit)	Net of Tax
Nine months ended September 30, 2014			
Securities available for sale:			
Unrealized holding losses on securities	$7,864	$3,008	$4,856
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for losses realized in net income	(375)	(143)	(232)
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(196)	(75)	(121)
Total securities available for sale	7,293	2,790	4,503
Derivative instruments:			
Unrealized holding gains on derivative instruments	(1,252)	(479)	(773)
Reclassification adjustment for gains realized in net income	—	—	—
Total derivative instruments	(1,252)	(479)	(773)
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	222	85	137
Total defined benefit pension and post-retirement benefit plans	222	85	137
Total other comprehensive income	$6,263	$2,396	$3,867
Nine months ended September 30, 2013			
Securities available for sale:			
Unrealized holding gains on securities	$(9,864)	$(3,773)	$(6,091)
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	115	44	71
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(274)	(105)	(169)
Total securities available for sale	(10,023)	(3,834)	(6,189)
Derivative instruments:			
Unrealized holding losses on derivative instruments	1,461	559	902
Reclassification adjustment for gains realized in net income	(203)	(77)	(126)
Total derivative instruments	1,258	482	776
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	437	167	270
Total defined benefit pension and post-retirement benefit plans	437	167	270
Total other comprehensive income	$(8,328)	$(3,185)	$(5,143)

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The accumulated balances for each component of other comprehensive income, net of tax, were as follows as of the dates presented:

	September 30, 2014	December 31, 2013
Unrealized gains on securities	$14,873	$10,370
Non-credit related portion of other-than-temporary impairment on securities	(17,428)	(17,428)
Unrealized losses on derivative instruments	(785)	(12)
Unrecognized defined benefit pension and post-retirement benefit plans obligations	(4,766)	(4,903)
Total accumulated other comprehensive loss	$(8,106)	$(11,973)

Note L – Net Income Per Common Share
(In Thousands, Except Share Data)
Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the pro forma dilution of shares outstanding assuming outstanding stock options were exercised into common shares, calculated in accordance with the treasury method. Basic and diluted net income per common share calculations are as follows for the periods presented:

	Three Months Ended September 30,	
	2014	2013
Basic		
Net income applicable to common stock	$15,535	$6,637
Average common shares outstanding	31,526,423	27,234,927
Net income per common share - basic	$0.49	$0.24
Diluted		
Net income applicable to common stock	$15,535	$6,637
Average common shares outstanding	31,526,423	27,234,927
Effect of dilutive stock-based compensation	192,106	212,455
Average common shares outstanding - diluted	31,718,529	27,447,382
Net income per common share - diluted	$0.49	$0.24

	Nine Months Ended September 30,	
	2014	2013
Basic		
Net income applicable to common stock	$43,985	$22,227
Average common shares outstanding	31,486,767	25,889,139
Net income per common share - basic	$1.40	$0.86
Diluted		
Net income applicable to common stock	$43,985	$22,227
Average common shares outstanding	31,486,767	25,889,139
Effect of dilutive stock-based compensation	207,834	164,034
Average common shares outstanding - diluted	31,694,601	26,053,173
Net income per common share - diluted	$1.39	$0.85

Stock options that could potentially dilute basic net income per common share in the future that were not included in the computation of diluted net income per common share due to their anti-dilutive effect were as follows for the periods presented:

	Three Months Ended September 30,	
	2014	2013
Number of shares	109,068	109,068
Range of exercise prices	$29.57 - $30.63	$29.57 - $30.63

	Nine Months Ended September 30,	
	2014	2013
Number of shares	109,068	169,638
Range of exercise prices	$29.57 - $30.63	$19.14 - $30.63

Note M – Mergers and Acquisitions

On September 1, 2013, the Company completed its acquisition by merger of First M&F, a bank holding company headquartered in Kosciusko, Mississippi, and the parent of Merchants and Farmers Bank, a Mississippi banking corporation. On the same date, Merchants and Farmers Bank was merged into Renasant Bank. On August 31, 2013, First M&F operated 43 banking and insurance locations in Mississippi, Alabama and Tennessee. The acquisition of First M&F allowed the Company to further its strategic initiatives by expanding its geographic footprint into certain markets of Mississippi, Alabama and Tennessee. The Company issued 6,175,576 shares of its common stock for 100% of the voting equity interests in First M&F. The aggregate transaction value, including the dilutive impact of First M&F's stock based compensation assumed by the Company, was $156.8 million.

The Company recorded approximately $115.2 million in intangible assets which consist of goodwill of $90,127 and core deposit intangible of $25,032. The fair value of the core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately 10 years. The intangible assets are not deductible for income tax purposes.

The Company assumed $30.9 million in fixed/floating rate junior subordinated deferrable interest debentures payable to First M&F Statutory Trust I that mature in March 2036. The acquired subordinated debentures require interest to be paid quarterly at a rate of 90-day LIBOR plus 1.33%. The fair value adjustment on the junior subordinated debentures of $12,371 will be amortized on a straight line basis over the remaining life.

The following table summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company's acquisition of First M&F based on their fair values on September 1, 2013. The change in the balance of goodwill from previously reported amounts is due to information obtained by the Company during the measurement period about facts and circumstances that existed at the acquisition date.

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Allocation of Purchase Price for First M&F Corporation.

Purchase Price:		
Shares issued to common shareholders	6,175,576	
Purchase price per share	$25.17	
Value of stock paid		$155,439
Cash paid for fractional shares		17
Fair value of stock based compensation assumed		68
Deal charges		1,321
Total Purchase Price		$156,845
Net Assets Acquired:		
Stockholders' equity at 9/1/13	$79,440	
Increase (decrease) to net assets as a result of fair value adjustments to assets acquired and liabilities assumed:		
Securities	253	
Loans, net of First M&F's allowance for loan losses[1]	(45,761)	
Fixed assets	(3,254)	
Core deposits intangible, net of First M&F's existing core deposit intangible	21,158	
Other real estate owned[1]	(5,797)	
Other assets	(443)	
Deposits	(3,207)	
Junior Subordinated Debt	12,371	
Other liabilities	1,748	
Deferred income taxes	10,210	
Total Net Assets Acquired		66,718
Goodwill resulting from merger[2]		$90,127

(1) The fair value adjustments to acquired loans and other real estate owned reflect management's expectations to more aggressively market and liquidate problem assets quickly.
(2) The goodwill resulting from the merger has been assigned to the Community Banks operating segment.

The following table summarizes the fair value of assets acquired and liabilities assumed at acquisition date in connection with the merger with First M&F.

Cash and cash equivalents	$169,995
Securities	227,693
Mortgage loans held for sale	1,659
Loans, net of unearned income	899,236
Premises and equipment	32,075
Other real estate owned	13,527
Intangible assets	115,159
Other assets	57,259
Total assets	1,516,603
Deposits	1,325,872
Borrowings	25,346
Other liabilities	9,861

The following unaudited pro forma combined condensed consolidated financial information presents the results of operations for the nine months ended September 30, 2013 of the Company as though the merger with First M&F had been completed as of the beginning of 2013. Changes to purchase accounting estimates identified during the

measurement period did not have a material impact to the pro forma results of operations.

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	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Interest income	$54,792	$165,592
Interest expense	6,551	21,845
Net interest income	48,241	143,747
Provision for loan losses	2,320	11,030
Noninterest income	19,850	62,833
Noninterest expense	59,873	163,993
Income before income taxes	5,898	31,557
Income taxes	(70)	6,576
Net income	$5,968	$24,981
Earnings per share:		
Basic	$0.19	$0.80
Diluted	$0.19	$0.79

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

(In Thousands, Except Share Data)

This Form 10-Q may contain or incorporate by reference statements regarding Renasant Corporation (referred to herein as the "Company", "we", "our", or "us") which may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements usually include words such as "expects," "projects," "proposes," "anticipates," "believes," "intends," "estimates," "strategy," "plan," "potential," "possible" and other similar expressions. Prospective investo cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results may differ materially from those contemplated by such forward-looking statements.

Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include (1) the Company's ability to efficiently integrate acquisitions into its operations, retain the customers of these businesses and grow the acquired operations; (2) the effect of economic conditions and interest rates on a national, regional or international basis; (3) the timing of the implementation of changes in operations to achieve enhanced earnings or effect cost savings; (4) competitive pressures in the consumer finance, commercial finance, insurance, financial services, asset management, retail banking, mortgage lending and auto lending industries; (5) the financial resources of, and products available to, competitors; (6) changes in laws and regulations, including changes in accounting standards; (7) changes in policy by regulatory agencies; (8) changes in the securities and foreign exchange markets; (9) the Company's potential growth, including its entrance or expansion into new markets, and the need for sufficient capital to support that growth; (10) changes in the quality or composition of the Company's loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers; (11) an insufficient allowance for loan losses as a result of inaccurate assumptions; (12) general economic, market or business conditions; (13) changes in demand for loan products and financial services; (14) concentration of credit exposure; (15) changes or the lack of changes in interest rates, yield curves and interest rate spread relationships; and (16) other circumstances, many of which are beyond management's control. Management undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Financial Condition

The following discussion provides details regarding the changes in significant balance sheet accounts at September 30, 2014 compared to December 31, 2013.

Acquisition of First M&F Corporation

On September 1, 2013, the Company completed its acquisition of First M&F Corporation ("First M&F"), a bank holding company headquartered in Kosciusko, Mississippi, and Renasant Bank (the "Bank") completed its acquisition of First M&F's wholly-owned subsidiary, Merchants and Farmers Bank. Prior to the merger, First M&F operated 35 full-service banking offices and eight insurance offices throughout Mississippi, Tennessee and Alabama. The Company issued approximately 6.2 million shares of its common stock for 100% of the voting equity interests in First M&F in a transaction valued at $156,845. Including the effect of purchase accounting adjustments, the Company acquired assets with a fair value of $1,516,603 including loans with a fair value of $899,236, and assumed liabilities with a fair value of $1,361,079, including deposits with a fair value of $1,325,872. In connection with the merger, approximately $90,127 of goodwill and $25,032 of core deposit intangible assets were recorded. See Note M, "Mergers and Acquisitions," in the Notes to Consolidated Financial Statements included in Item 1, "Financial Statements," for additional details regarding the Company's merger with First M&F.

Assets

Total assets were $5,751,711 at September 30, 2014 compared to $5,746,270 at December 31, 2013.

Investments

The securities portfolio is used to provide a source for meeting liquidity needs and to supply securities to be used in collateralizing certain deposits and other types of borrowings. The following table shows the carrying value of our securities portfolio by investment type and the percentage of such investment type relative to the entire securities portfolio as of the dates presented:

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	September 30, 2014	Percentage of Portfolio		December 31, 2013	Percentage of Portfolio	
Obligations of other U.S. Government agencies and corporations	$131,686	13.43	%	$131,129	14.36	%
Obligations of states and political subdivisions	309,132	31.53		287,014	31.43	
Mortgage-backed securities	498,069	50.81		453,644	49.67	
Trust preferred securities	19,573	2.00		17,671	1.93	
Other debt securities	18,389	1.88		19,554	2.14	
Other equity securities	3,479	0.35		4,317	0.47	
	$980,328	100.00	%	$913,329	100.00	%

The balance of our securities portfolio at September 30, 2014 increased $66,999 to $980,328 from $913,329 at December 31, 2013. During the nine months ended September 30, 2014, we purchased $254,255 in investment securities. Mortgage-backed securities and collateralized mortgage obligations (“CMOs”), in the aggregate, comprised 39.27% of the purchases. CMOs are included in the “Mortgage-backed securities” line item in the above table. The mortgage-backed securities and CMOs held in our investment portfolio are primarily issued by government sponsored entities. U.S. Government Agency securities and municipal securities accounted for 45.41% and 15.20%, respectively, of total securities purchased in the third quarter of 2014. There were $724 of securities sold during the first nine months of 2014 resulting in a net gain of $375. Maturities and calls of securities during the first nine months of 2014 totaled $190,408.

The Company holds investments in pooled trust preferred securities. This portfolio had a cost basis of $26,738 and $27,531 and a fair value of $19,573 and $17,671 at September 30, 2014 and December 31, 2013, respectively. The investment in pooled trust preferred securities consists of four securities representing interests in various tranches of trusts collateralized by debt issued by over 320 financial institutions. Management’s determination of the fair value of each of its holdings is based on the current credit ratings, the known deferrals and defaults by the underlying issuing financial institutions and the degree to which future deferrals and defaults would be required to occur before the cash flow for our tranches is negatively impacted. The Company’s quarterly evaluation of these investments for other-than-temporary-impairment resulted in no additional write-downs during the third quarter of 2014 or 2013. Furthermore, the Company's analysis of the pooled trust preferred securities during the previous quarter supported a return to accrual status for two of the four securities. An observed history of interest payments combined with improved qualitative and quantitative factors described above justified the accrual of interest on these securities going forward. However, one of the remaining two securities is still in "payment in kind" status where interest payments are not expected until a future date, and, although the Company has received principal payments from the other security, the Company's analysis of the qualitative and quantitative factors described above does not justify a return to accrual status at this time. As a result, these two securities remain classified as nonaccruing with investment interest recorded on the cash-basis method. For more information about the Company’s trust preferred securities, see Note B, “Securities,” in the Notes to Consolidated Financial Statements of the Company in Item 1, “Financial Statements,” in this report.

Loans

The table below sets forth the balance of loans outstanding by loan type and the percentage of each loan type to total loans as of the dates presented:

	September 30, 2014	Percentage of Total Loans		December 31, 2013	Percentage of Total Loans	
Commercial, financial, agricultural	$450,559	11.38	%	$468,963	12.08	%
Lease financing	5,377	0.14		52	—	
Real estate – construction	197,066	4.98		161,436	4.16	
Real estate – 1-4 family mortgage	1,221,579	30.87		1,208,233	31.13	
Real estate – commercial mortgage	1,991,052	50.31		1,950,572	50.26	
Installment loans to individuals	91,806	2.32		91,762	2.37	
Total loans, net of unearned income	$3,957,439	100.00	%	$3,881,018	100.00	%

Loan concentrations are considered to exist when there are amounts loaned to a number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. At September 30, 2014, there were no concentrations of loans exceeding 10% of total loans which are not disclosed as a category of loans separate from the categories listed above.

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Total loans at September 30, 2014 were $3,957,439, an increase of $76,421 from $3,881,018 at December 31, 2013. Loans covered under loss-share agreements with the FDIC (referred to as "covered loans") were $155,319 at September 30, 2014, a decrease of $26,355, or 14.51%, compared to $181,674 at December 31, 2013. For covered loans, the FDIC will reimburse Renasant Bank 80% of the losses incurred on these loans. Renasant Bank has a corresponding obligation to reimburse the FDIC for 80% of eligible recoveries with respect to these loans. Management intends to continue the Company's aggressive efforts to bring those covered loans that are commercial in nature to resolution and thus the balance of covered loans is expected to continue to decline. The loss-share agreements applicable to this portfolio provide reimbursement for five years from the acquisition date.

Loans not covered under loss-share agreements with the FDIC at September 30, 2014 were $3,802,120, compared to $3,699,344 at December 31, 2013. Loans acquired from First M&F totaled $636,628 at September 30, 2014 compared to $813,543 at December 31, 2013. Excluding the loans acquired from First M&F, not covered loans increased $279,691 during the nine months ended September 30, 2014. The increase in loans not covered under loss-share agreements was attributable to growth in owner and non-owner occupied commercial real estate loans and commercial loans, as well as loan production generated by our de novo expansion. Loans from our de novo locations in Columbus and Starkville, Mississippi, Tuscaloosa and Montgomery, Alabama and Maryville, Bristol, Jonesborough and Johnson City, Tennessee contributed $85,195 of the total increase in loans from December 31, 2013.

During the first nine months of 2014, loans in our de novo markets of Mississippi, Tennessee and Alabama , excluding the contribution from First M&F, increased $24,429, $30,892, and $29,874, respectively.

The following tables provide a breakdown of covered loans and loans not covered under loss-share agreements as of the dates presented:

	September 30, 2014			
	Not Acquired	Acquired and Covered Under Loss Share	Acquired and Non-covered	Total Loans
Commercial, financial, agricultural	$378,802	$7,699	$64,058	$450,559
Lease financing	5,377	—	—	5,377
Real estate – construction:				
Residential	94,677	1,648	1,364	97,689
Commercial	99,110	—	147	99,257
Condominiums	—	—	120	120
Total real estate – construction	193,787	1,648	1,631	197,066
Real estate – 1-4 family mortgage:				
Primary	551,004	16,615	130,847	698,466
Home equity	243,770	9,186	31,945	284,901
Rental/investment	152,886	16,436	24,937	194,259
Land development	37,118	4,117	2,718	43,953
Total real estate – 1-4 family mortgage	984,778	46,354	190,447	1,221,579
Real estate – commercial mortgage:				
Owner-occupied	631,971	49,440	189,758	871,169
Non-owner occupied	776,787	31,257	150,342	958,386
Land development	118,922	18,882	23,693	161,497
Total real estate – commercial mortgage	1,527,680	99,579	363,793	1,991,052
Installment loans to individuals	75,068	39	16,699	91,806
Total loans, net of unearned income	$3,165,492	$155,319	$636,628	$3,957,439

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	December 31, 2013			
	Not Acquired	Acquired and Covered Under Loss Share	Acquired and Non-covered	Total Loans
Commercial, financial, agricultural	$341,600	$9,546	$117,817	$468,963
Lease financing	52	—	—	52
Real estate – construction:				
Residential	62,577	1,648	7,907	72,132
Commercial	84,498	—	4,279	88,777
Condominiums	—	—	527	527
Total real estate – construction	147,075	1,648	12,713	161,436
Real estate – 1-4 family mortgage:				
Primary	531,956	16,586	153,909	702,451
Home equity	196,387	13,167	34,482	244,036
Rental/investment	142,488	19,754	31,124	193,366
Land development	57,971	4,959	5,450	68,380
Total real estate – 1-4 family mortgage	928,802	54,466	224,965	1,208,233
Real estate – commercial mortgage:				
Owner-occupied	563,104	54,294	172,520	789,918
Non-owner occupied	727,744	31,855	229,559	989,158
Land development	113,769	29,837	27,890	171,496
Total real estate – commercial mortgage	1,404,617	115,986	429,969	1,950,572
Installment loans to individuals	63,655	28	28,079	91,762
Total loans, net of unearned income	$2,885,801	$181,674	$813,543	$3,881,018

Mortgage loans held for sale were $30,451 at September 30, 2014 compared to $33,440 at December 31, 2013. Originations of mortgage loans to be sold totaled $408,863 in the nine months ended September 30, 2014 compared to $501,818 for the same period in 2013. Mortgage rates in the latter half of 2011 declined to historic lows and remained at these historically low levels throughout the first quarter of 2013, which prompted a significant increase in refinancings and, thus mortgage originations during this time period. Beginning in the second quarter of 2013 and continuing through the third quarter of 2014, mortgage rates increased from these historically low levels, resulting in a slowdown in originations. The increase in mortgage rates could continue to result in lower future mortgage originations as refinancings decrease.

Mortgage loans to be sold are sold either on a “best efforts” basis or under a mandatory delivery sales agreement. Under a “best
efforts” sales agreement, residential real estate originations are locked in at a contractual rate with third party private investors or directly with government sponsored agencies, and the Company is obligated to sell the mortgages to such investors only if the mortgages are closed and funded. The risk we assume is conditioned upon loan underwriting and market conditions in the national mortgage market. Under a mandatory delivery sales agreement, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price and delivery date. Penalties are paid to the investor if we fail to satisfy the contract. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met. These loans are typically sold within thirty days after the loan is funded. Although loan fees and some interest income are derived from mortgage loans held for sale, the main source of income is gains from the sale of these loans in the secondary market.

Deposits

The Company relies on deposits as its major source of funds. Total deposits were $4,763,670 and $4,841,912 at September 30, 2014 and December 31, 2013, respectively. Noninterest-bearing deposits were $935,544 and $856,020

at September 30, 2014 and December 31, 2013, respectively, while interest-bearing deposits were $3,828,126 and $3,985,892 at September 30, 2014 and December 31, 2013, respectively. The increase in noninterest-bearing deposits at September 30, 2014 as compared to December 31, 2013 is primarily attributable to management's focus on growing and maintaining a stable source of funding, specifically core deposits, and allowing more costly deposits, including certain time deposits, to mature. The source of funds that we select depends on the terms and how those terms assist us in mitigating interest rate risk and maintaining our net interest margin. Accordingly, funds are only acquired when needed and at a rate that is prudent under the circumstances. Deposits from our de novo locations

in Columbus and Starkville, Mississippi, Tuscaloosa and Montgomery, Alabama and Maryville and Jonesborough, Tennessee totaled $340,431 at September 30, 2014 representing an increase of $68,754 from December 31, 2013.

Public fund deposits are those of counties, municipalities, or other political subdivisions and may be readily obtained based on the Company's pricing bid in comparison with competitors. Since public fund deposits are obtained through a bid process, these deposit balances may fluctuate as competitive and market forces change. The Company has focused on growing stable sources of deposits which has resulted in the Company relying less on public fund deposits. However, the Company continues to participate in the bidding process for public fund deposits. Our public fund transaction accounts are principally obtained from municipalities including school boards and utilities. Public fund deposits were $594,920 and $615,825 at September 30, 2014 and December 31, 2013, respectively.

Deposits in our Alabama and Georgia markets decreased $21,729 and $50,959, respectively, at September 30, 2014 from December 31, 2013. Deposits in our Mississippi and Tennessee markets increased $65,063 and $25,420, respectively, at September 30, 2014 from December 31, 2013.

Borrowed Funds

Total borrowings include securities sold under agreements to repurchase, federal funds purchased, advances from the FHLB and junior subordinated debentures and are classified on the Consolidated Balance Sheets as either short-term borrowings or long-term debt. Short-term borrowings have original maturities less than one year and typically include securities sold under agreements to repurchase, federal funds purchased and FHLB advances. There was $65,646 of short-term borrowings on the balance sheet at September 30, 2014, which is an increase of $63,363 from December 31, 2013. The composition of our short-term borrowings was federal funds purchased of $58,900 and security repurchase agreements of $6,746 at September 30, 2014.

At September 30, 2014, long-term debt totaled $162,018 compared to $169,592 at December 31, 2013. Funds are borrowed from the FHLB primarily to match-fund against certain loans, negating interest rate exposure when rates rise. Such match-funded loans are typically large, fixed rate commercial or real estate loans with long-term maturities. FHLB advances were $67,540 and $75,405 at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, $10,015 of the total FHLB advances outstanding were scheduled to mature within twelve months or less. The Company had $1,605,932 of availability on unused lines of credit with the FHLB at September 30, 2014 compared to $1,595,864 at December 31, 2013. The cost of our FHLB advances was 4.16% and 4.23% for the first nine months of 2014 and 2013, respectively.

Results of Operations

Three Months Ended September 30, 2014 as Compared to the Three Months Ended September 30, 2013

Net Income

Net income for the three month period ended September 30, 2014 was $15,535 compared to net income of $6,637 for the three month period ended September 30, 2013. Basic and diluted earnings per share for the three month period ended September 30, 2014 were $0.49 as compared to $0.24 for the three month period ended September 30, 2013. The increase in net income and earnings per share in the third quarter of 2014 as compared to the third quarter of 2013 was due primarily to the acquisition of First M&F, improvement in our net interest margin and continued improvement in our credit risk profile.

Net Interest Income

Net interest income, the difference between interest earned on assets and the cost of interest-bearing liabilities, is the largest component of our net income, comprising 69.83% of total net revenue for the third quarter of 2014. Total net revenue consists of net interest income on a fully taxable equivalent basis and noninterest income. The primary

concerns in managing net interest income are the volume, mix and repricing of assets and liabilities.

Net interest income increased to $50,472 for the third quarter of 2014 compared to $38,748 for the same period in 2013. On a tax equivalent basis, net interest income was $52,211 for the third quarter of 2014 as compared to $40,200 for the third quarter of 2013. Net interest margin, the tax equivalent net yield on earning assets, increased to 4.12% during the third quarter of 2014 compared to 3.84% for the third quarter of 2013. Net interest margin and net interest income are influenced by internal and external factors. Internal factors include balance sheet changes on both volume and mix and pricing decisions. External factors include changes in market interest rates, competition and the shape of the interest rate yield curve.

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The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the periods presented:

	Three Months Ended September 30,							
	2014				2013			
	Average Balance	Interest Income/ Expense	Yield/ Rate		Average Balance	Interest Income/ Expense	Yield/ Rate	
Assets								
Interest-earning assets:								
Loans[1]	$3,968,974	$50,088	5.01	%	$3,271,943	$39,458	4.78	%
Securities:								
Taxable[2]	689,872	3,873	2.23		575,224	3,149	2.17	
Tax-exempt	311,676	4,062	5.17		244,127	3,435	5.58	
Interest-bearing balances with banks	57,283	74	0.51		64,470	48	0.30	
Total interest-earning assets	5,027,805	58,097	4.58		4,155,764	46,090	4.40	
Cash and due from banks	85,136				63,809			
Intangible assets	300,725				214,436			
FDIC loss-share indemnification asset	18,686				29,368			
Other assets	325,731				269,498			
Total assets	$5,758,083				$4,732,875			
Liabilities and shareholders' equity								
Interest-bearing liabilities:								
Deposits:								
Interest-bearing demand[3]	$2,157,648	$1,091	0.20	%	$1,675,891	$1,071	0.25	%
Savings deposits	348,327	78	0.09		283,690	196	0.27	
Time deposits	1,383,158	2,746	0.79		1,313,083	3,046	0.92	
Total interest-bearing deposits	3,889,133	3,915	0.40		3,272,664	4,313	0.52	
Borrowed funds	214,017	1,971	3.65		193,928	1,577	3.23	
Total interest-bearing liabilities	4,103,150	5,886	0.57		3,466,592	5,890	0.67	
Noninterest-bearing deposits	896,856				661,335			
Other liabilities	60,974				50,362			
Shareholders' equity	697,103				554,586			
Total liabilities and shareholders' equity	$5,758,083				$4,732,875			
Net interest income/net interest margin		$52,211	4.12	%		$40,200	3.84	%

(1) Includes mortgage loans held for sale and shown net of unearned income.
(2) U.S. Government and some U.S. Government agency securities are tax-exempt in the states in which we operate.
(3) Interest-bearing demand deposits include interest-bearing transactional accounts and money market deposits.

The average balances of nonaccruing assets are included in the table above. Interest income and weighted average yields on tax-exempt loans and securities have been computed on a fully tax equivalent basis assuming a federal tax rate of 35% and a state tax rate of 3.3%, which is net of federal tax benefit.

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The following table sets forth a summary of the changes in interest earned, on a tax equivalent basis, and interest paid resulting from changes in volume and rates for the Company for the third quarter of 2014 compared to the third quarter of 2013:

	Volume	Rate	Net[1]
Interest income:			
Loans [2]	$8,727	$1,903	$10,630
Securities:			
Taxable	642	82	724
Tax-exempt	855	(228)	627
Interest-bearing balances with banks	(5)	31	26
Total interest-earning assets	10,219	1,788	12,007
Interest expense:			
Interest-bearing demand deposits	74	(54)	20
Savings deposits	60	(178)	(118)
Time deposits	176	(476)	(300)
Borrowed funds	173	221	394
Total interest-bearing liabilities	483	(487)	(4)
Change in net interest income	$9,736	$2,275	$12,011

(1) Changes in interest due to both volume and rate have been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

(2) Includes mortgage loans held for sale and shown net of unearned income.

Interest income, on a tax equivalent basis, was $58,097 for the third quarter of 2014 compared to $46,090 for the same period in 2013. This increase in interest income, on a tax equivalent basis, is due primarily to the acquisition of First M&F which contributed to an increase in average earning assets. The following table presents the percentage of total average earning assets, by type and yield, for the periods presented:

	Percentage of Total Three Months Ended September 30,		Yield Three Months Ended September 30,	
	2014	2013	2014	2013
Loans	78.94 %	78.73 %	5.01 %	4.78 %
Securities	19.92	19.72	3.14	3.19
Other	1.14	1.55	0.51	0.30
Total earning assets	100.00 %	100.00 %	4.58 %	4.40 %

For the third quarter of 2014, loan income, on a tax equivalent basis, increased $10,630 to $50,088 from $39,458 compared to the same period in 2013. The average balance of loans increased $697,031 from third quarter of 2014 compared to the third quarter of 2013 due in large part to the First M&F merger and organic loan growth. The tax equivalent yield on loans was 5.01%, a 23 basis point increase from the third quarter of 2013. The increase in loan yields was a result of accretion of nonaccretable difference due to higher than expected levels of payoffs from the First M&F portfolio, offset partially by replacing higher rate maturing loans with new or renewed loans at current market rates which are generally lower due to the current interest rate environment. The accelerated accretion on the acquired First M&F portfolio produced by higher levels of payoffs increased our loan yield by 14 basis points and increased the net interest margin by 11 basis points for the third quarter of 2014.

Investment income, on a tax equivalent basis, increased $1,351 to $7,935 for the third quarter of 2014 from $6,584 for the third quarter of 2013. The average balance in the investment portfolio for the third quarter of 2014 was $1,001,548 compared to $819,351 for the same period in 2013. The increase in the average balance of the investment portfolio is due primarily to the First M&F merger. The tax equivalent yield on the investment portfolio for the third quarter of 2014 was 3.14%, down 5 basis points from the same period in 2013. The decline in yield was a result of the reinvestment of cash flows from the Company's portfolio that had higher rates than the rates on the securities that the Company purchased with the proceeds the Company received from the maturity or call of the securities. The reinvestment rates on securities were lower due to the generally lower interest rate environment.

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Interest expense was $5,886 for the third quarter of 2014 as compared to $5,890 for the same period in 2013. The slight decrease in interest expense was primarily driven by a decrease in the cost of interest-bearing liabilities as a result of the declining interest rate environment and a change in the mix of our interest-bearing liabilities in which we utilized lower cost deposits to replace higher costing liabilities, specifically time deposits. This impact was almost completely offset by the increase in the average balance of interest bearing liabilities due to the First M&F merger. The cost of interest-bearing liabilities was 0.57% for the three months ended September 30, 2014 as compared to 0.67% at September 30, 2013.

The following table presents, by type, the Company's funding sources, which consist of total average deposits and borrowed funds, and the total cost of each funding source for the periods presented:

	Percentage of Total Three Months Ended September 30,		Cost of Funds Three Months Ended September 30,	
	2014	2013	2014	2013
Noninterest-bearing demand	17.94 %	16.02 %	— %	— %
Interest-bearing demand	43.15	40.60	0.20	0.25
Savings	6.97	6.87	0.09	0.27
Time deposits	27.66	31.81	0.79	0.92
Federal Home Loan Bank advances	1.36	1.86	4.11	4.19
Other borrowed funds	2.92	2.84	3.44	2.59
Total deposits and borrowed funds	100.00 %	100.00 %	0.47 %	0.57 %

Interest expense on deposits was $3,915 and $4,313 for the third quarter of 2014 and 2013, respectively. The cost of interest-bearing deposits was 0.40% and 0.52% for the same periods. Interest expense on total borrowings was $1,971 and $1,577 for the third quarter of 2014 and 2013, respectively. A more detailed discussion of the cost of our funding sources is set forth below under the heading "Liquidity and Capital Resources" in this item.

Noninterest Income

Noninterest Income to Average Assets (Excludes securities gains/losses) Three Months Ended September 30,	
2014	2013
1.53%	1.59%

Total noninterest income includes fees generated from deposit services, mortgage loan originations, insurance products, trust and other wealth management products and services, security gains and all other noninterest income. Our focus is to develop and enhance our products that generate noninterest income in order to diversify our revenue sources. Noninterest income was $22,563 for the third quarter of 2014 as compared to $18,935 for the same period in 2013. The increase in noninterest income and its related components is primarily attributable to the First M&F acquisition and is offset by declines in mortgage related income and BOLI income. BOLI income was elevated in the comparable quarter in 2013 due to the collection of death benefits on certain insurance contracts.

Service charges on deposit accounts include maintenance fees on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. Service charges on deposit accounts were $6,747 and $5,361 for the third quarter of 2014 and 2013, respectively. Overdraft fees, the largest component of service charges on deposits, were $5,181 for the three months ended September 30, 2014 compared to $4,222 for the same period in

2013. The increase in service charge revenues is primarily a result of the First M&F acquisition.

Fees and commissions increased to $6,237 during the third quarter of 2014 as compared to $4,982 for the same period in 2013. Fees and commissions include fees related to deposit services, such as interchange fees on debit card transactions, as well as fees charged on mortgage loans originated to be sold, such as origination, underwriting, documentation and other administrative fees. Mortgage loan fees decreased to $1,912 during the third quarter of 2014 as compared to $1,969 for the same period in 2013 as a direct result of the lower levels of mortgage originations between the periods. For the third quarter of 2014, fees associated with debit card usage were $3,086 as compared to $2,342 for the same period in 2013.

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Through Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers.
Income earned on insurance products was $2,270 and $1,295 for the three months ended September 30, 2014 and 2013, respectively. Contingency income is a bonus received from the insurance underwriters and is based both on commission income and claims
experience on our clients' policies during the previous year. The First M&F acquisition is the primary factor contributing to the increase in insurance commissions and contingency income for 2014.
The Trust division within the Wealth Management segment operates on a custodial basis which includes administration of benefit plans, as well as accounting and money management for trust accounts. The division manages a number of trust accounts inclusive of personal and corporate benefit accounts, self-directed IRAs, and custodial accounts. Fees for managing these accounts are based on changes in market values of the assets under management in the account, with the amount of the fee depending on the type of account. Additionally, the Financial Services division within the Wealth Management segment provides specialized products and services to our customers, which include fixed and variable annuities, mutual funds, and stocks offered through a third party provider.
Wealth Management revenue was $2,197 for the third quarter of 2014 compared to $2,091 for the same period in 2013. The market value of trust assets under management was $2,635,634 and $2,316,816 at September 30, 2014 and September 30, 2013, respectively.

Gains on the sale of mortgage loans held for sale were $2,635 and $2,788 for the three months ended September 30, 2014 and 2013, respectively. Originations of mortgage loans to be sold totaled $154,285 for the third quarter of 2014 as compared to $127,370 for the same period of 2013.
Noninterest Expense

Noninterest Expense to Average Assets	
Three Months Ended September 30,	
2014	2013
3.32%	3.91%

Noninterest expense was $48,175 and $46,613 for the third quarter of 2014 and 2013, respectively. The increase in noninterest expense and its related components is primarily attributable to the First M&F acquisition. Merger expense related to the First M&F acquisition was $3,763 for the three months ended September 30, 2013. There were no merger related expenses for the same period in 2014.

Salaries and employee benefits increased $3,880 to $29,569 for the third quarter of 2014 as compared to $25,689 for the same period in 2013, which is a result of the merger with First M&F.

Data processing costs increased to $2,906 in the third quarter of 2014 from $2,236 for the same period in 2013. The increase for the third quarter of 2014 as compared to the same period in 2013 was attributable to the addition of the First M&F deposit and loan customer databases, offset by cost savings achieved through efforts to improve the cost structure of loan and deposit processing by renegotiating contracts with data processing service providers.

Net occupancy and equipment expense for the third quarter of 2014 was $5,353, up from $4,576 for the same period in 2013.

Expenses related to other real estate owned for the third quarter of 2014 were $1,101 compared to $1,537 for the same period in 2013. Expenses on other real estate owned for the third quarter of 2014 included write downs of $856 of the

carrying value to fair value on certain pieces of property held in other real estate owned. Other real estate owned with a cost basis of $8,360 was sold during the three months ended September 30, 2014, resulting in a net gain of $85. Expenses on other real estate owned for the three months ended September 30, 2013 included a $594 write down of the carrying value to fair value on certain pieces of property held in other real estate owned. Other real estate owned with a cost basis of $19,274 was sold during the three months ended September 30, 2013, resulting in a net loss of $293.

Professional fees include fees for legal and accounting services. Professional fees were $1,018 for the third quarter of 2014 as compared to $1,542 for the same period in 2013. While the Company experienced a decrease in professional fees in the third quarter of 2014 compared to the same period in 2013, professional fees remain elevated in large part due to additional legal, accounting and consulting fees associated with compliance costs of newly enacted as well as existing banking and governmental

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regulation. Professional fees attributable to legal fees associated with loan workouts and foreclosure proceedings remain at higher levels in correlation with the overall economic downturn and credit deterioration identified in our loan portfolio and the Company's efforts to bring these credits to resolution.

Advertising and public relations expense was $1,133 for the third quarter of 2014 compared to $1,514 for the same period in 2013.

Amortization of intangible assets totaled $1,381 and $724 for the third quarter of 2014 and 2013, respectively. This amortization relates to finite-lived intangible assets which are being amortized over the useful lives as determined at acquisition. These finite-lived intangible assets have remaining estimated useful lives ranging from three months to twelve years. The increase in amortization of intangible assets is attributable to amortization of finite-lived intangible assets associated with the acquisition of First M&F.

Communication expenses, those expenses incurred for communication to clients and between employees, were $1,079 for the third quarter of 2014 as compared to $1,310 for the same period in 2013.

Efficiency Ratio

Three Months Ended September 30,	
2014	2013
64.43%	78.82%

The efficiency ratio is one measure of productivity in the banking industry. This ratio is calculated to measure the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. The Company calculates this ratio by dividing noninterest expense by the sum of net interest income on a fully tax equivalent basis and noninterest income. We remain committed to aggressively managing our costs within the framework of our business model. We expect the efficiency ratio to continue to improve from levels reported in 2013 and 2012 from incremental revenue driven by growth from the additional markets added via the First M&F acquisition and the maturity of the Company's de novo locations and continued reduction in credit related expenses as credit quality improves.

Income Taxes

Income tax expense for the third quarter of 2014 and 2013 was $7,108 and $2,133, respectively. The effective tax rates for those periods were 31.39% and 24.32%, respectively. The increased effective tax rate for the third quarter of 2014 as compared to the same period in 2013 is the result of the Company experiencing improvements in its financial results throughout 2013 and into the third quarter of 2014 resulting in higher levels of taxable income.

Results of Operations

Nine Months Ended September 30, 2014 as Compared to the Nine Months Ended September 30, 2013

Net Income

Net income for the nine months ended September 30, 2014 was $43,985 compared to net income of $22,227 for the nine months ended September 30, 2013. Basic and diluted earnings per share for the nine months ended September 30, 2014 were $1.40 and $1.39, respectively, as compared to $0.86 and $0.85, respectively, for the nine months ended September 30, 2013. The increase in net income and earnings per share in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 was due primarily to the acquisition of First M&F, improvement in our net interest margin and continued improvement in our credit risk profile.

Net Interest Income

Net interest income increased to $152,612 for the nine months ended September 30, 2014 compared to $106,533 for the same period in 2013. On a tax equivalent basis, net interest income was $157,719 for the nine months ended September 30, 2014 as compared to $110,318 for the nine months ended September 30, 2013. Net interest margin, the tax equivalent net yield on earning assets, increased to 4.13% during the nine months ended 2014 compared to 3.85% for the nine months ended 2013. Net interest margin and net interest income are influenced by internal and external factors. Internal factors include balance sheet changes on both volume and mix and pricing decisions. External factors include changes in market interest rates, competition and the shape of the interest rate yield curve.

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The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the periods presented:

	Nine Months Ended September 30,							
	2014				2013			
	Average Balance	Interest Income/ Expense	Yield/ Rate		Average Balance	Interest Income/ Expense	Yield/ Rate	
Assets								
Interest-earning assets:								
Loans[1]	$3,927,187	$151,375	5.15	%	$2,993,792	$108,031	4.82	%
Securities:								
Taxable[2]	707,857	12,191	2.30	%	529,196	9,352	2.36	
Tax-exempt	302,478	12,018	5.31		228,822	9,780	5.71	
Interest-bearing balances with banks	164,164	335	0.27		77,424	150	0.26	
Total interest-earning assets	5,101,686	175,919	4.61		3,829,234	127,313	4.45	
Cash and due from banks	88,918				57,928			
Intangible assets	302,158				198,615			
FDIC loss-share indemnification asset	22,554				35,359			
Other assets	324,917				271,204			
Total assets	$5,840,233				$4,392,340			
Liabilities and shareholders' equity								
Interest-bearing liabilities:								
Deposits:								
Interest-bearing demand[3]	$2,209,358	$3,338	0.20	%	$1,550,108	$2,927	0.25	
Savings deposits	344,422	224	0.09		261,715	443	0.23	
Time deposits	1,440,418	8,862	0.82		1,245,833	9,118	0.98	
Total interest-bearing deposits	3,994,198	12,424	0.42		3,057,656	12,488	0.55	
Borrowed funds	184,655	5,776	4.18		174,378	4,507	3.46	
Total interest-bearing liabilities	4,178,853	18,200	0.58		3,232,034	16,995	0.70	
Noninterest-bearing deposits	916,925				591,394			
Other liabilities	58,722				47,904			
Shareholders' equity	685,733				521,008			
Total liabilities and shareholders' equity	$5,840,233				$4,392,340			
Net interest income/net interest margin		$157,719	4.13	%		$110,318	3.85	%

(1) Includes mortgage loans held for sale and shown net of unearned income.
(2) U.S. Government and some U.S. Government agency securities are tax-exempt in the states in which we operate.
(3) Interest-bearing demand deposits include interest-bearing transactional accounts and money market deposits.

The average balances of nonaccruing assets are included in the table above. Interest income and weighted average yields on tax-exempt loans and securities have been computed on a fully tax equivalent basis assuming a federal tax rate of 35% and a state tax rate of 3.3%, which is net of federal tax benefit.

The following table sets forth a summary of the changes in interest earned, on a tax equivalent basis, and interest paid resulting from changes in volume and rates for the Company for the nine months ended September 30, 2014 compared to the same period in 2013:

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	Volume	Rate	Net[1]
Interest income:			
Loans [2]	$35,566	$7,778	$43,344
Securities:			
Taxable	3,070	(231)	2,839
Tax-exempt	2,864	(626)	2,238
Interest-bearing balances with banks	177	8	185
Total interest-earning assets	41,677	6,929	48,606
Interest expense:			
Interest-bearing demand deposits	775	(364)	411
Savings deposits	231	(450)	(219)
Time deposits	12,617	(12,873)	(256)
Borrowed funds	278	991	1,269
Total interest-bearing liabilities	13,901	(12,696)	1,205
Change in net interest income	$27,776	$19,625	$47,401

(1) Changes in interest due to both volume and rate have been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.
(2) Includes mortgage loans held for sale and shown net of unearned income.

Interest income, on a tax equivalent basis, was $175,919 for the nine months ended September 30, 2014 compared to $127,313 for the same period in 2013. This increase in interest income, on a tax equivalent basis, is due primarily to the acquisition of First M&F which contributed to an increase in average earning assets. The following table presents the percentage of total average earning assets, by type and yield, for the periods presented:

	Percentage of Total Nine Months Ended September 30,		Yield Nine Months Ended September 30,	
	2014	2013	2014	2013
Loans	76.98 %	78.18 %	5.15 %	4.82 %
Securities	19.80	19.80	3.20	3.37
Other	3.22	2.02	0.27	0.26
Total earning assets	100.00 %	100.00 %	4.61 %	4.45 %

For the nine months ending September 30, 2014, loan income, on a tax equivalent basis, increased $43,344 to $151,375 from $108,031 in the same period in 2013. The average balance of loans increased $933,395 for the nine months ended September 30, 2014 compared to the same period in 2013 due in large part to the First M&F merger. The tax equivalent yield on loans was 5.15% for the nine months ending September 30, 2014, a 33 basis point increase from the same period in 2013. The increase in loan yields was primarily a result of accelerated accretion of nonaccretable difference due to higher than expected levels of payoffs from the First M&F portfolio, offset partially by replacing higher rate maturing loans with new or renewed loans at current market rates which are generally lower due to the current interest rate environment. The accelerated accretion on the acquired M&F portfolio increased our loan yield by 26 basis points and increased the net interest margin by 20 basis points for the first nine months of 2014.

Investment income, on a tax equivalent basis, increased $5,077 to $24,209 for the nine months ended September 30, 2014 from $19,132 for the same period in 2013. The average balance in the investment portfolio for the nine months ended September 30, 2014 was $1,010,335 compared to $758,018 for the same period in 2013. The increase in the average balance of the investment portfolio is due primarily to the First M&F merger. The tax equivalent yield on the

investment portfolio for the first nine months of 2014 was 3.20%, down 17 basis points from the same period in 2013. The decline in yield was a result of the reinvestment of cash flows from the Company's portfolio that had higher rates than the rates on the securities that the Company purchased with the proceeds the Company received from the maturity or call of the securities. The reinvestment rates on securities were lower due to the generally lower interest rate environment.

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Interest expense for the nine months ended September 30, 2014 was $18,200 as compared to $16,995 for the same period in 2013. The increase in interest expense was due to an increase in the average balance of interest bearing liabilities due to the First M&F merger partially offset by a decrease in the cost of interest-bearing liabilities as a result of the declining interest rate environment and a change in the mix of our interest-bearing liabilities in which we utilized lower cost deposits to replace higher costing liabilities, specifically time deposits. The cost of interest-bearing liabilities was 0.58% for the nine months ended September 30, 2014 as compared to 0.70% for the same period end, September 30, 2013.

The following table presents, by type, the Company's funding sources, which consist of total average deposits and borrowed funds, and the total cost of each funding source for the periods presented:

	Percentage of Total Nine Months Ended September 30,		Cost of Funds Nine Months Ended September 30,	
	2014	2013	2014	2013
Noninterest-bearing demand	17.99 %	15.47 %	— %	— %
Interest-bearing demand	43.36	40.54	0.20	0.25
Savings	6.76	6.85	0.09	0.23
Time deposits	28.27	32.58	0.82	0.98
Federal Home Loan Bank advances	1.39	2.07	4.17	4.23
Other borrowed funds	2.23	2.49	4.19	2.81
Total deposits and borrowed funds	100.00 %	100.00 %	0.48 %	0.59 %

Interest expense on deposits was $12,424 and $12,488 for the nine months ended September 30, 2014 and 2013, respectively. The cost of interest bearing deposits was 0.42% and 0.55% for the same periods. Interest expense on total borrowings was $5,776 and $4,507 for the first nine months of 2014 and 2013, respectively. A more detailed discussion of the cost of our funding sources is set forth below under the heading "Liquidity and Capital Resources" in this item.

Noninterest Income

Noninterest Income to Average Assets (Excludes securities gains/losses) Nine Months Ended September 30,	
2014	2013
1.38%	1.63%

Noninterest income was $60,650 for the nine months ended September 30, 2014 as compared to $53,630 for the same period in 2013. The increase in noninterest income and its related components is primarily attributable to the First M&F acquisition.

Service charges on deposit accounts include maintenance fees on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. Service charges on deposit accounts were $18,856 and $14,370 for the nine months ended September 30, 2014 and 2013, respectively. Overdraft fees, the largest component of service charges on deposits, were $14,456 for the nine months ended September 30, 2014 compared to $11,340 for the same period in 2013. The increase in service charge revenues is primarily a result of the First M&F acquisition.

Fees and commissions increased to $16,724 for the first nine months of September 30, 2014 as compared to $14,661 for the same period in 2013. Fees and commissions include fees related to deposit services, such as interchange fees on debit card transactions, as well as fees charged on mortgage loans originated to be sold, such as origination, underwriting, documentation and other administrative fees. Mortgage loan fees decreased to $5,225 during the nine months ended September 30, 2014 as compared to $5,706 for the same period in 2013 as a direct result of the lower levels of mortgage originations between the periods. Fees associated with debit card usage were $8,833 for the nine months ending September 30, 2014 as compared to $6,594 for the same period in 2013.

Through Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers. Income earned on insurance products was $6,221 and $3,107 for the nine months ended September 30, 2014 and 2013, respectively.

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Contingency income, which is included in "Other noninterest income" in the Consolidated Statements of Income, was $575 and $224 for the nine months ended September 30, 2014 and 2013, respectively. The First M&F acquisition is a significant contributing factor to the increase in insurance commissions and contingency income for 2014.

The Trust division within the Wealth Management segment operates on a custodial basis which includes administration of benefit plans, as well as accounting and money management for trust accounts. The division manages a number of trust accounts inclusive of personal and corporate benefit accounts, self-directed IRAs, and custodial accounts. Fees for managing these accounts are based on changes in market values of the assets under management in the account, with the amount of the fee depending on the type of account. Additionally, the Financial Services division within the Wealth Management segment provides specialized products and services to our customers, which include fixed and variable annuities, mutual funds, and stocks offered through a third party provider. Wealth Management revenue was $6,511 for the nine months ended September 30, 2014 compared to $5,530 for the same period in 2013. The market value of trust assets under management was $2,635,634 and $2,316,816 at September 30, 2014 and September 30, 2013, respectively.

Gains on sales of securities for the nine months ended September 30, 2014 and 2013 were $375 and $54, respectively. These gains resulted from the sale of approximately $724 and $13,422 in securities during the first nine months of 2014 and 2013, respectively.

Gains on the sale of mortgage loans held for sale were $6,226 and $10,223 for the nine months ended September 30, 2014 and 2013, respectively. Originations of mortgage loans to be sold totaled $408,863 for the nine months ended September 30, 2014 as compared to $501,818 for the same period of 2013.

Noninterest Expense

Noninterest Expense to Average Assets	
Nine Months Ended September 30,	
2014	2013
3.32%	3.71%

Noninterest expense was $145,216 and $121,947 for the nine months ended September 30, 2014 and 2013, respectively. The increase in noninterest expense and its related components is primarily attributable to the First M&F acquisition. Merger expense related to the First M&F acquisition was $195 for the nine months ended September 30, 2014 compared to $4,148 for the same period in 2013.

Salaries and employee benefits increased $18,938 to $87,807 for the nine months ended September 30, 2014 as compared to $68,869 for the same period in 2013, which is a result of the merger with First M&F.

Data processing costs increased to $8,451 in the nine months ended September 30, 2014 from $6,324 for the same period in 2013. The increase for the nine months ended September 30, 2014 as compared to the same period in 2013 was attributable to the addition of the First M&F deposit and loan customer databases, offset by cost savings achieved through efforts to improve the cost structure of loan and deposit processing by renegotiating contracts with data processing service providers.

Net occupancy and equipment expense for the first nine months of 2014 was $15,106, up from $11,852 for the same period in 2013.

Expenses related to other real estate owned for the first nine months of 2014 were $3,870 compared to $5,359 for the same period in 2013. Expenses on other real estate owned for the nine months ended September 30, 2014 included write downs of $1,901 of the carrying value to fair value on certain pieces of property held in other real estate owned.

Other real estate owned with a cost basis of $22,702 was sold during the nine months ended September 30, 2014, resulting in a net gain of $97. Expenses on other real estate owned for the nine months ended September 30, 2013 included a $2,829 write down of the carrying value to fair value on certain pieces of property held in other real estate owned. Other real estate owned with a cost basis of $52,585 was sold during the nine months ended September 30, 2013, resulting in a net loss of $511.

Professional fees include fees for legal and accounting services. Professional fees were $3,607 for the nine months ended September 30, 2014 as compared to $4,019 for the same period in 2013. While the Company experienced a slight decrease in professional fees year over year, professional fees remain elevated in large part due to additional legal, accounting and consulting fees associated with compliance costs of newly enacted as well as existing banking and governmental regulation. Professional fees attributable to legal fees associated with loan workouts and foreclosure proceedings remain at higher levels in correlation with the overall

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economic downturn and credit deterioration identified in our loan portfolio and the Company's efforts to bring these credits to resolution.

Advertising and public relations expense was $4,549 for the nine months ended September 30, 2014 compared to $4,250 for the same period in 2013.

Amortization of intangible assets totaled $4,279 and $1,361 for the nine months ended September 30, 2014 and 2013, respectively. This amortization relates to finite-lived intangible assets which are being amortized over the useful lives as determined at acquisition. These finite-lived intangible assets have remaining estimated useful lives ranging from three months to twelve years. The increase in amortization of intangible assets is attributable to amortization of finite-lived intangible assets associated with the acquisition of First M&F.

Communication expenses, those expenses incurred for communication to clients and between employees, were $4,462 for the nine months ended September 30, 2014 as compared to $3,572 for the same period in 2013.

Efficiency Ratio

Nine Months Ended September 30,	
2014	2013
66.50%	74.17%

The efficiency ratio is one measure of productivity in the banking industry. This ratio is calculated to measure the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. The Company calculates this ratio by dividing noninterest expense by the sum of net interest income on a fully tax equivalent basis and noninterest income. We remain committed to aggressively managing our costs within the framework of our business model. We expect the efficiency ratio to continue to improve from levels reported in 2013 and 2012 from incremental revenue driven by growth from the additional markets added via the First M&F acquisition in 2013 and the maturity of the Company's de novo locations and continued reduction in credit related expenses as credit quality improves.

Income Taxes

Income tax expense for the nine months ended September 30, 2014 and 2013 was $18,944 and $7,639, respectively. The effective tax rates for those periods were 30.10% and 25.58%, respectively. The increased effective tax rate for the nine months ended September 30, 2014 as compared to the same period in 2013 is the result of the Company experiencing improvements in its financial results throughout 2013 and into the nine months ended September 30, 2014 resulting in higher levels of taxable income.

Risk Management

The management of risk is an on-going process. Primary risks that are associated with the Company include credit, interest rate and liquidity risk. Credit risk and interest rate risk are discussed below, while liquidity risk is discussed in the next subsection under the heading "Liquidity and Capital Resources."

Credit Risk and Allowance for Loan Losses

Inherent in any lending activity is credit risk, that is, the risk of loss should a borrower default. Credit risk is monitored and managed on an ongoing basis by a credit administration department, senior loan committee, a loss management committee and the Board of Directors loan committee. Credit quality, adherence to policies and loss mitigation are major concerns of credit administration and these committees. The Company's central appraisal review

department reviews and approves third-party appraisals obtained by the Company on real estate collateral and monitors loan maturities to ensure updated appraisals are obtained. This department is managed by a licensed real estate appraiser and employs an additional three licensed appraisers.

We have a number of documented loan policies and procedures that set forth the approval and monitoring process of the lending function. Adherence to these policies and procedures is monitored by management and the Board of Directors. A number of committees and an underwriting staff oversee the lending operations of the Company. These include in-house loan and loss management committees and the Board of Directors loan committee and problem loan review committee. In addition, we maintain a loan review staff to independently monitor loan quality and lending practices. Loan review personnel monitor and, if necessary,

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adjust the grades assigned to loans through periodic examination, focusing its review on commercial and real estate loans rather than consumer and consumer mortgage loans.

In compliance with loan policy, the lending staff is given lending limits based on their knowledge and experience. In addition, each lending officer's prior performance is evaluated for credit quality and compliance as a tool for establishing and enhancing lending limits. Before funds are advanced on consumer and commercial loans below certain dollar thresholds, loans are reviewed and scored using centralized underwriting methodologies. Loan quality or "risk-rating" grades are assigned based upon certain factors, which include the scoring of the loans. This information is used to assist management in monitoring credit quality. Loan requests of amounts greater than an officer's lending limits are reviewed by senior credit officers, in-house loan committees or the Board of Directors.

For commercial and commercial real estate secured loans, risk-rating grades are assigned by lending, credit administration or loan review personnel, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Loan grades range from 1 to 9, with 1 being loans with the least credit risk. Allowance factors established by management are applied to the total balance of loans in each grade to determine the amount needed in the allowance for loan losses. The allowance factors are established based on historical loss ratios experienced by the Company for these loan types, as well as the credit quality criteria underlying each grade, adjusted for trends and expectations about losses inherent in our existing portfolios. In making these adjustments to the allowance factors, management takes into consideration factors which it believes are causing, or are likely in the future to cause, losses within our loan portfolio but which may not be fully reflected in our historical loss ratios. For portfolio balances of consumer, consumer mortgage and certain other similar loan types, allowance factors are determined based on historical loss ratios by portfolio for the preceding eight quarters and may be adjusted by other qualitative criteria.

The loss management committee and the Board of Directors' problem loan review committee monitor loans that are past due or those that have been downgraded and placed on the Company's internal watch list due to a decline in the collateral value or cash flow of the debtor; the committees then adjust loan grades accordingly. This information is used to assist management in monitoring credit quality. In addition, the Company's portfolio management committee monitors and identifies risks within the Company's loan portfolio by focusing its efforts on reviewing and analyzing loans which are not on the Company's internal watch list. The portfolio management committee monitors loans in portfolios or regions which management believes could be stressed or experiencing credit deterioration.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for problem loans of $500 or greater by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For real estate collateral, the fair market value of the collateral is based upon a recent appraisal by a qualified and licensed appraiser of the underlying collateral. When the ultimate collectability of a loan's principal is in doubt, wholly or partially, the loan is placed on nonaccrual.

After all collection efforts have failed, collateral securing loans may be repossessed and sold or, for loans secured by real estate, foreclosure proceedings are initiated. The collateral is sold at public auction for fair market value (based upon recent appraisals described in the above paragraph), with fees associated with the foreclosure being deducted from the sales price. The purchase price is applied to the outstanding loan balance. If the loan balance is greater than the sales proceeds, the deficient balance is sent to the Board of Directors' loan committee for charge-off approval. These charge-offs reduce the allowance for loan losses. Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses.

Net charge-offs for the third quarter of 2014 were $4,952, or 0.50% of average loans, compared to net charge-offs of $3,084, or 0.38% of average loans, for the same period in 2013. The amount of net charge-offs totaled $8,213, or 0.28% of average loans, for the nine months ending September 30, 2014 compared to $6,447, or 0.29% of average loans, in the same period in 2013. The level of net charge-offs is a direct result of the prolonged effects of the economic downturn in our markets on borrowers' ability to repay their loans coupled with the decline in market values of the underlying collateral securing loans, particularly real estate secured loans. The large inventories of both completed residential homes and land that had been developed for future residential home construction, coupled with declining consumer demand for residential real estate, caused a severe decline in the values of both homes and developed land. As a result, the credit quality of some of our loans in the construction and land development portfolios deteriorated. The elevated levels of net charge-offs reflect the Company's continued efforts to bring these problem credits to resolution.

The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on an ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under the Financial Accounting Standards

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Board Accounting Standards Codification Topic ("ASC") 450, "Contingencies." Collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under ASC 310, "Receivables." The balance of these loans and their related allowance is included in management's estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include economic conditions reflected within industry segments, the unemployment rate in our markets, loan segmentation and historical losses that are inherent in the loan portfolio. The allowance for loan losses is established after input from management, loan review and the loss management committee. An evaluation of the adequacy of the allowance is calculated quarterly based on the types of loans, an analysis of credit losses and risk in the portfolio, economic conditions and trends within each of these factors. In addition, on a regular basis, management and the Board of Directors review loan ratios. These ratios include the allowance for loan losses as a percentage of total loans, net charge-offs as a percentage of average loans, the provision for loan losses as a percentage of average loans, nonperforming loans as a percentage of total loans and the allowance coverage on nonperforming loans. Also, management reviews past due ratios by officer, community bank and the Company as a whole.

The following table presents the allocation of the allowance for loan losses by loan category as of the dates presented:

	September 30, 2014	December 31, 2013	September 30, 2013
Commercial, financial, agricultural	$3,171	$3,090	$2,947
Lease financing	1	—	1
Real estate – construction	1,382	1,091	914
Real estate – 1-4 family mortgage	10,613	18,629	18,390
Real estate – commercial mortgage	28,180	23,688	23,021
Installment loans to individuals	1,222	1,167	977
Total	$44,569	$47,665	$46,250

For impaired loans, specific reserves are established to adjust the carrying value of the loan to its estimated net realizable value. The following table quantifies the amount of the specific reserves component of the allowance for loan losses and the amount of the allowance determined by applying allowance factors to graded loans as of the dates presented:

	September 30, 2014	December 31, 2013	September 30, 2013
Specific reserves for impaired loans	$8,080	$14,650	$14,908
Allocated reserves for remaining portfolio	36,489	33,015	31,342
Total	$44,569	$47,665	$46,250

The provision for loan losses charged to operating expense is an amount which, in the judgment of management, is necessary to maintain the allowance for loan losses at a level that is believed to be adequate to meet the inherent risks of losses in our loan portfolio. Factors considered by management in determining the amount of the provision for loan losses include the internal risk rating of individual credits, historical and current trends in net charge-offs, trends in nonperforming loans, trends in past due loans, trends in the market values of underlying collateral securing loans and the current economic conditions in the markets in which we operate. The Company experienced lower levels of classified loans and nonperforming loans in 2013 and through the first nine months of 2014. In combination with lower levels of classified loans and nonperforming loans, the Company has experienced improving credit quality measures that has resulted in a decrease in the provision for loan losses for the three months ended September 30, 2014 as compared to the same period in 2013. The provision for loan losses was $2,217 and $2,300 for the third quarter of 2014 and 2013, respectively. The provision for loan losses was $5,117 for the first nine months of 2014 compared to $8,350 for the same period 2013.

All of the loans acquired in the Company's FDIC-assisted acquisitions and certain loans acquired in the First M&F merger and in previous acquisitions that are accounted for under ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"), are carried at values which, in management's opinion, reflect the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. The Company continually monitors these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows; to the extent future cash flows deteriorate below initial projections, the Company may be required to reserve for these loans in the allowance for loan losses through future provision for loan losses. As of September 30, 2014, the Company has increased the

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allowance for loan losses by $2,917 for loans accounted for under ASC 310-30. First M&F loans covered under ASC 310-30 accounted for $912 of the allowance.

The table below reflects the activity in the allowance for loan losses for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$47,304	$47,034	$47,665	$44,347
Charge-offs				
Commercial, financial, agricultural	1,206	887	1,325	1,167
Lease financing	—	—	—	—
Real estate – construction	—	—	—	—
Real estate – 1-4 family mortgage	1,271	1,251	4,143	2,517
Real estate – commercial mortgage	3,513	1,107	4,056	4,226
Installment loans to individuals	112	81	404	434
Total charge-offs	6,102	3,326	9,928	8,344
Recoveries				
Commercial, financial, agricultural	103	54	215	301
Lease financing	—	—	—	—
Real estate – construction	6	7	14	70
Real estate – 1-4 family mortgage	751	120	1,108	591
Real estate – commercial mortgage	267	38	325	885
Installment loans to individuals	23	23	53	50
Total recoveries	1,150	242	1,715	1,897
Net charge-offs	4,952	3,084	8,213	6,447
Provision for loan losses	2,217	2,300	5,117	8,350
Balance at end of period	$44,569	$46,250	$44,569	$46,250
Net charge-offs (annualized) to average loans	0.50 %	0.38 %	0.28 %	0.29 %
Allowance for loan losses to:				
Total loans not covered under loss share agreements	1.17 %	1.25 %	1.17 %	1.25 %
Nonperforming loans not covered under loss share agreements	121.73 %	149.85 %	121.73 %	149.85 %

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The following table provides further details of the Company’s net charge-offs (recoveries) of loans secured by real estate for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Real estate – construction:				
Residential	$(6)	$(7)	$(14)	$(70)
Commercial	—	—	—	—
Condominiums	—	—	—	—
Total real estate – construction	(6)	(7)	(14)	(70)
Real estate – 1-4 family mortgage:				
Primary	337	(67)	457	335
Home equity	508	275	830	687
Rental/investment	23	547	453	644
Land development	(348)	376	1,295	260
Total real estate – 1-4 family mortgage	520	1,131	3,035	1,926
Real estate – commercial mortgage:				
Owner-occupied	968	216	992	711
Non-owner occupied	1,898	469	1,962	2,245
Land development	380	384	777	385
Total real estate – commercial mortgage	3,246	1,069	3,731	3,341
Total net charge-offs of loans secured by real estate	$3,760	$2,193	$6,752	$5,197

Nonperforming Assets

Nonperforming assets consist of nonperforming loans, other real estate owned and nonaccruing securities available-for-sale. Nonperforming loans are those on which the accrual of interest has stopped or loans which are contractually 90 days past due on which interest continues to accrue. Generally, the accrual of interest is discontinued when the full collection of principal or interest is in doubt or when the payment of principal or interest has been contractually 90 days past due, unless the obligation is both well secured and in the process of collection. Management, the loss management committee and our loan review staff closely monitor loans that are considered to be nonperforming.

Debt securities may be transferred to nonaccrual status where the recognition of investment interest is discontinued. A number of qualitative factors, including but not limited to the financial condition of the underlying issuer and current and projected deferrals or defaults, are considered by management in the determination of whether a debt security should be transferred to nonaccrual status. The interest on these nonaccrual investment securities is accounted for on the cash-basis method until qualifying for return to accrual status. Nonaccruing securities available-for-sale consist of the Company’s investments in pooled trust preferred securities issued by financial institutions, which are discussed earlier in this section under the heading "Investments".

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The following table provides details of the Company's nonperforming assets that are not acquired and not covered by FDIC loss-share agreements ("Not Acquired"), nonperforming assets that have been acquired and are covered by loss-share agreements with the FDIC ("Covered Assets"), and nonperforming assets acquired through the First M&F merger and not covered by loss-share agreements with the FDIC ("Acquired and Non-covered") as of the dates presented:

	Not Acquired	Acquired Covered Assets	Acquired and Non-covered	Total	
September 30, 2014					
Nonaccruing loans	$19,070	$33,216	$1,991	$54,277	
Accruing loans past due 90 days or more	7,177	1,979	8,375	17,531	
Total nonperforming loans	26,247	35,195	10,366	71,808	
Other real estate owned	20,461	4,033	9,565	34,059	
Total nonperforming loans and OREO	46,708	39,228	19,931	105,867	
Nonaccruing securities available-for-sale, at fair value	12,398	—	—	12,398	
Total nonperforming assets	$59,106	$39,228	$19,931	$118,265	
Nonperforming loans to total loans				1.81	%
Nonperforming assets to total assets				2.06	%
December 31, 2013					
Nonaccruing loans	$16,863	$49,194	$6,274	$72,331	
Accruing loans past due 90 days or more	2,287	—	1,899	4,186	
Total nonperforming loans	19,150	49,194	8,173	76,517	
Other real estate owned	27,543	12,942	12,402	52,887	
Total nonperforming loans and OREO	46,693	62,136	20,575	129,404	
Nonaccruing securities available-for-sale, at fair value	17,671	—	—	17,671	
Total nonperforming assets	$64,364	$62,136	$20,575	$147,075	
Nonperforming loans to total loans				1.97	%
Nonperforming assets to total assets				2.56	%

Due to the significant difference in the accounting for the loans and other real estate owned covered by loss-share agreements and loss mitigation offered under the loss-share agreements with the FDIC, the Company believes that excluding the covered assets from its asset quality measures provides a more meaningful presentation of the Company's asset quality. The asset quality measures surrounding the Company's nonperforming assets discussed in the remainder of this section exclude covered assets relating to the Company's FDIC-assisted acquisitions.

Another category of assets which contribute to our credit risk is restructured loans. Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition and are performing in accordance with the new terms. Such concessions may include reduction in interest rates or deferral of interest or principal payments. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest. Restructured loans that are not performing in accordance with their restructured terms that are either contractually 90 days past due or placed on nonaccrual status are reported as nonperforming loans.

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The following table shows the principal amounts of nonperforming and restructured loans as of the dates presented. All loans where information exists about possible credit problems that would cause us to have serious doubts about the borrower's ability to comply with the current repayment terms of the loan have been reflected in the table below.

	September 30, 2014	December 31, 2013	September 30, 2013
Nonaccruing loans	$21,061	$23,137	$20,219
Accruing loans past due 90 days or more	15,552	4,186	10,647
Total nonperforming loans	36,613	27,323	30,866
Restructured loans in compliance with modified terms	15,604	21,478	22,236
Total nonperforming and restructured loans	$52,217	$48,801	$53,102
Nonperforming loans to loans	0.96 %	0.74 %	0.84 %

The acquisition of First M&F increased nonperforming loans $10,366 at September 30, 2014 which consisted of $1,991 in loans of nonaccrual status and $8,375 in accruing loans past due 90 days or more. At December 31, 2013 nonperforming loans on the acquired First M&F portfolio were $8,173. Excluding the nonperforming loans from the First M&F merger, nonperforming loans were $26,247 at September 30, 2014 and $19,150 at December 31, 2013. The following table presents nonperforming loans, not subject to a loss-share agreement, by loan category as of the dates presented:

	September 30, 2014	December 31, 2013	September 30, 2013
Commercial, financial, agricultural	$1,147	$1,524	$1,222
Real estate – construction:			
Residential	—	—	—
Commercial	281	—	592
Condominiums	—	—	—
Total real estate – construction	281	—	592
Real estate – 1-4 family mortgage:			
Primary	6,639	4,323	3,834
Home equity	866	916	976
Rental/investment	3,397	1,972	5,129
Land development	1,458	2,969	4,112
Total real estate – 1-4 family mortgage	12,360	10,180	14,051
Real estate – commercial mortgage:			
Owner-occupied	3,688	1,306	1,463
Non-owner occupied	10,222	13,287	12,595
Land development	8,790	850	758
Total real estate – commercial mortgage	22,700	15,443	14,816
Installment loans to individuals	125	176	185
Total nonperforming loans	$36,613	$27,323	$30,866

Total nonperforming loans as a percentage of total loans were 0.96% as of September 30, 2014 compared to 0.74% as of December 31, 2013 and 0.84% as of September 30, 2013. The Company's coverage ratio, or its allowance for loan losses as a percentage of nonperforming loans, was 121.73% as of September 30, 2014 as compared to 174.44% as of December 31, 2013 and 149.85% as of September 30, 2013. The increase in nonperforming loans at September 30, 2014, was primarily due to a $4.7 million matured loan, which carried 90 days past due, that was brought current and renewed subsequent to quarter end. Management has evaluated the aforementioned loans and other loans classified as

nonperforming and believes that all nonperforming loans have been adequately reserved for in the allowance for loan losses at September 30, 2014.

Management also continually monitors past due loans for potential credit quality deterioration. Total loans 30-89 days past due declined to $16,248 at September 30, 2014 as compared to $21,159 at December 31, 2013 and $19,908 at September 30, 2013.

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The acquisition of First M&F contributed $6,691 to loans 30-89 days past due at September 30, 2014, and $11,654 at December 31, 2013.

As shown below, restructured loans totaled $15,604 at September 30, 2014 compared to $21,478 at December 31, 2013 and $22,236 at September 30, 2013. At September 30, 2014, loans restructured through interest rate concessions represented 53% of total restructured loans, while loans restructured by a concession in payment terms represented the remainder. The following table provides further details of the Company's restructured loans in compliance with their modified terms as of the dates presented:

	September 30, 2014	December 31, 2013	September 30, 2013
Commercial, financial, agricultural	$—	$19	$20
Real estate – construction:			
Residential	—	—	—
Commercial	—	—	—
Condominiums	—	—	—
Total real estate – construction	—	—	—
Real estate – 1-4 family mortgage:			
Primary	2,992	2,063	2,074
Home equity	—	—	—
Rental/investment	1,360	1,821	1,892
Land development	813	6,470	6,659
Total real estate – 1-4 family mortgage	5,165	10,354	10,625
Real estate – commercial mortgage:			
Owner-occupied	4,017	3,702	3,725
Non-owner occupied	6,019	5,343	5,371
Land development	403	1,889	2,323
Total real estate – commercial mortgage	10,439	10,934	11,419
Installment loans to individuals	—	171	172
Total restructured loans in compliance with modified terms	$15,604	$21,478	$22,236

Changes in the Company's restructured loans are set forth in the table below:

	2014	2013
Balance at January 1	$21,478	$29,436
Additional loans with concessions	2,622	4,319
Reductions due to:		
Reclassified as nonperforming	(1,895)	(3,227)
Paid in full	(6,008)	—
Charge-offs	—	(877)
Transfer to other real estate owned	—	—
Paydowns	(593)	(1,674)
Lapse of concession period	—	(5,741)
Balance at September 30	$15,604	$22,236

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Other real estate owned consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged against the allowance for loan losses. Reductions in the carrying value subsequent to acquisition are charged to earnings and are included in "Other real estate owned" in the Consolidated Statements of Income. Other real estate owned with a cost basis of $22,702 was sold during the nine months ended September 30, 2014, resulting in a net gain of $97, while other real estate owned with a cost basis of $22,939 was sold during the nine months ended September 30, 2013, resulting in a net loss of $511.
The following table provides details of the Company's other real estate owned as of the dates presented:

	September 30, 2014	December 31, 2013	September 30, 2013
Residential real estate	$4,993	$6,767	$3,519
Commercial real estate	8,783	8,984	9,122
Residential land development	6,837	12,334	14,448
Commercial land development	9,413	11,860	13,492
Other	—	—	—
Total other real estate owned	$30,026	$39,945	$40,581

Changes in the Company's other real estate owned were as follows:

	2014	2013
Balance at January 1	$39,945	$44,717
Acquired OREO	—	13,674
Additions	5,090	6,575
Capitalized improvements	—	129
Impairments	(1,315)	(1,574)
Dispositions	(13,564)	(22,939)
Other	(130)	(1)
Balance at September 30	$30,026	$40,581

Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The majority of assets and liabilities of a financial institution are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets and inventories. Our market risk arises primarily from interest rate risk inherent in lending and deposit-taking activities. Management believes a significant impact on the Company's financial results stems from our ability to react to changes in interest rates. To that end, management actively monitors and manages our interest rate risk exposure.

We have an Asset/Liability Committee ("ALCO") which is authorized by the Board of Directors to monitor our interest rate sensitivity and to make decisions relating to that process. The ALCO's goal is to structure our asset/liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis.

We monitor the impact of changes in interest rates on our net interest income and economic value of equity ("EVE") using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in

market rates of interest in a rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. EVE measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in EVE due to a specified rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in effect over the life of the current balance sheet.

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The following rate shock analysis depicts the estimated impact on net interest income and EVE of immediate changes in interest rates at the specified levels for the dates presented:

	Percentage Change In:			
	Net Interest Income[2]		Economic Value of Equity [3]	
Change in Interest Rates[1] (In Basis Points)	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
+400	0.80 %	1.31 %	10.49 %	16.85 %
+300	0.98 %	0.94 %	10.09 %	15.06 %
+200	0.82 %	0.41 %	8.88 %	12.76 %
+100	0.38 %	(0.08)%	6.86 %	10.21 %
-100	(2.40)%	(2.33)%	(5.85)%	(4.61)%

(1) On account of the present position of the target federal funds rate, the Company did not perform an analysis assuming a downward movement in rates of more than 100 bps.

(2) The percentage change in this column represents the projected net interest income for 12 months on a flat balance sheet in a stable interest rate environment versus the projected net interest income in the various rate scenarios.

(3) The percentage change in this column represents our EVE in a stable interest rate environment versus EVE in the various rate scenarios.

The rate shock results for the net interest income simulations for the next twelve months remained neutral at both September 30, 2014 and December 31, 2013. The Company’s interest rate risk strategy is to remain in a neutral position with a focus on balance sheet strategies that will result in an asset sensitive position over time. Our long term interest rate risk position reflected in the EVE table above remains asset sensitive, although slightly less sensitive at September 30, 2014 when compared to year-end. This shift is due largely to the reduction in interest sensitive, but low yielding, short term investments as well as the shift in deposits from higher rate fixed rate time deposits to lower cost but variable rate core deposits.

The preceding measures assume no change in the size or asset/liability compositions of the balance sheet. Thus, the measures do not reflect actions the ALCO may undertake in response to such changes in interest rates. The above results of the interest rate shock analysis are within the parameters set by the Board of Directors. The scenarios assume instantaneous movements in interest rates in increments of 100, 200, 300 and 400 basis points. With the present position of the target federal funds rate, the declining rate scenario seems improbable. Furthermore, it has been the Federal Reserve’s policy to adjust the target federal funds rate incrementally over time. As interest rates are adjusted over a period of time, it is our strategy to proactively change the volume and mix of our balance sheet in order to mitigate our interest rate risk. The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions employed in the model include asset prepayment speeds, competitive factors, the relative price sensitivity of certain assets and liabilities and the expected life of non-maturity deposits. Because these assumptions are inherently uncertain, actual results will differ from simulated results.

The Company utilizes derivative financial instruments, including interest rate contracts such as swaps, caps and/or floors, as part of its ongoing efforts to mitigate its interest rate risk exposure and to facilitate the needs of its customers. The Company also enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with these customer contracts, the Company enters into an offsetting derivative contract position. The

Company manages its credit risk, or potential risk of default by its commercial customers, through credit limit approval and monitoring procedures. At September 30, 2014, the Company had notional amounts of $75,462 on interest rate contracts with corporate customers and $75,462 in offsetting interest rate contracts with other financial institutions to mitigate the Company’s rate exposure on its corporate customers’ contracts and certain fixed rate loans.

In March and April 2012, the Company entered into two interest rate swap agreements effective March 30, 2014 and March 17, 2014, respectively. The Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The agreements, which both terminate in March 2022, are accounted for as cash flow hedges to reduce the variability in cash flows resulting from changes in interest rates on $32,000 of the Company’s junior subordinated debentures. In connection with its acquisition of First M&F, the Company assumed an interest rate swap designed to convert floating rate interest payments into fixed rate payments. Based on the terms of the agreement, which terminates in March 2018,

the Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The interest rate swap is accounted for as a cash flow hedge to reduce the variability in cash flows resulting from changes in interest rates on $30,000 of the junior subordinated debentures assumed in the merger with First M&F.

On June 5, 2014, the Company entered into two forward interest rate swap contracts on floating rate liabilities at the Bank level with notional amounts of $15.0 million each. The interest rate swap contracts are accounted for as a cash flow hedge with the objective of protecting against any interest rate volatility on future FHLB borrowings for a four-year and five-year period beginning June 1, 2018 and December 3, 2018 and ending June 2022 and June 2023, respectively. Under these contracts, Renasant Bank will pay a fixed interest rate of 3.593% and 3.738%, respectively, and will receive a variable interest rate based on the three-month LIBOR with quarterly net settlements.

The Company also enters into interest rate lock commitments with its customers to mitigate the Company’s interest rate risk associated with its commitments to fund fixed-rate residential mortgage loans. Under the interest rate lock commitments, interest rates for a mortgage loan are locked in with the customer for a period of time, typically thirty days. Once an interest rate lock commitment is entered into with a customer, the Company also enters into a forward commitment to sell the residential mortgage loan to secondary market investors. Accordingly, the Company does not incur risk if the interest rate lock commitment in the pipeline fails to close.

For more information about the Company’s derivative financial instruments, see Note J, “Derivative Instruments,” in the Notes
to Consolidated Financial Statements of the Company in Item 1, “Financial Statements,” in this report.

Liquidity and Capital Resources

Liquidity management is the ability to meet the cash flow requirements of customers who may be either depositors wishing to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs.

Core deposits, which are deposits excluding time deposits and public fund deposits, are a major source of funds used by Renasant Bank to meet cash flow needs. Maintaining the ability to acquire these funds as needed in a variety of markets is the key to assuring Renasant Bank’s liquidity. Management continually monitors the liquidity through review of a variety of reports.

Our investment portfolio is another alternative for meeting liquidity needs. These assets generally have readily available markets that offer conversions to cash as needed. Within the next twelve months the securities portfolio is forecasted to generate cash flow through principal payments and maturities equal to 11.22% of the carrying value of the total securities portfolio. Securities within our investment portfolio are also used to secure certain deposit types and short-term borrowings. At September 30, 2014, securities with a carrying value of $651,412 were pledged to secure public fund deposits and as collateral for short-term borrowings and derivative instruments as compared to securities with a carrying value of $612,197 similarly pledged at December 31, 2013.

Other sources available for meeting liquidity needs include federal funds purchased and advances from the FHLB. Interest is charged at the prevailing market rate on federal funds purchased and FHLB advances. There were $58,900 outstanding federal funds purchased at September 30, 2014 and $222 of federal funds purchased at December 31, 2013. Funds obtained from the FHLB are used primarily to match-fund fixed rate loans in order to minimize interest rate risk and also are used to meet day to day liquidity needs, particularly when the cost of such borrowing compares favorably to the rates that we would be required to pay to attract deposits. At September 30, 2014, the balance of our

outstanding advances with the FHLB was $67,540. The total amount of the remaining credit available to us from the FHLB at September 30, 2014 was $1,605,932. We also maintain lines of credit with other commercial banks totaling $75,000. These are unsecured lines of credit maturing at various times within the next twelve months. There were no amounts outstanding under these lines of credit at September 30, 2014 or December 31, 2013.

The following table presents, by type, the Company’s funding sources, which consist of total average deposits and borrowed funds, and the total cost of each funding source for the periods presented:

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	Percentage of Total Nine Months Ended September 30,		Cost of Funds Nine Months Ended September 30,	
	2014	2013	2014	2013
Noninterest-bearing demand	17.99 %	15.47 %	— %	— %
Interest-bearing demand	43.36	40.54	0.20	0.25
Savings	6.76	6.85	0.09	0.23
Time deposits	28.27	32.58	0.82	0.98
FHLB advances	1.39	2.07	4.17	4.23
Other borrowed funds	2.23	2.49	4.19	2.81
	100.00 %	100.00 %	0.48 %	0.59 %

Our strategy in choosing funds is focused on minimizing cost along with considering our balance sheet composition and interest rate risk position. Accordingly, management targets growth of non-interest bearing deposits. While we do not control the types of deposit instruments our clients choose, we do influence those choices with the rates and the deposit specials we offer. We constantly monitor our funds position and evaluate the effect that various funding sources have on our financial position. Our cost of funds has decreased 11 basis points for the nine months ended September 30, 2014 as compared to the same period in 2013 as management improved our funding mix using non-interest bearing or lower costing deposits and repaying higher costing funding including time deposits and borrowed funds.

Cash and cash equivalents were $141,594 at September 30, 2014 compared to $233,149 at September 30, 2013. Cash used in investing activities for the nine months ended September 30, 2014 was $157,936 compared to $44,481 for the nine months ended September 30, 2013. Proceeds from the sale, maturity or call of securities within our investment portfolio were $191,132 for the nine months ended 2014. These proceeds from the investment portfolio were primarily reinvested back into the security portfolio or used to fund loan growth. Proceeds from the sale, maturity, or call of securities within our investment portfolio during the nine months ended September 30, 2013 were $160,749. These proceeds were primarily reinvested in the securities portfolio. Purchases of investment securities were $254,255 for the first nine months of 2014 compared to $176,596 for the same period in 2013.

Cash used in financing activities for the nine months ended September 30, 2014 was $37,350 compared to cash provided by financing activities of $21,088 for the same period in 2013. Deposits decreased $78,242 for the nine months ended September 30, 2014 compared to an increase of $47,505 for the same period in 2013.

Restrictions on Bank Dividends, Loans and Advances

The Company’s liquidity and capital resources, as well as its ability to pay dividends to its shareholders, are substantially dependent on the ability of Renasant Bank to transfer funds to the Company in the form of dividends, loans and advances. Under Mississippi law, a Mississippi bank may not pay dividends unless its earned surplus is in excess of three times capital stock. A Mississippi bank with earned surplus in excess of three times capital stock may pay a dividend, subject to the approval of the Mississippi Department of Banking and Consumer Finance. Accordingly, the approval of this supervisory authority is required prior to Renasant Bank paying dividends to the Company.

Federal Reserve regulations also limit the amount Renasant Bank may loan to the Company unless such loans are collateralized by specific obligations. At September 30, 2014, the maximum amount available for transfer from Renasant Bank to the Company in the form of loans was $53,923. The Company maintains a line of credit collateralized by cash with Renasant Bank totaling $3,000. There were no amounts outstanding under this line of credit at September 30, 2014. These restrictions did not have any impact on the Company’s ability to meet its cash

obligations in nine months ended September 30, 2014, nor does management expect such restrictions to materially impact the Company’s ability to meet its currently-anticipated cash obligations.

Off-Balance Sheet Transactions

The Company enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to accommodate the financial needs of the Company’s customers. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Both arrangements have essentially the same credit risk as that involved in extending loans to customers and are subject to the Company’s normal credit policies. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management’s credit assessment of the customer.

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Loan commitments and standby letters of credit do not necessarily represent future cash requirements of the Company in that while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. The Company's unfunded loan commitments and standby letters of credit outstanding were as follows for the periods presented:

	September 30, 2014	December 31, 2013
Loan commitments	$685,812	$630,266
Standby letters of credit	32,447	30,062

The Company closely monitors the amount of remaining future commitments to borrowers in light of prevailing economic conditions and adjusts these commitments as necessary. The Company will continue this process as new commitments are entered into or existing commitments are renewed.

Shareholders' Equity and Regulatory Matters

Total shareholders' equity of the Company was $700,475 at September 30, 2014 compared to $665,652 at December 31, 2013. Book value per share was $22.21 and $21.21 at September 30, 2014 and December 31, 2013, respectively. The growth in shareholders' equity was attributable to the acquisition of First M&F along with earnings retention and changes in accumulated other comprehensive income offset by dividends declared.

On September 5, 2012, the Company filed a shelf registration statement with the Securities and Exchange Commission ("SEC"). The shelf registration statement, which the SEC declared effective on September 17, 2012, allows the Company to raise capital from time to time, up to an aggregate of $150,000, through the sale of common stock, preferred stock, debt securities, warrants and units, or a combination thereof, subject to market conditions. Specific terms and prices will be determined at the time of any offering under a separate prospectus supplement that the Company will be required to file with the SEC at the time of the specific offering. The proceeds of the sale of securities, if and when offered, will be used for general corporate purposes as described in any prospectus supplement and could include the expansion of the Company's banking, insurance and wealth management operations as well as other business opportunities.

The Company has junior subordinated debentures with a carrying value of $94,477 at September 30, 2014, of which $91,222 are included in the Company's Tier 1 capital. The Federal Reserve Board issued guidance in March 2005 providing more strict quantitative limits on the amount of securities that, similar to our junior subordinated debentures, are includable in Tier 1 capital. The new guidance, which became effective in March 2009, did not impact the amount of debentures we include in Tier 1 capital. In addition, although our existing junior subordinated debentures are unaffected, on account of changes enacted as part of the Dodd-Frank Act, any trust preferred securities issued after May 19, 2010 may not be included in Tier 1 capital.

The Federal Reserve, the FDIC and the Office of the Comptroller of the Currency have issued guidelines governing the levels of capital that banks must maintain. Those guidelines specify capital tiers, which include the following classifications:

Capital Tiers	Tier 1 Capital to Average Assets (Leverage)	Tier 1 Capital to Risk – Weighted Assets	Total Capital to Risk – Weighted Assets
Well capitalized	5% or above	6% or above	10% or above
Adequately capitalized	4% or above	4% or above	8% or above
Undercapitalized	Less than 4%	Less than 4%	Less than 8%

Significantly undercapitalized	Less than 3%	Less than 3%	Less than 6%
Critically undercapitalized		2% or less	

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The following table provides the capital and risk-based capital and leverage ratios for the Company and for Renasant Bank as of the dates presented:

	Actual		Minimum Capital Requirement to be Well Capitalized		Minimum Capital Requirement to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2014						
Renasant Corporation:						
Tier 1 Capital to Average Assets	$510,087	9.31 %	$273,944	5.00 %	$219,155	4.00 %
Tier 1 Capital to Risk-Weighted Assets	510,087	12.28 %	249,160	6.00 %	166,107	4.00 %
Total Capital to Risk-Weighted Assets	557,692	13.43 %	415,267	10.00 %	332,214	8.00 %
Renasant Bank:						
Tier 1 Capital to Average Assets	$492,145	9.01 %	$273,250	5.00 %	$218,600	4.00 %
Tier 1 Capital to Risk-Weighted Assets	492,145	11.88 %	248,608	6.00 %	165,739	4.00 %
Total Capital to Risk-Weighted Assets	539,233	13.01 %	414,346	10.00 %	331,477	8.00 %
December 31, 2013						
Renasant Corporation:						
Tier 1 Capital to Average Assets	$473,817	8.68 %	$196,871	5.00 %	$157,497	4.00 %
Tier 1 Capital to Risk-Weighted Assets	473,817	11.41 %	182,964	6.00 %	121,976	4.00 %
Total Capital to Risk-Weighted Assets	522,181	12.58 %	304,940	10.00 %	243,952	8.00 %
Renasant Bank:						
Tier 1 Capital to Average Assets	$457,798	8.40 %	$196,192	5.00 %	$156,954	4.00 %
Tier 1 Capital to Risk-Weighted Assets	457,798	11.05 %	182,580	6.00 %	121,720	4.00 %
Total Capital to Risk-Weighted Assets	505,463	12.20 %	304,300	10.00 %	243,440	8.00 %

In July 2013, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency approved the implementation of the Basel III regulatory capital reforms and issued rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rules”) that call for broad and comprehensive revision of regulatory capital standards for U.S. banking organizations. The Basel III Rules will implement a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement and other items that will affect the calculation of the numerator of a banking organization’s risk-based capital ratios. Additionally, the Basel III Rules apply limits to a banking organization’s capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

The new common equity Tier 1 capital ratio includes common equity as defined under GAAP and does not include any other type of non-common equity under GAAP. When the Basel III Rules are fully phased in in 2019, banks will be required to have common equity Tier 1 capital of 4.5% of average assets, Tier 1 capital of 6% of average assets, as compared to the current 4%, and total capital of 8% of risk-weighted assets to be categorized as adequately capitalized. The Basel III Rules require the phase-out of trust preferred securities as Tier 1 capital of bank holding companies of the Company’s size in equal installments over a defined period.

Further, the Basel III Rules changed the agencies’ general risk-based capital requirements for determining risk-weighted assets, which will affect the calculation of the denominator of a banking organization’s risk-based capital ratios. The Basel III Rules have revised the agencies’ rules for calculating risk-weighted assets to enhance risk sensitivity and will incorporate certain international capital standards of the Basel Committee on Banking Supervision

set forth in the standardized approach of the “International Convergence of Capital Measurement and Capital Standards: A Revised Framework”.

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The calculation of risk-weighted assets in the denominator of the Basel III capital ratios would be adjusted to reflect the higher risk nature of certain types of loans. Specifically, as applicable to the Company and Renasant Bank:

— Residential mortgages: Replaces the current 50% risk weight for performing residential first-lien mortgages and a 100% risk-weight for all other mortgages with a risk weight of between 35% and 200% determined by the mortgage's loan-to-value ratio and whether the mortgage falls into one of two categories based on eight criteria that include the term, use of negative amortization and balloon payments, certain rate increases and documented and verified borrower income.

— Commercial mortgages: Replaces the current 100% risk weight with a 150% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

— Nonperforming loans: Replaces the current 100% risk weight with a 150% risk weight for loans, other than residential mortgages, that are 90 days past due or on nonaccrual status.

Generally, the new Basel III Rules become effective on January 1, 2015, although parts of the Basel III Rules will be phased in through 2019. Management is reviewing the new rules to assess their impact on the Company.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk since December 31, 2013. For additional information regarding our market risk, see our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. CONTROLS AND PROCEDURES

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, our Principal Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective for ensuring that information the Company is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1A. RISK FACTORS

Information regarding risk factors appears in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

The Company did not repurchase any shares of its outstanding stock during the three month period ended September 30, 2014.

Please refer to the information discussing restrictions on the Company's ability to pay dividends under the heading "Liquidity and Capital Resources" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this report, which is incorporated by reference herein.

Item 6. EXHIBITS

Exhibit Number	Description
(2)(i)	Agreement and Plan of Merger by and among Renasant Corporation, Renasant Bank, First M&F Corporation and Merchants and Farmers Bank dated as of February 6, 2013(1)
(3)(i)	Articles of Incorporation of Renasant Corporation, as amended(2)
(3)(ii)	Restated Bylaws of Renasant Corporation (3)
(4)(i)	Articles of Incorporation of Renasant Corporation, as amended(2)
(4)(ii)	Restated Bylaws of Renasant Corporation (3)
(31)(i)	Certification of the Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31)(ii)	Certification of the Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)(i)	Certification of the Principal Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)(ii)	Certification of the Principal Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101)	The following materials from Renasant Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 were formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of

Cash Flows and (v) Notes to Consolidated Financial Statements (Unaudited).

(1) Filed as exhibit 2.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on February 11, 2013 and incorporated herein by reference.

(2) Filed as exhibit 3.1 to the Company’s Form 10-Q filed with the Securities and Exchange Commission on May 9, 2005 and incorporated herein by reference.

(3) Filed as exhibit 3(ii) to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 8, 2013 and incorporated herein by reference.

The Company does not have any long-term debt instruments under which securities are authorized exceeding ten percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company will furnish to the Securities and Exchange Commission, upon its request, a copy of all long-term debt instruments.

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SIGNATURES

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

	RENASANT CORPORATION (Registrant)
Date: November 10, 2014	/s/ E. Robinson McGraw E. Robinson McGraw Chairman of the Board, Director, President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2014	/s/ Kevin D. Chapman Kevin D. Chapman Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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