

PROCTER & GAMBLE Co  
Form 8-K  
February 13, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act Of 1934

Date of Report (Date of earliest event reported) February 13, 2019

THE PROCTER & GAMBLE COMPANY  
(Exact name of registrant as specified in its charter)

|  |                          |                                      |
|--|--------------------------|--------------------------------------|
| Ohio   | 1-434                    | 31-0411980                           |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification Number) |

|  |          |
|--|----------|
| One Procter & Gamble Plaza, Cincinnati, Ohio | 45202    |
| (Address of principal executive offices)     | Zip Code |

|  |          |
|--|----------|
| (513) 983-1100                                       | 45202    |
| (Registrant's telephone number, including area code) | Zip Code |

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)  
Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)  
Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))  
Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS;  
APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS

Effective February 13, 2019, Dr. Ernesto Zedillo retired from the Board of Directors of The Procter & Gamble Company (the "Company") after 18 years of service, in accordance with the term limits set forth in the Company's Corporate Governance Guidelines.

The Company is filing this 8-K pursuant to Item 5.02(b), "Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers."

SIGNATURE

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 hereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

BY: /s/ Sandra T. Lane  
Sandra T. Lane  
Assistant Secretary  
February 13, 2019

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1.91

115,093

2.13

Total loans, net of unearned income  
\$  
5,965,429

100.00  
%

\$  
5,413,462

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 June 30, 2016, 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.

Total loans at June 30, 2016 were \$5,965,429, an increase of \$551,967 from \$5,413,462 at December 31, 2015. The KeyWorth acquisition increased the loan portfolio \$272,330 at the acquisition date.

Loans covered under loss-share agreements with the FDIC (referred to as “covered loans”), including the two loss-share agreements assumed in connection with the Heritage acquisition, were \$42,171 at June 30, 2016, a decrease of \$50,971, or 54.72%, compared to \$93,142 at December 31, 2015. This decrease is primarily a result of the expiration of loss-share coverage on certain loans as discussed below. 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 qualifying losses on single-family residential loans for ten years, which ends on July 31, 2020 for loans acquired from Crescent Bank & Trust Company (“Crescent”), February 28, 2021 for loans acquired from each of American Trust Bank

55

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Table of Contents

("American Trust") and Citizens Bank of Effingham ("Citizens Effingham") and August 31, 2021 for loans acquired from First Southern National Bank ("First Southern"). For qualifying losses on commercial loans, reimbursement runs for five years, which ended July 25, 2015 for Crescent loans, February 5, 2016 for American Trust loans and February 18, 2016 for Citizens Effingham loans and ends August 19, 2016 for First Southern loans. As a result of the expiration of these loss-share agreements, the Company reclassified loans totaling \$54,495 from acquired covered loans to acquired non-covered during the third quarter of 2015 and reclassified \$42,637 from acquired covered loans to acquired not covered during the first quarter of 2016.

Loans not covered under loss-share agreements with the FDIC at June 30, 2016 were \$5,923,258, compared to \$5,320,320 at December 31, 2015. Loans acquired and not covered under loss-share agreements totaled \$1,630,709 at June 30, 2016 compared to \$1,489,886 at December 31, 2015.

Excluding the loans acquired from previous acquisitions or in FDIC-assisted transactions (collectively referred to as "acquired loans"), loans increased \$462,115 during the six months ended June 30, 2016. The Company experienced loan growth across all categories of loans with loans from our new commercial business lines, which consist of asset-based lending, equipment leasing and healthcare banking groups, contributing \$16,658 of the total increase in loans from December 31, 2015.

Looking at the change in loans geographically, non-acquired loans in our Mississippi, Tennessee and Georgia markets increased \$73,362, \$67,447 and \$184,283, respectively, while loans in our Alabama and Florida markets (collectively referred to as our "Central Division") increased by \$137,023 when compared to December 31, 2015 (the Company entered its Florida markets on July 1, 2015 as a result of the Heritage acquisition).

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

|   | June 30, 2016   |  |                                |                |
|---|-----------------|--|--------------------------------|----------------|
|   | Not<br>Acquired | Acquired<br>and<br>Covered<br>Under<br>Loss<br>Share | Acquired<br>and Not<br>covered | Total<br>Loans |
| Commercial, financial, agricultural     | \$530,258       | \$ 607   | \$152,071                      | \$682,936      |
| Lease financing                         | 43,116          | —  | —                              | 43,116         |
| Real estate – construction:             |                 |  |                                |                |
| Residential                             | 160,950         | 83   | 34,383                         | 195,416        |
| Commercial                              | 220,740         | —  | 36,575                         | 257,315        |
| Condominiums                            | —               | —  | —                              | —              |
| Total real estate – construction        | 381,690         | 83   | 70,958                         | 452,731        |
| Real estate – 1-4 family mortgage:      |                 |  |                                |                |
| Primary                                 | 724,604         | 20,080   | 312,194                        | 1,056,878      |
| Home equity                             | 335,038         | 7,296  | 72,650                         | 414,984        |
| Rental/investment                       | 222,861         | 6,513  | 71,379                         | 300,753        |
| Land development                        | 46,445          | 751  | 29,235                         | 76,431         |
| Total real estate – 1-4 family mortgage | 1,328,948       | 34,640   | 485,458                        | 1,849,046      |
| Real estate – commercial mortgage:      |                 |  |                                |                |
| Owner-occupied                          | 758,779         | 1,253  | 408,841                        | 1,168,873      |
| Non-owner occupied                      | 1,025,666       | 4,241  | 438,156                        | 1,468,063      |
| Land development                        | 134,333         | 1,296  | 51,111                         | 186,740        |
| Total real estate – commercial mortgage | 1,918,778       | 6,790  | 898,108                        | 2,823,676      |
| Installment loans to individuals        | 89,759          | 51   | 24,114                         | 113,924        |
| Total loans, net of unearned income     | \$4,292,549     | \$42,171   | \$1,630,709                    | \$5,965,429    |



Table of Contents

|   | December 31, 2015 |  |                                | Total       |
|---|-------------------|--|--------------------------------|-------------|
|   | Not<br>Acquired   | Acquired<br>and<br>Covered<br>Under<br>Loss<br>Share | Acquired<br>and Not<br>covered | Loans       |
| Commercial, financial, agricultural     | \$485,407         | \$ 2,406   | \$149,024                      | \$636,837   |
| Lease financing                         | 34,815            | —  | —                              | 34,815      |
| Real estate – construction:             |                   |  |                                |             |
| Residential                             | 123,711           | 91   | 44,813                         | 168,615     |
| Commercial                              | 166,006           | 39   | 20,524                         | 186,569     |
| Condominiums                            | 1,984             | —  | 497                            | 2,481       |
| Total real estate – construction        | 291,701           | 130  | 65,834                         | 357,665     |
| Real estate – 1-4 family mortgage:      |                   |  |                                |             |
| Primary                                 | 661,135           | 27,270   | 343,504                        | 1,031,909   |
| Home equity                             | 304,045           | 9,120  | 69,090                         | 382,255     |
| Rental/investment                       | 196,217           | 7,686  | 48,063                         | 251,966     |
| Land development                        | 42,831            | 1,912  | 24,450                         | 69,193      |
| Total real estate – 1-4 family mortgage | 1,204,228         | 45,988   | 485,107                        | 1,735,323   |
| Real estate – commercial mortgage:      |                   |  |                                |             |
| Owner-occupied                          | 709,598           | 15,297   | 357,659                        | 1,082,554   |
| Non-owner occupied                      | 896,060           | 24,343   | 351,856                        | 1,272,259   |
| Land development                        | 123,391           | 4,910  | 50,615                         | 178,916     |
| Total real estate – commercial mortgage | 1,729,049         | 44,550   | 760,130                        | 2,533,729   |
| Installment loans to individuals        | 85,234            | 68   | 29,791                         | 115,093     |
| Total loans, net of unearned income     | \$3,830,434       | \$93,142   | \$1,489,886                    | \$5,413,462 |

Mortgage loans held for sale were \$276,782 at June 30, 2016 compared to \$225,254 at December 31, 2015.

Originations of mortgage loans to be sold totaled \$1,006,507 in the six months ended June 30, 2016 compared to \$407,893 for the same period in 2015. The increase in mortgage loan originations is due to an increase in mortgage activity driven by historically low mortgage rates and the addition of Heritage's mortgage operations. For the six months ended June 30, 2016, originations of mortgage loans from the Company's existing mortgage operations were \$408,729 while originations from Heritage's mortgage operations were \$597,778.

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; however, in recent quarters, the Company has elected to hold these loans longer than thirty days to collect additional interest payments without negatively impacting the income generated from the sale of these loans. 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 \$6,702,487 and \$6,218,602 at June 30, 2016 and December 31, 2015, respectively. Noninterest-bearing deposits were \$1,459,383 and \$1,278,337 at June 30, 2016 and December 31, 2015, respectively, while interest-bearing deposits were \$5,243,104 and \$4,940,265 at June 30, 2016 and December 31, 2015, respectively. The acquisition of KeyWorth increased total deposits by \$348,901 at the acquisition date. This consisted of noninterest-bearing deposits of \$73,077 and interest-bearing deposits of \$275,884. Management continues to 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, maintaining our liquidity position and managing our net interest margin. Accordingly, funds are only acquired when needed and at a rate that is prudent under the circumstances.

## Table of Contents

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 to reduce reliance on public fund deposits. However, the Company continues to participate in the bidding process for public fund deposits when it is reasonable under the circumstances. Our public fund transaction accounts are principally obtained from municipalities including school boards and utilities. Public fund deposits were \$827,804 and \$775,385 at June 30, 2016 and December 31, 2015, respectively.

Looking at the change in deposits geographically, deposits in our Mississippi and Tennessee markets increased \$147,599 and \$21,576, respectively, from December 31, 2015, while deposits in our Central Division markets decreased \$55,089 from December 31, 2015. Excluding the contribution from KeyWorth, deposits in our Georgia markets increased \$30,080 from December 31, 2015.

### Borrowed Funds

Total borrowings include securities sold under agreements to repurchase, overnight borrowings, 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 were \$444,989 of short-term borrowings, consisting of security repurchase agreements of \$9,589 and overnight borrowings from the FHLB of \$435,400, at June 30, 2016 compared to security repurchase agreements of \$22,279 and overnight borrowings from the FHLB of \$400,000 at December 31, 2015.

At June 30, 2016, long-term debt totaled \$143,661 compared to \$148,217 at December 31, 2015. 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. Long-term FHLB advances were \$48,122 and \$52,930 at June 30, 2016 and December 31, 2015, respectively. At June 30, 2016, \$21 of the total FHLB advances outstanding were scheduled to mature within twelve months or less. The Company had \$1,603,894 of availability on unused lines of credit with the FHLB at June 30, 2016 compared to \$1,659,779 at December 31, 2015. The cost of our long-term FHLB advances was 4.10% and 4.16% for the first six months of 2016 and 2015, respectively.

The Company owns the outstanding common securities of business trusts that issued corporation-obligated mandatorily redeemable preferred capital securities to third-party investors. The trusts used the proceeds from the issuance of their preferred capital securities and common securities (collectively referred to as "capital securities") to buy floating rate junior subordinated debentures issued by the Company (or by companies that the Company subsequently acquired.) The debentures are the trusts' only assets and interest payments from the debentures finance the distributions paid on the capital securities. The Company's junior subordinated debentures totaled \$95,369 at June 30, 2016 compared to \$95,095 at December 31, 2015.

### Results of Operations

Three Months Ended June 30, 2016 as Compared to the Three Months Ended June 30, 2015

#### Net Income

Net income for the three month period ended June 30, 2016 was \$22,900 compared to net income of \$15,394 for the three month period ended June 30, 2015. Basic and diluted earnings per share for the three month period ended June 30, 2016 were \$0.54, compared to basic earnings per share of \$0.49 and diluted earnings per share of \$0.48 for the three month period ended June 30, 2015. During the three months ended June 30, 2016, the Company incurred pre-tax merger and conversion expenses of \$2,807, or \$1,886 on an after-tax basis, which reduced basic and diluted earnings per share by \$0.05. During the second quarter of 2015, the Company incurred pre-tax merger and conversion expenses



of \$1,467, or \$904 on an after-tax basis, which reduced basic and diluted earnings per share by \$0.03.

#### 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 68.93% of total net revenue for the second quarter of 2016. 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 \$77,157 for the second quarter of 2016 compared to \$51,614 for the same period in 2015. On a tax equivalent basis, net interest income was \$78,932 for the second quarter of 2016 as compared to \$53,361 for the second quarter

Table of Contents

of 2015. Net interest margin, the tax equivalent net yield on earning assets, increased to 4.29% during the second quarter of 2016 compared to 4.17% for the second quarter of 2015. Additional interest income recognized in connection with the acceleration of pay downs and payoffs from acquired loans increased our net interest margin by 25 basis points for the three months ended June 30, 2016. Additional interest income recognized in connection with the acceleration of pay downs and payoffs from acquired loans increased our net interest margin by 28 basis points for the three months ended June 30, 2015. 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.

Table of Contents

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 June 30, |                                |                |             |                                |                |
|--|-----------------------------|--------------------------------|----------------|-------------|--------------------------------|----------------|
|  | 2016                        | Interest<br>Income/<br>Expense | Yield/<br>Rate | 2015        | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| Assets                                     |                             |                                |                |             |                                |                |
| Interest-earning assets:                   |                             |                                |                |             |                                |                |
| Loans <sup>(1)</sup>                       | \$6,203,661                 | \$77,180                       | 5.00%          | \$4,065,949 | \$50,760                       | 5.01%          |
| Securities:                                |                             |                                |                |             |                                |                |
| Taxable <sup>(2)</sup>                     | 755,220                     | 4,321                          | 2.30           | 690,776     | 3,758                          | 2.18           |
| Tax-exempt                                 | 356,611                     | 4,178                          | 4.71           | 309,186     | 3,955                          | 5.13           |
| Interest-bearing balances with banks       | 80,791                      | 104                            | 0.52           | 67,656      | 43                             | 0.25           |
| Total interest-earning assets              | 7,396,283                   | 85,783                         | 4.66           | 5,133,567   | 58,516                         | 4.57           |
| Cash and due from banks                    | 139,681                     |                                |                | 82,162      |                                |                |
| Intangible assets                          | 499,503                     |                                |                | 295,441     |                                |                |
| FDIC loss-share indemnification asset      | 5,969                       |                                |                | 8,011       |                                |                |
| Other assets                               | 500,382                     |                                |                | 328,358     |                                |                |
| Total assets                               | \$8,541,818                 |                                |                | \$5,847,539 |                                |                |
| Liabilities and shareholders' equity       |                             |                                |                |             |                                |                |
| Interest-bearing liabilities:              |                             |                                |                |             |                                |                |
| Deposits:                                  |                             |                                |                |             |                                |                |
| Interest-bearing demand <sup>(3)</sup>     | \$3,111,718                 | \$1,421                        | 0.18%          | \$2,310,352 | \$1,075                        | 0.19%          |
| Savings deposits                           | 526,596                     | 93                             | 0.07           | 373,253     | 72                             | 0.08           |
| Time deposits                              | 1,607,092                   | 2,906                          | 0.73           | 1,202,594   | 2,080                          | 0.69           |
| Total interest-bearing deposits            | 5,245,406                   | 4,420                          | 0.34           | 3,886,199   | 3,227                          | 0.33           |
| Borrowed funds                             | 594,459                     | 2,431                          | 1.64           | 204,884     | 1,928                          | 3.77           |
| Total interest-bearing liabilities         | 5,839,865                   | 6,851                          | 0.47           | 4,091,083   | 5,155                          | 0.51           |
| Noninterest-bearing deposits               | 1,477,380                   |                                |                | 969,770     |                                |                |
| Other liabilities                          | 103,275                     |                                |                | 53,528      |                                |                |
| Shareholders' equity                       | 1,121,298                   |                                |                | 733,158     |                                |                |
| Total liabilities and shareholders' equity | \$8,541,818                 |                                |                | \$5,847,539 |                                |                |
| Net interest income/net interest margin    |                             | \$78,932                       | 4.29%          |             | \$53,361                       | 4.17%          |

<sup>(1)</sup> Includes mortgage loans held for sale and shown net of unearned income.

<sup>(2)</sup> U.S. Government and some U.S. Government agency securities are tax-exempt in the states in which we operate.

<sup>(3)</sup> 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 3.66%, which is net of federal tax benefit.

Table of Contents

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 second quarter of 2016 compared to the second quarter of 2015:

|                                      | Volume   | Rate   | Net <sup>(1)</sup> |
|--------------------------------------|----------|--------|--------------------|
| Interest income:                     |          |        |                    |
| Loans <sup>(2)</sup>                 | \$26,457 | \$(37) | \$26,420           |
| Securities:                          |          |        |                    |
| Taxable                              | 370      | 193    | 563                |
| Tax-exempt                           | 512      | (289)  | 223                |
| Interest-bearing balances with banks | 10       | 51     | 61                 |
| Total interest-earning assets        | 27,349   | (82)   | 27,267             |
| Interest expense:                    |          |        |                    |
| Interest-bearing demand deposits     | 311      | 35     | 346                |
| Savings deposits                     | 26       | (5)    | 21                 |
| Time deposits                        | 722      | 104    | 826                |
| Borrowed funds                       | 715      | (212)  | 503                |
| Total interest-bearing liabilities   | 1,774    | (78)   | 1,696              |
| Change in net interest income        | \$25,575 | \$(4)  | \$25,571           |

(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 \$85,783 for the second quarter of 2016 compared to \$58,516 for the same period in 2015. This increase in interest income, on a tax equivalent basis, is due primarily to the additional earning assets from the KeyWorth and Heritage acquisitions and an increase in loan yields due to higher levels of accretable yield from the acquired loan portfolios. Overall, the Company continues to experience downward pressure on earning asset yields as a result of 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 following table presents the percentage of total average earning assets, by type and yield, for the periods presented:

|                      | Percentage of Total |          | Yield        |        |
|----------------------|---------------------|----------|--------------|--------|
|                      | Three Months        |          | Three Months |        |
|                      | Ended               |          | Ended        |        |
|                      | June 30,            |          | June 30,     |        |
|                      | 2016                | 2015     | 2016         | 2015   |
| Loans                | 83.88 %             | 79.20 %  | 5.00 %       | 5.01 % |
| Securities           | 15.03               | 19.48    | 3.07         | 3.09   |
| Other                | 1.09                | 1.32     | 0.52         | 0.25   |
| Total earning assets | 100.00 %            | 100.00 % | 4.66 %       | 4.57 % |

For the second quarter of 2016, loan income, on a tax equivalent basis, increased \$26,420 to \$77,180 from \$50,760 compared to the same period in 2015. The average balance of loans increased \$2,137,712 from second quarter of 2016 compared to the second quarter of 2015 due primarily to the loans acquired in connection with the KeyWorth and Heritage acquisitions. Furthermore, increased production in the commercial and secondary mortgage loan markets contributed to the increase in the average balance of loans. The tax equivalent yield on loans was 5.00%, a 1 basis

point decrease from the second quarter of 2015. Additional interest income recognized in connection with the acceleration of pay downs and payoffs from acquired loans increased our loan yields by 30 basis points for the three months ended June 30, 2016. Additional interest income recognized in connection with the acceleration of pay downs and payoffs from acquired loans increased our loan yields by 36 basis points for the three months ended June 30, 2015.

Investment income, on a tax equivalent basis, increased \$786 to \$8,499 for the second quarter of 2016 from \$7,713 for the second quarter of 2015. The average balance in the investment portfolio for the second quarter of 2016 was \$1,111,831 compared to

Table of Contents

\$999,962 for the same period in 2015. The tax equivalent yield on the investment portfolio for the second quarter of 2016 was 3.07%, down 2 basis points from the same period in 2015. Excluding the contribution from KeyWorth and Heritage, the average balance in the investment portfolio decreased when compared to the same period in 2015. Proceeds from maturities and calls of higher yielding securities were either redeployed to fund loan growth or reinvested in lower earning securities accounting for both the decrease in the average balance of investments and tax equivalent yield thereon when compared to the same period in the prior year. The reinvestment rates on securities were lower due to the generally lower interest rate environment.

Interest expense was \$6,851 for the second quarter of 2016 as compared to \$5,155 for the same period in 2015. The acquisitions of KeyWorth and Heritage contributed to a shift in the mix of our deposits from higher costing time deposits to lower costing interest-bearing deposits and non-interest bearing deposits, and when combined with the declining interest rate environment, resulted in an overall decrease in interest expense. The Company continues to seek changes 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 0.47% for the three months ended June 30, 2016 as compared to 0.51% at June 30, 2015.

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 |          | Cost of Funds |        |
|---|---------------------|----------|---------------|--------|
|   | Three Months        |          | Three Months  |        |
|   | Ended               |          | Ended         |        |
|   | June 30,            |          | June 30,      |        |
|   | 2016                | 2015     | 2016          | 2015   |
| Noninterest-bearing demand                | 20.19 %             | 19.16 %  | — %           | — %    |
| Interest-bearing demand                   | 42.53               | 45.65    | 0.18          | 0.19   |
| Savings                                   | 7.20                | 7.38     | 0.07          | 0.08   |
| Time deposits                             | 21.96               | 23.76    | 0.73          | 0.69   |
| Short term borrowings                     | 6.11                | 0.98     | 0.52          | 0.17   |
| Long-term Federal Home Loan Bank advances | 0.71                | 1.19     | 4.11          | 4.16   |
| Other borrowed funds                      | 1.30                | 1.88     | 5.57          | 5.42   |
| Total deposits and borrowed funds         | 100.00 %            | 100.00 % | 0.38 %        | 0.41 % |

Interest expense on deposits was \$4,420 and \$3,227 for the second quarter of 2016 and 2015, respectively. The cost of interest-bearing deposits was 0.34% and 0.33% for the same periods. Interest expense on total borrowings was \$2,431 and \$1,928 for the second quarter of 2016 and 2015, 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 June

30,  
2016 2015  
1.62% 1.56%

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 \$35,586 for the second quarter of 2016 as compared to \$22,879 for the same period in 2015. The increase in noninterest income and its related components is primarily attributable to the Heritage acquisition, particularly Heritage's mortgage operations, and a significant increase in mortgage revenue from the Company's existing mortgage operations due to increased production as a result of continued decreases in interest rates and recent mortgage originator hires.

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 \$7,521 and \$6,522 for the second quarter of 2016 and 2015, respectively. Overdraft fees, the largest component of service charges on deposits, were \$5,330 for the three months ended June 30, 2016 compared to \$4,633 for the same period in 2015.

Table of Contents

Fees and commissions increased to \$5,045 during the second quarter of 2016 as compared to \$3,571 for the same period in 2015. 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. For the second quarter of 2016, fees associated with debit card usage were \$4,155 as compared to \$3,283 for the same period in 2015.

Through Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers.

Income earned on insurance products was \$2,175 and \$2,119 for the three months ended June 30, 2016 and 2015, respectively. Contingency income, which is included in "Other noninterest income" in the Consolidated Statements of 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. Contingency income was \$97 and \$62 for the three months ended June 30, 2016 and 2015, respectively.

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 investment 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 \$2,872 for the second quarter of 2016 compared to \$2,210 for the same period in 2015. The market value of trust assets under management was \$3,072,888 and \$2,675,558 at June 30, 2016 and June 30, 2015, respectively.

During the second quarter of 2016, the Company sold securities with a carrying value of \$2,767 at the time of sale for net proceeds of \$4,024 resulting in a gain of \$1,257. During the second quarter in 2015, the Company sold one of its pooled trust preferred securities with net proceeds of \$1,213 and a carrying value of \$1,117 at the time of sale for a gain of \$96.

Mortgage banking income is derived from the origination and sale of mortgage loans and the servicing of mortgage loans that the Company has sold but retained the right to service. Mortgage banking income was \$13,420 and \$6,791 for the three months ended June 30, 2016 and 2015, respectively. Originations of mortgage loans to be sold totaled \$548,007 in the six months ended June 30, 2016 compared to \$222,298 for the same period in 2015. The increase in mortgage loan originations is due to an increase in mortgage activity driven by historically low mortgage rates and the addition of Heritage's mortgage operations. For the second quarter of 2016, originations of mortgage loans from the Company's existing mortgage operations were \$209,060 while originations from Heritage's mortgage operations were \$338,946. The following table presents the components of mortgage banking income included in noninterest income for the three months ending June 30:

|                                | 2016     | 2015    |
|--------------------------------|----------|---------|
| Mortgage servicing income, net | \$(283)  | \$(76)  |
| Gain on sales of loans, net    | 7,123    | 5,408   |
| Fees, net                      | 6,580    | 1,459   |
| Mortgage banking income, net   | \$13,420 | \$6,791 |

Gains on the sale of SBA loans were \$1,035 and \$90 for the three months ended June 30, 2016 and 2015, respectively. Gains on the sale of SBA loans is derived from the origination and sale of the SBA loans guaranteed portion to third party investors. The increase year over year is attributable to the increased volume in SBA loans sold originated and sold by the Company which is directly related to a continued focus by the Company to grow other lines of business.

Noninterest Expense



Noninterest  
Expense to  
Average  
Assets  
Three Months  
Ended June  
30,  
2016 2015  
3.64% 3.50%

Noninterest expense was \$77,259 and \$51,082 for the second quarter of 2016 and 2015, respectively. The increase in noninterest expenses and its related components is primarily attributable to the KeyWorth and Heritage acquisitions. Merger and conversion expenses related to the KeyWorth and Heritage acquisitions was \$2,807 for the three months ended June 30, 2016, compared to \$1,467 for the three months ended June 30, 2015.

63

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Table of Contents

Salaries and employee benefits increased \$14,993 to \$45,387 for the second quarter of 2016 as compared to \$30,394 for the same period in 2015. The increase in salary and employee benefits was primarily attributable to the Heritage acquisition along with higher levels of commissions paid in our mortgage banking division due to the increased levels of mortgage loan production.

Data processing costs increased to \$4,502 in the second quarter of 2016 from \$3,199 for the same period in 2015. The increase for the second quarter of 2016 as compared to the same period in 2015 was primarily attributable to the acquisition of Heritage as well as increased volume in mobile banking and increased volume on our small business internet banking platform.

Net occupancy and equipment expense for the second quarter of 2016 was \$8,531, up from \$5,524 for the same period in 2015. The increase is primarily attributable to the KeyWorth and Heritage acquisitions.

Expenses related to other real estate owned for the second quarter of 2016 were \$1,614 compared to \$954 for the same period in 2015. Expenses on other real estate owned for the second quarter of 2016 included write downs of \$987 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 \$4,527 was sold during the three months ended June 30, 2016, resulting in a net loss of \$181. Expenses on other real estate owned for the three months ended June 30, 2015 included a \$953 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 \$4,797 was sold during the three months ended June 30, 2015, resulting in a net gain of \$195.

Professional fees include fees for legal and accounting services. Professional fees were \$1,262 for the second quarter of 2016 as compared to \$1,172 for the same period in 2015. 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 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 \$1,742 for the second quarter of 2016 compared to \$1,481 for the same period in 2015.

Amortization of intangible assets totaled \$1,742 and \$1,239 for the second quarter of 2016 and 2015, 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 1 year to 10 years. The increase in amortization expense for the second quarter of 2016 as compared to the same period in 2015 is attributable to the amortization of the core deposit intangible recognized in connection with the KeyWorth and Heritage acquisitions.

Communication expenses, those expenses incurred for communication to clients and between employees, were \$2,040 for the second quarter of 2016 as compared to \$1,491 for the same period in 2015. The increase can be attributed to the KeyWorth and Heritage acquisitions.

During the three months ended June 30, 2015, the Company recognized a debt extinguishment penalty of \$329. This penalty was incurred in connection with the prepayment of approximately \$3,500 in borrowings from the FHLB. No such charge was incurred during the same time period in 2015.

Efficiency Ratio

Three Months  
Ended June 30,  
2016 2015  
67.46% 67.00%

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. Merger and conversion expenses incurred in connection with the Keyworth and Heritage acquisitions contributed approximately 245 basis points to the efficiency ratio for the second quarter of 2016. The remainder of the increase from the same period in 2015 is primarily attributable to the Heritage acquisition and increased production in our mortgage operations which is ordinarily a less efficient line of business. We remain committed to aggressively managing

## Table of Contents

our costs within the framework of our business model. We expect the efficiency ratio to improve from currently reported levels from revenue growth while at the same time controlling noninterest expenses.

### Income Taxes

Income tax expense for the second quarter of 2016 and 2015 was \$11,154 and \$6,842, respectively. The effective tax rates for those periods were 32.75% and 30.77%, respectively. The increased effective tax rate for the second quarter of 2016 as compared to the same period in 2015 is the result of the Company experiencing improvements in its financial results, including the contribution from the acquisitions, resulting in higher levels of taxable income.

### Results of Operations

Six Months Ended June 30, 2016 as Compared to the Six Months Ended June 30, 2015

#### Net Income

Net income for the six months ended June 30, 2016 was \$44,116 compared to net income of \$30,634 for the six months ended June 30, 2015. Basic and diluted earnings per share for the six months ended June 30, 2016 were \$1.07 and \$1.06, respectively, as compared to \$0.97 for basic earnings per share and \$0.96 for diluted earnings per share for the six months ended June 30, 2015. During the six months ended June 30, 2016, the Company incurred pre-tax merger and conversion expenses of \$3,755, or \$2,467 on an after-tax basis, which reduced basic and diluted earnings per share by \$0.06. During the first six months of 2015, the Company incurred pre-tax merger and conversion expenses of \$1,946, or \$1,198 on an after-tax basis, which reduced basic and diluted earnings per share by \$0.04.

#### 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 68.63% of total net revenue for the first six months of 2016. 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 \$147,211 for the six months ended June 30, 2016 compared to \$100,395 for the same period in 2015. On a tax equivalent basis, net interest income was \$150,745 for the six months ended June 30, 2016 as compared to \$103,886 for the six months ended June 30, 2015. Net interest margin, the tax equivalent net yield on earning assets, increased 15 basis points to 4.25% during the six months ended June 30, 2016 compared to 4.10% for the six months ended June 30, 2015. The accelerated accretion on the acquired loan portfolios increased our net interest margin by 18 basis points for the six months ended June 30, 2016 compared to 17 basis points for the six months ended June 30, 2015. 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.

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:

Table of Contents

|  | Six Months Ended June 30,<br>2016 |                                |                | 2015               |                                |                |
|--|-----------------------------------|--------------------------------|----------------|--------------------|--------------------------------|----------------|
|  | Average<br>Balance                | Interest<br>Income/<br>Expense | Yield/<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense | Yield/<br>Rate |
| Assets                                     |                                   |                                |                |                    |                                |                |
| Interest-earning assets:                   |                                   |                                |                |                    |                                |                |
| Loans <sup>(1)</sup>                       | \$5,952,907                       | \$146,783                      | 4.96 %         | \$4,043,182        | \$98,479                       | 4.91 %         |
| Securities:                                |                                   |                                |                |                    |                                |                |
| Taxable <sup>(2)</sup>                     | 751,887                           | 8,457                          | 2.26           | 687,093            | 7,926                          | 2.33           |
| Tax-exempt                                 | 355,804                           | 8,384                          | 4.74           | 307,788            | 7,918                          | 5.19           |
| Interest-bearing balances with banks       | 70,967                            | 177                            | 0.50           | 75,445             | 103                            | 0.28           |
| Total interest-earning assets              | 7,131,565                         | 163,801                        | 4.62           | 5,113,508          | 114,426                        | 4.51           |
| Cash and due from banks                    | 139,039                           |                                |                | 85,852             |                                |                |
| Intangible assets                          | 486,749                           |                                |                | 296,058            |                                |                |
| FDIC loss-share indemnification asset      | 6,187                             |                                |                | 9,433              |                                |                |
| Other assets                               | 489,821                           |                                |                | 329,868            |                                |                |
| Total assets                               | \$8,253,361                       |                                |                | \$5,834,719        |                                |                |
| Liabilities and shareholders' equity       |                                   |                                |                |                    |                                |                |
| Interest-bearing liabilities:              |                                   |                                |                |                    |                                |                |
| Deposits:                                  |                                   |                                |                |                    |                                |                |
| Interest-bearing demand <sup>(3)</sup>     | \$3,034,314                       | \$2,762                        | 0.18           | \$2,311,005        | \$2,170                        | 0.19           |
| Savings deposits                           | 517,304                           | 182                            | 0.07           | 369,476            | 141                            | 0.08           |
| Time deposits                              | 1,550,373                         | 5,436                          | 0.71           | 1,233,396          | 4,414                          | 0.72           |
| Total interest-bearing deposits            | 5,101,991                         | 8,380                          | 0.33           | 3,913,877          | 6,725                          | 0.35           |
| Borrowed funds                             | 566,921                           | 4,676                          | 1.66           | 186,921            | 3,815                          | 4.12           |
| Total interest-bearing liabilities         | 5,668,912                         | 13,056                         | 0.46           | 4,100,798          | 10,540                         | 0.52           |
| Noninterest-bearing deposits               | 1,397,382                         |                                |                | 950,995            |                                |                |
| Other liabilities                          | 100,889                           |                                |                | 56,466             |                                |                |
| Shareholders' equity                       | 1,086,178                         |                                |                | 726,460            |                                |                |
| Total liabilities and shareholders' equity | \$8,253,361                       |                                |                | \$5,834,719        |                                |                |
| Net interest income/net interest margin    |                                   | \$150,745                      | 4.25 %         |                    | \$103,886                      | 4.10 %         |

(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 3.66%, which is net of federal tax benefit.

Table of Contents

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 six months ended June 30, 2016 compared to the same period in 2015:

|                                      | Volume   | Rate   | Net <sup>(1)</sup> |
|--------------------------------------|----------|--------|--------------------|
| Interest income:                     |          |        |                    |
| Loans <sup>(2)</sup>                 | \$47,313 | \$991  | \$48,304           |
| Securities:                          |          |        |                    |
| Taxable                              | 735      | (204 ) | 531                |
| Tax-exempt                           | 1,023    | (557 ) | 466                |
| Interest-bearing balances with banks | (6 )     | 80     | 74                 |
| Total interest-earning assets        | 49,065   | 310    | 49,375             |
| Interest expense:                    |          |        |                    |
| Interest-bearing demand deposits     | 662      | (70 )  | 592                |
| Savings deposits                     | 51       | (10 )  | 41                 |
| Time deposits                        | 1,122    | (100 ) | 1,022              |
| Borrowed funds                       | 1,219    | (358 ) | 861                |
| Total interest-bearing liabilities   | 3,054    | (538 ) | 2,516              |
| Change in net interest income        | \$46,011 | \$848  | \$46,859           |

<sup>(1)</sup> 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.

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

Interest income, on a tax equivalent basis, was \$163,801 for the six months ended June 30, 2016 compared to \$114,426 for the same period in 2015. This increase in interest income, on a tax equivalent basis, is due primarily to the acquisition of Heritage and an increase in loan yields due to higher levels of accretable yield from the acquired loan portfolios. Overall, the Company continues to experience downward pressure on earning asset yields as a result of 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 following table presents the percentage of total average earning assets, by type and yield, for the periods presented:

|                      | Percentage of Total |          | Yield            |        |
|----------------------|---------------------|----------|------------------|--------|
|                      | Six Months Ended    |          | Six Months Ended |        |
|                      | June 30,            |          | June 30,         |        |
|                      | 2016                | 2015     | 2016             | 2015   |
| Loans                | 83.47 %             | 79.07 %  | 4.96 %           | 4.91 % |
| Securities           | 15.53               | 19.45    | 3.06             | 3.21   |
| Other                | 1.00                | 1.48     | 0.50             | 0.28   |
| Total earning assets | 100.00 %            | 100.00 % | 4.62 %           | 4.51 % |

For the six months ending June 30, 2016, loan income, on a tax equivalent basis, increased \$48,304 to \$146,783 from \$98,479 in the same period in 2015. The average balance of loans increased \$1,909,725 for the six months ended June 30, 2016 compared to the same period in 2015 primarily due to the acquisitions of KeyWorth and Heritage, as well as increased production in the commercial and secondary mortgage loan markets. The tax equivalent yield on loans was

4.96% for the six months ending June 30, 2016, a 5 basis point increase from the same period in 2015. The accelerated accretion on the acquired loan portfolio increased our loan yield by 22 basis points for the first six months of 2016 compared to 21 basis points for the six months ended June 30, 2015.

Investment income, on a tax equivalent basis, increased \$997 to \$16,841 for the six months ended June 30, 2016 from \$15,844 for the same period in 2015. The average balance in the investment portfolio for the six months ended June 30, 2016 was \$1,107,691 compared to \$994,881 for the same period in 2015. The tax equivalent yield on the investment portfolio for the first six months of 2016 was 3.06%, down 15 basis points from 3.21% in the same period in 2015. Proceeds from maturities and calls of higher

Table of Contents

yielding securities were either redeployed to fund loan growth or reinvested in lower earning securities accounting for both the decrease in the average balance of investments, excluding the impact from Heritage, and tax equivalent yield thereon when compared to the same period in the prior year. The reinvestment rates on securities were lower due to the generally lower interest rate environment.

Interest expense for the six months ended June 30, 2016 was \$13,056 as compared to \$10,540 for the same period in 2015, due primarily from an increase in the average balance of interest bearing liabilities attributable to the KeyWorth and Heritage acquisitions. The acquisition of Heritage contributed to a shift in the mix of our deposits from higher costing time deposits to lower costing interest bearing and non-interest bearing deposits, and when combined with the declining interest rate environment, resulted in an overall decrease in our cost of funds. The Company continues to seek changes 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 0.46% for the six months ended June 30, 2016 as compared to 0.52% for the same period in June 30, 2015.

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 |          | Cost of Funds    |        |      |      |
|---|---------------------|----------|------------------|--------|------|------|
|   | Six Months Ended    |          | Six Months Ended |        |      |      |
|   | June 30,            |          | June 30,         |        |      |      |
|   | 2016                | 2015     | 2016             | 2015   | 2016 | 2015 |
| Noninterest-bearing demand                | 19.77 %             | 18.82 %  | —                | —      | —    | —    |
| Interest-bearing demand                   | 42.94               | 45.75    | 0.18             | 0.19   |      |      |
| Savings                                   | 7.32                | 7.31     | 0.07             | 0.08   |      |      |
| Time deposits                             | 21.94               | 24.42    | 0.71             | 0.72   |      |      |
| Short-term borrowings                     | 5.94                | 0.26     | 0.62             | 0.47   | 0.16 |      |
| Long-term Federal Home Loan Bank advances | 0.74                | 1.20     | 4.10             | 4.16   |      |      |
| Other long term borrowings                | 1.35                | 1.88     | 5.55             | 5.39   |      |      |
| Total deposits and borrowed funds         | 100.00 %            | 100.00 % | 0.37 %           | 0.42 % |      |      |

Interest expense on deposits was \$8,380 and \$6,725 for the six months ended June 30, 2016 and 2015, respectively. The cost of interest bearing deposits was 0.33% and 0.35% for the same periods. Interest expense on total borrowings was \$4,676 and \$3,815 for the first six months of 2016 and 2015, 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)  
Six Months  
Ended June  
30,  
2016 2015



1.65% 1.54%

Noninterest income was \$68,888 for the six months ended June 30, 2016 as compared to \$44,749 for the same period in 2015. The increase in noninterest income and its related components is primarily attributable to the Heritage acquisition, Heritage's mortgage operations and a significant increase in mortgage revenue from the Company's existing mortgage operations due to increased production as a result of continued decreases in interest rates and recent mortgage originator hires.

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 \$15,512 and \$12,857 for the six months ended June 30, 2016 and 2015, respectively. Overdraft fees, the largest component of service charges on deposits, were \$11,066 for the six months ended June 30, 2016 compared to \$9,019 for the same period in 2015.

Fees and commissions increased to \$9,376 for the first six months of June 30, 2016 as compared to \$7,266 for the same period in 2015. Fees and commissions include fees related to deposit services, such as ATM fees and interchange fees on debit card

## Table of Contents

transactions, as well as servicing income from non-mortgage loans serviced by the Company. Fees associated with debit card usage were \$8,154 for the six months ending June 30, 2016 as compared to \$6,356 for the same period in 2015.

Through Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers. Income earned on insurance products was \$4,137 and \$4,086 for the six months ended June 30, 2016 and 2015, 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. Increases and decrease in contingency income are reflective of corresponding increases and decreases in the amount of claims paid by insurance carriers. Contingency income, which is included in "Other noninterest income" in the Consolidated Statements of Income, was \$1,129 and \$489 for the six months ended June 30, 2016 and 2015, respectively.

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 \$5,763 for the six months ended June 30, 2016 compared to \$4,366 for the same period in 2015. This increase is primarily attributable to an increase in assets under management through the Heritage acquisition. The market value of trust assets under management was \$3,072,888 and \$2,675,558 at June 30, 2016 and June 30, 2015, respectively.

Mortgage banking income is derived from the origination and sale of mortgage loans and the servicing of mortgage loans that the Company has sold but retained the right to service. Mortgage banking income was \$25,335 and \$12,220 for the six months ended June 30, 2016 and 2015, respectively. Originations of mortgage loans to be sold totaled \$1,006,507 in the six months ended June 30, 2016 compared to \$407,893 for the same period in 2015. The increase in mortgage loan originations is due to an increase in mortgage activity driven by historically low mortgage rates and the addition of Heritage's mortgage operations. The following table presents the components of mortgage banking income included in noninterest income for the six months ending June 30:

|                                | 2016     | 2015     |
|--------------------------------|----------|----------|
| Mortgage servicing income, net | \$345    | \$15     |
| Gain on sales of loans, net    | 12,969   | 10,040   |
| Fees, net                      | 12,021   | 2,165    |
| Mortgage banking income, net   | \$25,335 | \$12,220 |

Gains on the sale of SBA loans were \$2,031 and \$383 for the six months ended June 30, 2016 and 2015, respectively. Gains on the sale of SBA loans is derived from the origination and sale of the SBA loans guaranteed portion to third party investors. The increase year over year is attributable to the increased volume in SBA loans sold originated and sold by the Company which is directly related to a continued focus by the Company to grow other lines of business.

## Noninterest Expense

Noninterest  
Expense to  
Average  
Assets  
Six Months  
Ended June

30,  
2016 2015  
3.48% 3.33%

Noninterest expense was \$147,073 and \$98,401 for the six months ended June 30, 2016 and 2015, respectively. The increase in noninterest expenses and its related components is primarily attributable to the KeyWorth and Heritage acquisitions. Merger and conversion expense related to our acquisition of Heritage and KeyWorth was \$3,755 for the six months ended June 30, 2016 compared to \$1,946 of merger expenses related to the Heritage acquisition for the same period in 2015.

Salaries and employee benefits increased \$29,125 to \$87,780 for the six months ended June 30, 2016 as compared to \$58,655 for the same period in 2015. The increase in salaries and employee benefits is attributable to the addition of the KeyWorth and Heritage operations and higher levels of commissions paid in our mortgage banking division.

## Table of Contents

Data processing costs increased to \$8,660 in the six months ended June 30, 2016 from \$6,429 for the same period in 2015. The increase for the six months ended June 30, 2016 as compared to the same period in 2015 was primarily attributable to the Heritage acquisition and the addition of enhancements to our products and services, including mobile banking and small business internet banking platform.

Net occupancy and equipment expense for the first six months of 2016 was \$16,755, up from \$11,083 for the same period in 2015. The increase in occupancy and equipment expense is primarily attributable to the Heritage operations and facilities.

Expenses related to other real estate owned for the first six months of 2016 were \$2,571 compared to \$1,486 for the same period in 2015. Expenses on other real estate owned for the six months ended June 30, 2016 included write downs of \$1,281 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 \$8,188 was sold during the six months ended June 30, 2016, resulting in a net loss of \$231. Expenses on other real estate owned for the six months ended June 30, 2015 included a \$1,395 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 \$12,656 was sold during the six months ended June 30, 2015, resulting in a net gain of \$483.

Professional fees include fees for legal and accounting services. Professional fees were \$2,476 for the six months ended June 30, 2016 as compared to \$1,996 for the same period in 2015. 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 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 \$3,379 for the six months ended June 30, 2016 compared to \$2,784 for the same period in 2015.

Amortization of intangible assets totaled \$3,439 and \$2,513 for the six months ended June 30, 2016 and 2015, 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 1 year to 10 years. The increase in amortization expense for the six months ended June 30, 2016 as compared to the same period in 2015 is attributable to the amortization of the core deposit intangible recognized in connection with the KeyWorth and Heritage acquisitions.

Communication expenses, those expenses incurred for communication to clients and between employees, were \$4,211 for the six months ended June 30, 2016 as compared to \$2,924 for the same period in 2015. The increase can be attributed to the Heritage acquisition as well as expenses incurred to increase the bandwidth of data lines throughout our footprint.

During the six months ended June 30, 2016, the Company recognized a debt extinguishment penalty of \$329. This penalty was incurred in connection with the prepayment of approximately \$3,500 in borrowings from the FHLB. No such charge was incurred during the same time period in 2015.

Efficiency Ratio  
Six Months  
Ended June 30,  
2016    2015  
66.96% 66.20%

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. Merger-related expenses contributed approximately 171 basis points to the efficiency ratio in the first six months of 2016 compared to 131 basis points in the corresponding period in 2015. We remain committed to aggressively managing our costs within the framework of our business model. We expect the efficiency ratio (excluding the impact of merger-related expenses) to continue to improve from currently reported levels as a result of revenue growth while at the same time controlling noninterest expenses.

#### Income Taxes

Income tax expense for the six months ended June 30, 2016 and 2015 was \$21,680 and \$13,859, respectively. The effective tax rates for those periods were 32.95% and 31.15%, respectively. The increased effective tax rate for the six months ended June 30,

## Table of Contents

2016 as compared to the same period in 2015 is the result of the Company experiencing improvements in its financial results throughout 2015 and into the six months ended June 30, 2016, including the contributions from Heritage and Keyworth, 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 State Certified General Real Estate Appraiser and employs an additional State Certified General Real Estate appraiser, Appraisal Intern and four evaluators.

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, adjust the grades assigned to loans through periodic examination, focusing their review on commercial and real estate loans rather than consumer and small balance consumer mortgage loans, such as 1-4 family 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, small balance consumer mortgage loans, such as 1-4 family mortgage loans 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.

Table of Contents

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 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 second quarter of 2016 were \$191, or 0.01% of average loans, compared to net charge-offs of \$1,589, or 0.16% of average loans, for the same period in 2015. The levels of net charge-offs relative to the size of our loan portfolio reflect the improved credit quality measures and 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 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:

|                                     | June 30,<br>2016 | December 31,<br>2015 | June 30,<br>2015 |
|-------------------------------------|------------------|----------------------|------------------|
| Commercial, financial, agricultural | \$4,512          | \$ 4,186             | \$3,971          |
| Lease financing                     | 198              | 160                  | 60               |
| Real estate – construction          | 2,269            | 1,852                | 1,297            |
| Real estate – 1-4 family mortgage   | 14,219           | 13,908               | 13,792           |
| Real estate – commercial mortgage   | 21,683           | 21,111               | 21,547           |
| Installment loans to individuals    | 1,217            | 1,220                | 1,221            |
| Total                               | \$44,098         | \$ 42,437            | \$41,888         |



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:

|  | June 30,<br>2016 | December 31,<br>2015 | June 30,<br>2015 |
|--|------------------|----------------------|------------------|
| Specific reserves for impaired loans       | \$7,619          | \$ 7,600             | \$5,902          |
| Allocated reserves for remaining portfolio | 34,307           | 33,131               | 34,574           |
| Acquired with deteriorated credit quality  | 2,172            | 1,706                | \$ 1,412         |
| Total                                      | \$44,098         | \$ 42,437            | \$41,888         |

Table of Contents

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 provision for loan losses was \$3,230 and \$2,250 for the six months ended June 30, 2016 and 2015, respectively, which reflects the aforementioned improving credit quality trends coupled with providing for significant loan growth during each respective period.

A majority of the loans acquired in the Company's FDIC-assisted acquisitions and certain loans acquired and not covered under the Company's FDIC loss-share agreements are accounted for under ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"), and 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. As of June 30, 2016, the fair value of loans accounted for in accordance with ASC 310-30 was \$317,959. 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 June 30, 2016, the Company has increased the allowance for loan losses by \$2,172 for loans accounted for under ASC 310-30. As of June 30, 2015, the Company increased the allowance for loan losses by \$1,412 for loans accounted for under ASC 310-30.

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

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2016                           | 2015     | 2016                         | 2015     |
| Balance at beginning of period                | \$42,859                       | \$42,302 | \$42,437                     | \$42,289 |
| Charge-offs                                   |                                |          |                              |          |
| Commercial, financial, agricultural           | 48                             | 123      | 705                          | 358      |
| Lease financing                               | —                              | —        | —                            | —        |
| Real estate – construction                    | —                              | 26       | —                            | 26       |
| Real estate – 1-4 family mortgage             | 387                            | 869      | 503                          | 1,354    |
| Real estate – commercial mortgage             | 186                            | 1,224    | 1,187                        | 1,857    |
| Installment loans to individuals              | 192                            | 56       | 372                          | 106      |
| Total charge-offs                             | 813                            | 2,298    | 2,767                        | 3,701    |
| Recoveries                                    |                                |          |                              |          |
| Commercial, financial, agricultural           | 105                            | 104      | 158                          | 139      |
| Lease financing                               | —                              | —        | —                            | —        |
| Real estate – construction                    | 5                              | 7        | 11                           | 13       |
| Real estate – 1-4 family mortgage             | 170                            | 215      | 565                          | 370      |
| Real estate – commercial mortgage             | 309                            | 357      | 401                          | 469      |
| Installment loans to individuals              | 33                             | 26       | 63                           | 59       |
| Total recoveries                              | 622                            | 709      | 1,198                        | 1,050    |
| Net charge-offs                               | 191                            | 1,589    | 1,569                        | 2,651    |
| Provision for loan losses                     | 1,430                          | 1,175    | 3,230                        | 2,250    |
| Balance at end of period                      | \$44,098                       | \$41,888 | \$44,098                     | \$41,888 |
| Net charge-offs (annualized) to average loans | 0.01                           | % 0.16   | % 0.06                       | % 0.08   |
| Allowance for loan losses to:                 |                                |          |                              |          |

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|                                  |        |   |        |   |        |   |        |   |
|----------------------------------|--------|---|--------|---|--------|---|--------|---|
| Total loans not acquired         | 1.03   | % | 1.23   | % | 1.03   | % | 1.23   | % |
| Nonperforming loans not acquired | 366.90 | % | 197.95 | % | 366.90 | % | 197.95 | % |

73

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Table of Contents

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<br>Ended<br>June 30,<br>2016 |         | Six Months<br>Ended<br>June 30,<br>2016 |         |
|---|---|---------|---|---------|
|   | 2015                                      |         | 2015                                    |         |
| Real estate – construction:                           |   |         |   |         |
| Residential   | \$(5 )                                    | \$21    | \$(9 )                                  | \$15    |
| Commercial  | —   | —       | —                                       | —       |
| Condominiums  | —   | (2 )    | (2 )                                    | (2 )    |
| Total real estate – construction                      | (5 )                                      | 19      | (11 )                                   | 13      |
| Real estate – 1-4 family mortgage:                    |   |         |   |         |
| Primary   | 54  | 221     | 100                                     | 635     |
| Home equity   | 47  | 166     | 51                                      | 176     |
| Rental/investment                                     | 139                                       | 90      | 134                                     | 62      |
| Land development                                      | (23 )                                     | 177     | (347 )                                  | 111     |
| Total real estate – 1-4 family mortgage               | 217                                       | 654     | (62 )                                   | 984     |
| Real estate – commercial mortgage:                    |   |         |   |         |
| Owner-occupied  | (164)                                     | 845     | 228                                     | 1,417   |
| Non-owner occupied                                    | (45 )                                     | 191     | 245                                     | 146     |
| Land development                                      | 86  | (169 )  | 313                                     | (175 )  |
| Total real estate – commercial mortgage               | (123)                                     | 867     | 786                                     | 1,388   |
| Total net charge-offs of loans secured by real estate | \$89                                      | \$1,540 | \$713                                   | \$2,385 |
| 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 one of the Company's three investments in pooled trust preferred securities issued by financial institutions, which are discussed earlier in this section under the heading "Investments".

Table of Contents

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 ("Acquired Covered Assets"), and nonperforming assets acquired and not covered by loss-share agreements with the FDIC ("Acquired Not Covered") as of the dates presented:

|  | Not<br>Acquired | Acquired<br>Covered<br>Assets | Acquired<br>Not<br>Covered | Total     |   |
|--|-----------------|-------------------------------|----------------------------|-----------|---|
| June 30, 2016  |                 |                               |                            |           |   |
| Nonaccruing loans  | \$ 10,591       | \$ 2,060                      | \$ 13,312                  | \$ 25,963 |   |
| Accruing loans past due 90 days or more                  | 1,428           | 2,076                         | 13,650                     | 17,154    |   |
| Total nonperforming loans                                | 12,019          | 4,136                         | 26,962                     | 43,117    |   |
| Other real estate owned                                  | 9,575           | 2,618                         | 17,146                     | 29,339    |   |
| Total nonperforming loans and OREO                       | 21,594          | 6,754                         | 44,108                     | 72,456    |   |
| Nonaccruing securities available-for-sale, at fair value | 9,578           | —                             | —                          | 9,578     |   |
| Total nonperforming assets                               | \$ 31,172       | \$ 6,754                      | \$ 44,108                  | \$ 82,034 |   |
| Nonperforming loans to total loans                       |                 |                               |                            | 0.72      | % |
| Nonperforming assets to total assets                     |                 |                               |                            | 0.96      | % |
| December 31, 2015  |                 |                               |                            |           |   |
| Nonaccruing loans  | \$ 13,645       | \$ 3,319                      | \$ 12,070                  | \$ 29,034 |   |
| Accruing loans past due 90 days or more                  | 1,326           | 3,609                         | 11,458                     | 16,393    |   |
| Total nonperforming loans                                | 14,971          | 6,928                         | 23,528                     | 45,427    |   |
| Other real estate owned                                  | 12,987          | 2,818                         | 19,597                     | 35,402    |   |
| Total nonperforming loans and OREO                       | 27,958          | 9,746                         | 43,125                     | 80,829    |   |
| Nonaccruing securities available-for-sale, at fair value | 10,448          | —                             | —                          | 10,448    |   |
| Total nonperforming assets                               | \$ 38,406       | \$ 9,746                      | \$ 43,125                  | \$ 91,277 |   |
| Nonperforming loans to total loans                       |                 |                               |                            | 0.84      | % |
| Nonperforming assets to total assets                     |                 |                               |                            | 1.15      | % |

Overall, the Company experienced lower levels of classified loans and nonperforming loans resulting in improving credit quality measures in 2015 and through the first six months of 2016. At June 30, 2016, not acquired, nonperforming loans decreased \$2,952 from \$14,971 at December 31, 2015. Total acquired nonperforming loans, which consist of acquired covered and acquired not covered, increased \$642 for the first six months of 2016. The increase in total acquired, nonperforming loans is primarily attributable to the acquisition of Heritage. At June 30, 2016, the acquisition of Heritage added \$13,091 acquired, nonperforming loans compared to \$11,462 at December 31, 2015.

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.

Table of Contents

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.

|  | June 30,<br>2016 | December 31,<br>2015 | June 30,<br>2015 |
|--|------------------|----------------------|------------------|
| Nonaccruing loans                                    | \$23,903         | \$ 25,715            | \$16,599         |
| Accruing loans past due 90 days or more              | 15,078           | 12,784               | 8,170            |
| Total nonperforming loans                            | 38,981           | 38,499               | 24,769           |
| Restructured loans in compliance with modified terms | 11,607           | 13,453               | 22,018           |
| Total nonperforming and restructured loans           | \$50,588         | \$ 51,952            | \$46,787         |

Acquired nonperforming loans that are not covered by FDIC loss-share agreements totaled \$26,962 at June 30, 2016 which consisted of \$13,312 in loans on nonaccrual status and \$13,650 in accruing loans past due 90 days or more. The recent acquisition of Heritage added \$10,722 acquired, non-covered, nonperforming loans, while the First M&F merger contributed \$5,426 of such loans at June 30, 2016. At December 31, 2015 nonperforming loans from the acquired non-covered portfolio were \$23,528. Excluding the nonperforming loans from acquisitions, nonperforming loans were \$12,019 at June 30, 2016 and \$14,971 at December 31, 2015. The following table presents nonperforming loans, not subject to a loss-share agreement, by loan category as of the dates presented:

|   | June 30,<br>2016 | December 31,<br>2015 | June 30,<br>2015 |
|---|------------------|----------------------|------------------|
| Commercial, financial, agricultural     | \$2,572          | \$ 1,266             | \$1,459          |
| Real estate – construction:             |                  |                      |                  |
| Residential                             | 675              | 176                  | 37               |
| Commercial                              | —                | —                    | —                |
| Condominiums                            | —                | —                    | —                |
| Total real estate – construction        | 675              | 176                  | 37               |
| Real estate – 1-4 family mortgage:      |                  |                      |                  |
| Primary                                 | 5,923            | 6,957                | 4,988            |
| Home equity                             | 755              | 1,073                | 908              |
| Rental/investment                       | 4,182            | 4,284                | 2,464            |
| Land development                        | 2,959            | 2,048                | 338              |
| Total real estate – 1-4 family mortgage | 13,819           | 14,362               | 8,698            |
| Real estate – commercial mortgage:      |                  |                      |                  |
| Owner-occupied                          | 11,162           | 8,574                | 5,712            |
| Non-owner occupied                      | 7,392            | 7,645                | 5,670            |
| Land development                        | 2,938            | 6,320                | 3,080            |
| Total real estate – commercial mortgage | 21,492           | 22,539               | 14,462           |
| Installment loans to individuals        | 423              | 156                  | 113              |
| Lease financing                         | —                | —                    | —                |
| Total nonperforming loans               | \$38,981         | \$ 38,499            | \$24,769         |

Our level of nonperforming loans, not subject to a loss-share agreement, increased from the second quarter of 2015, due primarily to our acquisition of Heritage as well as loss-share loans acquired in the Crescent acquisition being transferred to the Acquired not covered loan category. However, the Company is continuing its efforts to bring problem credits to resolution. Total nonperforming loans as a percentage of total loans were 0.66% as of June 30, 2016 compared to 0.72% as of December 31, 2015 and 0.63% as of June 30, 2015. The Company's coverage ratio, or its allowance for loan losses as a percentage of nonperforming loans, was 113.13% as of June 30, 2016 as compared to

110.23% as of December 31, 2015 and 169.11% as of June 30, 2015. 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 June 30, 2016.

Management also continually monitors past due loans for potential credit quality deterioration. Total loans 30-89 days past due increased to \$17,158 at June 30, 2016 as compared to \$14,412 at December 31, 2015 and \$10,266 at June 30, 2015. The acquisition



Table of Contents

of First M&F contributed \$4,588 of acquired, not covered loans 30-89 days past due, while the Heritage acquisition contributed \$2,197 of acquired, not covered loans 30-89 days past due at June 30, 2016. The acquisition of Heritage contributed \$4,920 of acquired, not covered loans 30-89 days past due, while the First M&F merger contributed \$2,177 of acquired, not covered loans 30-89 days past due at December 31, 2015. The acquisition of First M&F contributed \$3,867 of acquired, not covered loans 30-89 days past due at June 30, 2015.

As shown below, restructured loans totaled \$11,607 at June 30, 2016 compared to \$13,453 at December 31, 2015 and \$22,018 at June 30, 2015. At June 30, 2016, 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:

|  | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|--|---------------|-------------------|---------------|
| Commercial, financial, agricultural                        | \$244         | \$ 257            | \$479         |
| Real estate – 1-4 family mortgage:                         |               |                   |               |
| Primary  | 4,563         | 4,309             | 4,907         |
| Home equity  | 116           | —                 | 74            |
| Rental/investment  | 1,007         | 1,455             | 1,600         |
| Land development   | 11            | 14                | —             |
| Total real estate – 1-4 family mortgage                    | 5,697         | 5,778             | 6,581         |
| Real estate – commercial mortgage:                         |               |                   |               |
| Owner-occupied   | 1,896         | 3,214             | 2,686         |
| Non-owner occupied   | 3,204         | 3,596             | 11,795        |
| Land development   | 499           | 541               | 477           |
| Total real estate – commercial mortgage                    | 5,599         | 7,351             | 14,958        |
| Installment loans to individuals                           | 67            | 67                | —             |
| Total restructured loans in compliance with modified terms | \$11,607      | \$ 13,453         | \$22,018      |

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

|                                   | 2016     | 2015     |
|-----------------------------------|----------|----------|
| Balance at January 1,             | \$13,453 | \$14,337 |
| Additional loans with concessions | 2,114    | 9,490    |
| Reductions due to:                |          |          |
| Reclassified as nonperforming     | (134 )   | (21 )    |
| Paid in full                      | (3,069 ) | (1,494 ) |
| Paydowns                          | (757 )   | (294 )   |
| Balance at June 30,               | \$11,607 | \$22,018 |

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 \$7,980 was sold during the six months ended June 30, 2016, resulting in a net loss of \$272, while other real estate owned with a cost basis of \$7,761 was sold during the six months ended June 30, 2015, resulting in a net gain of \$413. The following table provides details of the Company's other real estate owned as of the dates presented:



Table of Contents

|                               | June 30,<br>2016 | December 31,<br>2015 | June 30,<br>2015 |
|-------------------------------|------------------|----------------------|------------------|
| Residential real estate       | \$2,324          | \$ 4,265             | \$3,174          |
| Commercial real estate        | 9,653            | 11,041               | 8,737            |
| Residential land development  | 4,228            | 4,595                | 3,926            |
| Commercial land development   | 10,516           | 12,683               | 7,374            |
| Total other real estate owned | \$26,721         | \$ 32,584            | \$23,211         |

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

|   | 2016     | 2015     |
|---|----------|----------|
| Balance at January 1,                             | \$32,584 | \$28,104 |
| Transfer of balance to non-covered <sup>(1)</sup> | 1,341    | —        |
| Additions   | 2,029    | 4,233    |
| Impairments                                       | (1,272 ) | (1,342 ) |
| Dispositions                                      | (7,980 ) | (7,761 ) |
| Other   | 19       | (23 )    |
| Balance at June 30,                               | \$26,721 | \$23,211 |

Represents a transfer of balance on non-single family assets of Citizens Bank of Effingham. The claims period to (1) submit losses to the FDIC for reimbursement of non-single family assets ended February 29, 2016 for Citizens Bank of Effingham.

## 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 utilize an asset/liability model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model is used to perform both net interest income forecast simulations for multiple year horizons, and economic value of equity ("EVE") analyses, under various interest rate scenarios. Net interest income simulations measure the short and medium-term earnings exposure from changes in market interest rates 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 for a given set of market rate assumptions. An increase in EVE due to a specified rate change indicates an improvement 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.

The following table presents the projected impact of a change in interest rates on (1) static EVE and (2) earnings at risk (that is, net interest income) for the 1-12 and 13-24 month periods commencing July 1, 2016, in each case as compared to the result under rates present in the market on June 30, 2016. The changes in interest rates assume an

instantaneous and parallel shift in the yield curve and does not take into account changes in the slope of the yield curve. On account of the present position of the target federal funds rate, the Company did not present an analysis assuming a downward movement in rates.

Table of Contents

| Immediate Change in Rates of: | Percentage Change In:       |        | Earning at Risk (EAR) (Net Interest Income) |              |
|-------------------------------|-----------------------------|--------|---|--------------|
|                               | Economic Value Equity (EVE) | Static | 1-12 Months                                 | 13-24 Months |
| +400                          | 13.53%                      |        | 2.25%                                       | 8.92%        |
| +300                          | 12.27%                      |        | 2.29%                                       | 7.56%        |
| +200                          | 11.92%                      |        | 1.99%                                       | 5.76%        |
| +100                          | 10.96%                      |        | 1.34%                                       | 3.47%        |

The rate shock results for the net interest income simulations for the next twenty-four months produce a slightly asset sensitive position at June 30, 2016. The Company's interest rate risk strategy is to remain in a slightly asset sensitive position with a focus on balance sheet strategies that will result in a more asset sensitive position over time. To accomplish this strategy, the Company has focused on increasing variable rate loan production and generating deposits that are less sensitive to increases in interest rates.

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. 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 June 30, 2016, the Company had notional amounts of \$80,314 on interest rate contracts with corporate customers and \$80,314 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 in March 2014. Under these agreements, 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 \$15,000 each. The interest rate swap contracts are each 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 and will receive a variable interest rate based on the three-month LIBOR plus a pre-determined spread, 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 mortgage loans 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.

Table of Contents

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. Management continually monitors the Bank's liquidity through review of a variety of reports.

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.

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 20.25% 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 June 30, 2016, securities with a carrying value of \$717,064 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 \$718,767 similarly pledged at December 31, 2015.

Other sources available for meeting liquidity needs include federal funds purchased and short-term and long-term advances from the FHLB. Interest is charged at the prevailing market rate on federal funds purchased and FHLB advances. There were \$435,400 in overnight borrowings from the FHLB at June 30, 2016 compared to \$400,000 at December 31, 2015. Long-term 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 June 30, 2016, the balance of our outstanding long-term advances with the FHLB was \$48,122. The total amount of the remaining credit available to us from the FHLB at June 30, 2016 was \$1,603,894. 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 June 30, 2016 or December 31, 2015.

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 |          |  |  | Cost of Funds    |        |  |  |
|---|---------------------|----------|--|--|------------------|--------|--|--|
|   | Six Months Ended    |          |  |  | Six Months Ended |        |  |  |
|   | June 30, 2016       | 2015     |  |  | June 30, 2016    | 2015   |  |  |
| Noninterest-bearing demand                | 19.77 %             | 18.82 %  |  |  | — %              | — %    |  |  |
| Interest-bearing demand                   | 42.94               | 45.75    |  |  | 0.18             | 0.19   |  |  |
| Savings                                   | 7.32                | 7.31     |  |  | 0.07             | 0.08   |  |  |
| Time deposits                             | 21.94               | 24.42    |  |  | 0.71             | 0.72   |  |  |
| Short-term borrowings                     | 5.94                | 0.62     |  |  | 0.47             | 0.16   |  |  |
| Long-term Federal Home Loan Bank advances | 0.74                | 1.20     |  |  | 4.10             | 4.16   |  |  |
| Other long-term borrowings                | 1.35                | 1.88     |  |  | 5.55             | 5.39   |  |  |
| Total deposits and borrowed funds         | 100.00 %            | 100.00 % |  |  | 0.37 %           | 0.42 % |  |  |

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 five basis points for the six months ended June 30, 2016 as compared to the same period in 2015 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 \$210,808 at June 30, 2016 compared to \$154,962 at June 30, 2015. Cash used in investing activities for the six months ended June 30, 2016 was \$129,864 compared to cash used in investing activities of \$45,699 for the six months



## Table of Contents

ended June 30, 2015. Proceeds from the sale, maturity or call of securities within our investment portfolio were \$157,607 for the six months ended 2016. These proceeds from the investment portfolio were primarily used to fund loan growth or reinvested back into the security portfolio. Proceeds from the sale, maturity or call of securities within our investment portfolio during the six months ended June 30, 2015 were \$162,491. These proceeds were primarily reinvested in the investment portfolio. Purchases of investment securities were \$43,724 for the first six months of 2016 compared to \$148,832 for the same period in 2015.

Cash provided by financing activities for the six months ended June 30, 2016 and 2015 was \$135,347 and \$71,521, respectively. Deposits increased \$133,760 and \$52,026 for the six months ended June 30, 2016 and 2015, respectively. Cash provided through deposit growth was partially used to fund loan growth.

### 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 the 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 June 30, 2016, the maximum amount available for transfer from Renasant Bank to the Company in the form of loans was \$71,264. The Company maintains a line of credit collateralized by cash with Renasant Bank totaling \$3,030. There were no amounts outstanding under this line of credit at June 30, 2016. These restrictions did not have any impact on the Company's ability to meet its cash obligations in the six months ended June 30, 2016, 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 credit risk essentially the same 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.

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:

|                           | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------|------------------|----------------------|
| Loan commitments          | \$1,226,998      | \$1,131,842          |
| Standby letters of credit | 33,366           | 37,063               |

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 \$1,124,256 at June 30, 2016 compared to \$1,036,818 at December 31, 2015. Book value per share was \$26.71 and \$25.73 at June 30, 2016 and December 31, 2015, respectively. The growth in shareholders' equity was primarily attributable to earnings retention and changes in accumulated other comprehensive income offset by dividends declared.

Table of Contents

On September 15, 2015, the Company filed a shelf registration statement with the Securities and Exchange Commission (“SEC”). The shelf registration statement, which was automatically effective upon filing, allows the Company to raise capital from time to time through the sale of common stock, preferred stock, depository shares, debt securities, rights, 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 or as otherwise described in the prospectus supplement applicable to the offering 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 \$95,369 at June 30, 2016, of which \$92,181 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<br>Average Assets<br>(Leverage) | Common Equity Tier 1 to<br>Risk - Weighted Assets | Tier 1 Capital to<br>Risk – Weighted<br>Assets | Total Capital to<br>Risk – Weighted<br>Assets |
|--------------------------------|---|---|--|---|
| Well capitalized               | 5% or above                                       | 6.5% or above                                     | 8% or above                                    | 10% or above                                  |
| Adequately capitalized         | 4% or above                                       | 4.5% or above                                     | 6% or above                                    | 8% or above                                   |
| Undercapitalized               | Less than 4%                                      | Less than 4.5%                                    | Less than 6%                                   | Less than 8%                                  |
| Significantly undercapitalized | Less than 3%                                      | Less than 3%                                      | Less than 4%                                   | Less than 6%                                  |
| Critically undercapitalized    | Tangible Equity / Total Assets less than 2%       |   |  |   |

Table of Contents

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  |
| June 30, 2016                      |           |         |  |         |  |        |
| Renasant Corporation:              |           |         |  |         |  |        |
| Risk-based capital ratios:         |           |         |  |         |  |        |
| Common equity tier 1 capital ratio | \$648,272 | 10.13 % | \$415,939  | 6.50 %  | \$287,957  | 4.50 % |
| Tier 1 risk-based capital ratio    | 739,605   | 11.56 % | 511,924  | 8.00 %  | 383,943  | 6.00 % |
| Total risk-based capital ratio     | 788,027   | 12.31 % | 639,905  | 10.00 % | 511,924  | 8.00 % |
| Leverage capital ratios:           |           |         |  |         |  |        |
| Tier 1 leverage ratio              | 739,605   | 9.18 %  | 402,619  | 5.00 %  | 322,095  | 4.00 % |
| Renasant Bank:                     |           |         |  |         |  |        |
| Risk-based capital ratios:         |           |         |  |         |  |        |
| Common equity tier 1 capital ratio | \$712,637 | 11.17 % | \$414,552  | 6.50 %  | \$286,998  | 4.50 % |
| Tier 1 risk-based capital ratio    | 712,637   | 11.17 % | 510,218  | 8.00 %  | 382,663  | 6.00 % |
| Total risk-based capital ratio     | 761,059   | 11.93 % | 637,772  | 10.00 % | 510,218  | 8.00 % |
| Leverage capital ratios:           |           |         |  |         |  |        |
| Tier 1 leverage ratio              | 712,637   | 8.87 %  | 401,481  | 5.00 %  | 321,185  | 4.00 % |
| December 31, 2015                  |           |         |  |         |  |        |
| Renasant Corporation:              |           |         |  |         |  |        |
| Risk-based capital ratios:         |           |         |  |         |  |        |
| Common equity tier 1 capital ratio | \$591,356 | 9.99 %  | \$384,830  | 6.50 %  | \$266,421  | 4.50 % |
| Tier 1 risk-based capital ratio    | 681,731   | 11.51 % | 473,637  | 8.00 %  | 355,228  | 6.00 % |
| Total risk-based capital ratio     | 729,321   | 12.32 % | 592,047  | 10.00 % | 473,637  | 8.00 % |
| Leverage capital ratios:           |           |         |  |         |  |        |
| Tier 1 leverage ratio              | 681,731   | 9.16 %  | 371,968  | 5.00 %  | 297,574  | 4.00 % |
| Renasant Bank:                     |           |         |  |         |  |        |
| Risk-based capital ratios:         |           |         |  |         |  |        |
| Common equity tier 1 capital ratio | \$654,830 | 11.09 % | \$383,660  | 6.50 %  | \$265,611  | 4.50 % |
| Tier 1 risk-based capital ratio    | 654,830   | 11.09 % | 472,198  | 8.00 %  | 354,148  | 6.00 % |
| Total risk-based capital ratio     | 701,591   | 11.89 % | 590,247  | 10.00 % | 472,198  | 8.00 % |
| Leverage capital ratios:           |           |         |  |         |  |        |
| Tier 1 leverage ratio              | 654,830   | 8.82 %  | 371,183  | 5.00 %  | 296,946  | 4.00 % |

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. Generally, the new Basel III Rules became effective on January 1, 2015, although parts of the Basel III Rules will be phased in through 2019.

The Basel III Rules implemented a new common equity Tier 1 minimum capital requirement (“CET1”) and a higher minimum Tier 1 capital requirement, as reflected in the table above, and adjusted other items affecting the calculation of the numerator of a banking organization’s risk-based capital ratios. The new CET1 capital ratio includes common equity as defined under GAAP and does not include any other type of non-common equity under GAAP. 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 CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

## Table of Contents

Further, the Basel III Rules changed the agencies' general risk-based capital requirements for determining risk-weighted assets, which 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 to 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".

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

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

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

The Final Rules also introduce a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. In addition, the Final Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. It is not expected that the countercyclical capital buffer will be applicable to the Company or Renasant Bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and be phased in over a 4-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk since December 31, 2015. For additional information regarding our market risk, see our Annual Report on Form 10-K for the year ended December 31, 2015.

### 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.



Table of Contents

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, 2015. There have been no material changes in the risk factors disclosed in the 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 June 30, 2016.

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<br>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 <sup>(1)</sup> |
| (2)(ii)           | Agreement and Plan of Merger by and among Renasant Corporation, Renasant Bank, Heritage Financial Group, Inc. and HeritageBank of the South <sup>(2)</sup>                      |
| (2)(iii)          | Agreement and Plan of Merger by and among Renasant Corporation, Renasant Bank, and KeyWorth Bank dated as of October 20, 2015 <sup>(3)</sup>                                    |
| (3)(i)            | Articles of Incorporation of Renasant Corporation, as amended <sup>(4)</sup>  |
| (3)(ii)           | Restated Bylaws of Renasant Corporation, as amended <sup>(5)</sup>  |
| (4)(i)            | Articles of Incorporation of Renasant Corporation, as amended <sup>(4)</sup>  |
| (4)(ii)           | Restated Bylaws of Renasant Corporation, as amended <sup>(5)</sup>  |
| (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 June 30, 2016 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 2.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on December 15, 2014 and incorporated herein by reference.

Table of Contents

- (3) Filed as exhibit 2.1 to the Form 8-K of the Company filed with the Securities and Exchange Commission on October 23, 2015 and incorporated herein by reference.
- (4) Filed as exhibit 3.1 to the Form 10-Q of the Company filed with the Securities and Exchange Commission on May 10, 2016 and incorporated herein by reference.
- Filed as exhibit 3.2 to the Pre-Effective Amendment No. 1 to Form S-4 Registration Statement of the Company
- (5) (File No. 333-208753) filed with the Securities and Exchange Commission on January 29, 2016 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.

Table of Contents

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: August 8, 2016 /s/ E. Robinson McGraw  
E. Robinson McGraw  
Chairman of the Board, Director,  
and Chief Executive Officer  
(Principal Executive Officer)

Date: August 8, 2016 /s/ Kevin D. Chapman  
Kevin D. Chapman  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

|                   |             |
|-------------------|-------------|
| Exhibit<br>Number | Description |
|-------------------|-------------|

- |          |   |
|----------|---|
| (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 June 30, 2016 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). |