RENASANT CORP
Form 10-Q
August 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-13253

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

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

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

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

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

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

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

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

As of July 31, 2014, 31,519,641 shares of the registrant's common stock, $5.00 par value per share, were outstanding. The registrant has no other classes of securities outstanding.

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For the Quarterly Period Ended June 30, 2014
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
Renasant Corporation and Subsidiaries
Consolidated Balance Sheets

(In Thousands, Except Share Data)

	(Unaudited) June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$110,324	$87,342
Interest-bearing balances with banks	70,896	159,306
Cash and cash equivalents	181,220	246,648
Securities held to maturity (fair value of $446,267 and $408,576, respectively)	438,283	412,075
Securities available for sale, at fair value	569,048	501,254
Mortgage loans held for sale, at fair value	28,116	33,440
Loans, net of unearned income:		
Acquired and covered by FDIC loss-share agreements ("covered loans")	167,129	181,674
Acquired and non-covered by FDIC loss-share agreements ("acquired non-covered loans")	694,115	813,543
Not acquired	3,096,286	2,885,801
Total loans, net of unearned income	3,957,530	3,881,018
Allowance for loan losses	(47,304)	(47,665)
Loans, net	3,910,226	3,833,353
Premises and equipment, net	103,917	101,525
Other real estate owned:		
Covered under FDIC loss-share agreements	7,472	12,942
Not covered under FDIC loss-share agreements	34,331	39,945
Total other real estate owned, net	41,803	52,887
Goodwill	276,146	276,100
Other intangible assets, net	25,332	28,230
FDIC loss-share indemnification asset	19,863	26,273
Other assets	232,066	234,485
Total assets	$5,826,020	$5,746,270
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Noninterest-bearing	$902,766	$856,020
Interest-bearing	3,983,965	3,985,892
Total deposits	4,886,731	4,841,912
Short-term borrowings	25,505	2,283
Long-term debt	164,325	169,592
Other liabilities	61,244	66,831
Total liabilities	5,137,805	5,080,618
Shareholders' equity		
Preferred stock, $.01 par value – 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $5.00 par value – 75,000,000 shares authorized, 32,656,166 and 32,656,182 shares issued, respectfully; 31,519,641 and 31,387,668 shares outstanding,	163,281	163,281

respectively		
Treasury stock, at cost	(21,947)	(23,023)
Additional paid-in capital	343,162	342,552
Retained earnings	212,511	194,815
Accumulated other comprehensive loss, net of taxes	(8,792)	(11,973)
Total shareholders’ equity	688,215	665,652
Total liabilities and shareholders’ equity	$5,826,020	$5,746,270

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income				
Loans	$51,279	$34,565	$100,825	$68,723
Securities				
Taxable	270	3,431	4,513	6,222
Tax-exempt	6,665	1,896	8,854	3,843
Other	63	53	262	102
Total interest income	58,277	39,945	114,454	78,890
Interest expense				
Deposits	4,136	4,095	8,509	8,175
Borrowings	1,972	1,446	3,805	2,930
Total interest expense	6,108	5,541	12,314	11,105
Net interest income	52,169	34,404	102,140	67,785
Provision for loan losses	1,450	3,000	2,900	6,050
Net interest income after provision for loan losses	50,719	31,404	99,240	61,735
Noninterest income				
Service charges on deposit accounts	6,193	4,509	12,109	9,009
Fees and commissions	5,515	4,848	10,487	9,679
Insurance commissions	2,088	951	3,951	1,812
Wealth management revenue	2,170	1,715	4,314	3,439
Gains on sales of securities	—	—	—	54
BOLI income	746	635	1,477	1,365
Gains on sales of mortgage loans held for sale	2,006	3,870	3,591	7,435
Other	753	789	2,158	1,902
Total noninterest income	19,471	17,317	38,087	34,695
Noninterest expense				
Salaries and employee benefits	29,810	21,906	58,238	43,180
Data processing	2,850	2,045	5,545	4,088
Net occupancy and equipment	4,906	3,668	9,753	7,276
Other real estate owned	1,068	1,773	2,769	3,822
Professional fees	1,389	1,304	2,589	2,477
Advertising and public relations	1,888	1,246	3,416	2,736
Intangible amortization	1,427	314	2,898	637
Communications	1,701	1,135	3,383	2,262
Merger-related expenses	—	385	195	385
Other	4,357	3,958	8,255	8,471
Total noninterest expense	49,396	37,734	97,041	75,334
Income before income taxes	20,794	10,987	40,286	21,096
Income taxes	5,941	2,968	11,836	5,506
Net income	$14,853	$8,019	$28,450	$15,590
Basic earnings per share	$0.47	$0.32	$0.90	$0.62
Diluted earnings per share	$0.47	$0.32	$0.90	$0.62
Cash dividends per common share	$0.17	$0.17	$0.34	$0.34

See Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$14,853	$8,019	$28,450	$15,590
Other comprehensive income (loss), net of tax:				
Securities:				
Net change in unrealized holding gains (losses) on securities	1,206	(7,019)	3,990	(6,873)
Reclassification adjustment for losses realized in net income	—	—	—	71
Amortization of unrealized holding losses on securities transferred to the held to maturity category	(39)	(54)	(83)	(120)
Total securities	1,167	(7,073)	3,907	(6,922)
Derivative instruments:				
Net change in unrealized holding (losses) gains on derivative instruments	(396)	992	(815)	1,199
Reclassification adjustment for gains realized in net income	—	(51)	—	(104)
Totals derivative instruments	(396)	941	(815)	1,095
Defined benefit pension and post-retirement benefit plans:				
Net gain arising during the period	—	—	—	—
Less amortization of net actuarial loss recognized in net periodic pension cost	45	85	90	157
Total defined benefit pension and post-retirement benefit plans	45	85	90	157
Other comprehensive income (loss), net of tax	816	(6,047)	3,182	(5,670)
Comprehensive income	$15,669	$1,972	$31,632	$9,920

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net cash provided by operating activities	$59,408	$57,975
Investing activities		
Purchases of securities available for sale	(100,129)	(106,521)
Proceeds from sales of securities available for sale	—	9,015
Proceeds from call/maturities of securities available for sale	37,319	42,898
Purchases of securities held to maturity	(151,836)	(70,075)
Proceeds from sales of securities held to maturity	—	4,459
Proceeds from call/maturities of securities held to maturity	124,798	34,670
Net increase in loans	(82,399)	(86,810)
Purchases of premises and equipment	(5,675)	(5,908)
Net cash used in investing activities	(177,922)	(178,272)
Financing activities		
Net increase (decrease) in noninterest-bearing deposits	46,746	(7,249)
Net (decrease) increase in interest-bearing deposits	(1,927)	51,186
Net increase in short-term borrowings	23,222	37,565
Repayment of long-term debt	(5,460)	(6,401)
Cash paid for dividends	(10,753)	(8,603)
Cash received on exercise of stock-based compensation	281	239
Excess tax benefit from stock-based compensation	977	155
Net cash provided by financing activities	53,086	66,892
Net decrease in cash and cash equivalents	(65,428)	(53,405)
Cash and cash equivalents at beginning of period	246,648	132,420
Cash and cash equivalents at end of period	$181,220	$79,015
Supplemental disclosures		
Cash paid for interest	$12,481	$11,086
Cash paid for income taxes	$9,300	$9,033
Noncash transactions:		
Transfers of loans to other real estate owned	$6,029	$10,914
Financed sales of other real estate owned	$634	$2,900

See Notes to Consolidated Financial Statements.

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

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

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Obligations of other U.S. Government agencies and corporations	$125,566	$14	$(4,644)	$120,936
Obligations of states and political subdivisions	312,717	13,387	(773)	325,331
	$438,283	$13,401	$(5,417)	$446,267
December 31, 2013				
Obligations of other U.S. Government agencies and corporations	$125,061	$14	$(8,727)	$116,348
Obligations of states and political subdivisions	287,014	7,897	(2,683)	292,228
	$412,075	$7,911	$(11,410)	$408,576

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

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
June 30, 2014					
Obligations of other U.S. Government agencies and corporations	$6,132	$148	$(158	)	$6,122
Residential mortgage backed securities:					
Government agency mortgage backed securities	303,203	4,361	(1,896	)	305,668
Government agency collateralized mortgage obligations	165,265	1,571	(3,890	)	162,946
Commercial mortgage backed securities:					
Government agency mortgage backed securities	46,154	1,576	(347	)	47,383
Government agency collateralized mortgage obligations	5,256	205	—		5,461
Trust preferred securities	27,371	92	(9,154	)	18,309
Other debt securities	18,482	343	(124	)	18,701
Other equity securities	3,054	1,404	—		4,458
	$574,917	$9,700	$(15,569	)	$569,048

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

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

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

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

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

At June 30, 2014 and December 31, 2013, securities with a carrying value of $682,714 and $604,571, respectively, were pledged to secure government, public and trust deposits. Securities with a carrying value of $14,242 and $7,626 were pledged as collateral for short-term borrowings and derivative instruments at June 30, 2014 and December 31, 2013, respectively.

The amortized cost and fair value of securities at June 30, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$11,838	$11,966	$—	$—
Due after one year through five years	52,018	53,704	1,071	1,149
Due after five years through ten years	229,292	228,436	5,061	4,973
Due after ten years	145,135	152,161	27,371	18,309
Residential mortgage backed securities:				
Government agency mortgage backed securities	—	—	303,203	305,668
Government agency collateralized mortgage obligations	—	—	165,265	162,946
Commercial mortgage backed securities:				
Government agency mortgage backed securities	—	—	46,154	47,383
Government agency collateralized mortgage obligations	—	—	5,256	5,461
Other debt securities	—	—	18,482	18,701
Other equity securities	—	—	3,054	4,458
	$438,283	$446,267	$574,917	$569,048

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

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

	Less than 12 Months			12 Months or More			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Held to Maturity:									
June 30, 2014									
Obligations of other U.S. Government agencies and corporations	1	$500	$(1)	27	$117,932	$(4,643)	28	$118,432	$(4,644)
Obligations of states and political subdivisions	26	22,434	(166)	27	17,347	(607)	53	39,781	(773)
Total	27	$22,934	$(167)	54	$135,279	$(5,250)	81	158,213	$(5,417)
December 31, 2013									
Obligations of other U.S. Government agencies and corporations	26	$105,747	$(7,826)	2	$9,090	$(901)	28	$114,837	$(8,727)
Obligations of states and political subdivisions	111	59,503	(2,578)	2	933	(105)	113	60,436	(2,683)
Total	137	$165,250	$(10,404)	4	$10,023	$(1,006)	141	$175,273	$(11,410)
Available for Sale:									
June 30, 2014									
Obligations of other U.S. Government agencies and corporations	0	$—	$—	1	$3,842	$(158)	1	$3,842	$(158)
Residential mortgage backed securities:									
Government agency mortgage backed securities	10	48,735	(91)	19	71,908	(1,805)	29	120,643	(1,896)
Government agency collateralized mortgage obligations	7	32,408	(371)	18	70,050	(3,519)	25	102,458	(3,890)
Commercial mortgage backed securities:									
Government agency mortgage backed securities	1	5,275	(26)	3	10,538	(321)	4	15,813	(347)
		—	—		—	—	0	—	—

Government agency collateralized mortgage obligations									
Trust preferred securities		—	—	3	17,102	(9,154)	3	17,102	(9,154)
Other debt securities		—	—	2	4,424	(124)	2	4,424	(124)
Total	18	$86,418	$(488)	46	$177,864	$(15,081)	64	$264,282	$(15,569)
December 31, 2013									
Obligations of other U.S. Government agencies and corporations	1	$3,799	$(201)	0	$—	$—	1	$3,799	$(201)
Residential mortgage backed securities:									
Government agency mortgage backed securities	32	134,858	(3,451)	3	13,239	(963)	35	148,097	(4,414)
Government agency collateralized mortgage obligations	17	68,496	(3,468)	4	16,750	(1,211)	21	85,246	(4,679)
Commercial mortgage backed securities:									
Government agency mortgage backed securities	4	16,570	(584)	0	—	—	4	16,570	(584)
Government agency collateralized mortgage obligations	0	—	—	0	—	—	0	—	—
Trust preferred securities	0	—	—	3	16,456	(9,933)	3	16,456	(9,933)
Other debt securities	3	7,100	(217)	1	1,897	(13)	4	8,997	(230)
Other equity securities	0	—	—	0	—	—	0	—	—
Total	57	$230,823	$(7,921)	11	$48,342	$(12,120)	68	$279,165	$(20,041)

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

The Company holds investments in pooled trust preferred securities that had an amortized cost basis of $27,371 and $27,531 and a fair value of $18,309 and $17,671, at June 30, 2014 and December 31, 2013, respectively. The investments in pooled trust preferred securities consist of four securities representing interests in various tranches of trusts collateralized by debt issued by over 320 financial institutions. Management’s determination of the fair value of each of its holdings in pooled trust preferred securities is based on the current credit ratings, the known deferrals and defaults by the underlying issuing financial institutions and the degree to which future deferrals and defaults would be required to occur before the cash flow for the Company’s tranches is negatively impacted. In addition, management continually monitors key credit quality and capital ratios of the issuing institutions. This determination is further supported by quarterly valuations, which are performed by third parties, of each security obtained by the Company. The Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of the investments’ amortized cost, which may be maturity. At June 30, 2014, management did not, and does not currently, believe such securities will be settled at a price less than the amortized cost of the investment, but the Company previously concluded that it was probable that there had been an adverse change in estimated cash flows for all four trust preferred securities and recognized credit related impairment losses on these securities in 2010 and 2011. No additional impairment was recognized during the three or six months ended June 30, 2014.

The Company's analysis of the pooled trust preferred securities during the current quarter supported a return to accrual status for two of the four securities (XIII and XXIII.) An observed history of interest payments combined with improved qualitative and quantitative factors described above justifies the accrual of interest on these securities going forward. However, the remaining two securities (XXIV and XXVI) are still in "payment in kind" status where interest payments are not expected until a future date, and the Company's analysis of the qualitative and quantitative factors described above did not justify a return to accrual status. As such, pooled trust preferred securities XXIV and XXVI were classified as nonaccruing assets at June 30, 2014, and investment interest is recorded on the cash-basis method until qualifying for return to accrual status.

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

Name	Single/ Pooled	Class/ Tranche	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Rating	Issuers Currently in Deferral or Default
XIII	Pooled	B-2	$1,115	$1,207	$92	Caa3	23 %
XXIII	Pooled	B-2	8,750	5,431	(3,319)	B1	19 %
XXIV	Pooled	B-2	12,076	7,889	(4,187)	Ca	32 %
XXVI	Pooled	B-2	5,430	3,782	(1,648)	Ca	30 %
			$27,371	$18,309	$(9,062)		

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

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

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

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

	June 30, 2014	December 31, 2013
Commercial, financial, agricultural	$447,826	$468,963
Lease financing	1,814	53
Real estate – construction	176,577	161,436
Real estate – 1-4 family mortgage	1,221,288	1,208,233
Real estate – commercial mortgage	2,015,319	1,950,572
Installment loans to individuals	94,753	91,762
Gross loans	3,957,577	3,881,019
Unearned income	(47)	(1)
Loans, net of unearned income	3,957,530	3,881,018
Allowance for loan losses	(47,304)	(47,665)
Net loans	$3,910,226	$3,833,353

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

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

	Accruing Loans				Nonaccruing Loans				
	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	30-89 Days Past Due	90 Days or More Past Due	Current Loans	Total Loans	Total Loans
June 30, 2014									
Commercial, financial, agricultural	$630	$972	$443,663	$445,265	$137	$1,139	$1,285	$2,561	$447,826
Lease financing	—	—	1,814	1,814	—	—	—	—	1,814
Real estate – construction	713	11	174,205	174,929	—	1,648	—	1,648	176,577
Real estate – 1-4 family mortgage	9,437	5,047	1,193,582	1,208,066	336	7,306	5,580	13,222	1,221,288
Real estate – commercial mortgage	10,581	2,603	1,955,117	1,968,301	1,785	35,136	10,097	47,018	2,015,319
Installment loans to individuals	279	39	94,318	94,636	—	102	15	117	94,753
Unearned income	—	—	(47)	(47)	—	—	—	—	(47)
Total	$21,640	$8,672	$3,862,652	$3,892,964	$2,258	$45,331	$16,977	$64,566	$3,957,530
December 31, 2013									
Commercial, financial, agricultural	$2,067	$607	$463,521	$466,195	$138	$1,959	$671	$2,768	$468,963
Lease financing	—	—	53	53	—	—	—	—	53
Real estate – construction	664	—	159,124	159,788	—	1,648	—	1,648	161,436
Real estate – 1-4 family mortgage	10,168	2,206	1,179,703	1,192,077	1,203	6,041	8,912	16,156	1,208,233
Real estate – commercial mortgage	8,870	1,286	1,888,745	1,898,901	966	37,439	13,266	51,671	1,950,572
Installment loans to individuals	706	88	90,880	91,674	—	80	8	88	91,762
Unearned income	—	—	(1)	(1)	—	—	—	—	(1)
Total	$22,475	$4,187	$3,782,025	$3,808,687	$2,307	$47,167	$22,857	$72,331	$3,881,018

Restructured loans contractually 90 days past due or more totaled $0 at December 31, 2013. This balance increased to $110 in restructured loans contractually 90 days past due or more at June 30, 2014. The outstanding balance of restructured loans on nonaccrual status was $8,280 and $10,078 at June 30, 2014 and December 31, 2013, respectively.

Impaired Loans

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

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

	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With No Allowance	Total Recorded Investment	Related Allowance
June 30, 2014					
Commercial, financial, agricultural	$6,933	$701	$2,648	$3,349	$248
Real estate – construction	2,832	—	1,877	1,877	—
Real estate – 1-4 family mortgage	28,062	15,270	3,989	19,259	3,009
Real estate – commercial mortgage	122,322	42,531	40,934	83,465	11,726
Installment loans to individuals	—	—	—	—	—
Total	$160,149	$58,502	$49,448	$107,950	$14,983
December 31, 2013					
Commercial, financial, agricultural	$6,575	$743	$2,043	$2,786	$260
Real estate – construction	2,447	—	1,648	1,648	—
Real estate – 1-4 family mortgage	42,868	25,374	8,542	33,916	7,353
Real estate – commercial mortgage	108,963	30,624	38,517	69,141	7,036
Installment loans to individuals	620	183	77	260	1
Totals	$161,473	$56,924	$50,827	$107,751	$14,650

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

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized(1)
Commercial, financial, agricultural	$5,279	$—	$5,601	$—
Real estate – construction	2,034	—	1,650	—
Real estate – 1-4 family mortgage	21,747	170	34,732	108
Real estate – commercial mortgage	93,402	752	69,168	123
Installment loans to individuals	—	—	—	—
Total	$122,462	$922	$111,151	$231

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

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized(1)

Commercial, financial, agricultural	$5,382	$—	$5,551	$—
Real estate – construction	2,036	2	1,650	—
Real estate – 1-4 family mortgage	22,122	204	34,874	291
Real estate – commercial mortgage	94,641	816	69,579	466
Installment loans to individuals	—	—	—	—
Total	$124,181	$1,022	$111,654	$757

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

Restructured Loans

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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2014			
Commercial, financial, agricultural	—	$—	$—
Real estate – construction	—	—	—
Real estate – 1-4 family mortgage	19	15,768	5,884
Real estate – commercial mortgage	18	17,112	14,955
Installment loans to individuals	—	—	—
Total	37	$32,880	$20,839
December 31, 2013			
Commercial, financial, agricultural	1	$20	$19
Real estate – construction	—	—	—
Real estate – 1-4 family mortgage	23	19,371	10,354
Real estate – commercial mortgage	16	12,785	10,934
Installment loans to individuals	1	182	171
Total	41	$32,358	$21,478

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

	Number of Loans	Recorded Investment
Totals at January 1, 2014	41	$21,478
Additional loans with concessions	1	1,289
Reductions due to:		
Reclassified as nonperforming	(1)	(331)
Paid in full	(4)	(335)
Charge-offs	—	—
Transfer to other real estate owned	—	—
Principal paydowns		(1,259)
Lapse of concession period	—	—
Totals at June 30, 2014	37	$20,842

The allocated allowance for loan losses attributable to restructured loans was $3,122 and $2,984 at June 30, 2014 and December 31, 2013, respectively. The Company had $0 and $93 in remaining availability under commitments to lend additional funds on these restructured loans at June 30, 2014 and December 31, 2013, respectively.

Credit Quality

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

	Pass	Watch	Substandard	Total
June 30, 2014				
Commercial, financial, agricultural	$319,948	$4,500	$1,447	$325,895
Real estate – construction	123,503	1,141	—	124,644
Real estate – 1-4 family mortgage	130,837	10,329	10,067	151,233
Real estate – commercial mortgage	1,414,585	29,749	48,178	1,492,512
Installment loans to individuals	1,677	—	—	1,677
Total	$1,990,550	$45,719	$59,692	$2,095,961
December 31, 2013				
Commercial, financial, agricultural	$328,959	$10,588	$4,266	$343,813
Real estate – construction	114,428	588	—	115,016
Real estate – 1-4 family mortgage	126,916	13,864	23,370	164,150
Real estate – commercial mortgage	1,338,340	32,892	35,121	1,406,353
Installment loans to individuals	19	—	—	19
Total	$1,908,662	$57,932	$62,757	$2,029,351

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

	Performing	Non-Performing	Total
June 30, 2014			
Commercial, financial, agricultural	$93,449	$133	$93,582
Lease financing	1,767	—	1,767
Real estate – construction	50,045	11	50,056
Real estate – 1-4 family mortgage	973,910	3,935	977,845
Real estate – commercial mortgage	249,378	436	249,814
Installment loans to individuals	87,439	81	87,520
Total	$1,455,988	$4,596	$1,460,584
December 31, 2013			
Commercial, financial, agricultural	$89,490	$176	$89,666
Lease financing	53	—	53
Real estate – construction	43,535	—	43,535
Real estate – 1-4 family mortgage	938,994	2,527	941,521
Real estate – commercial mortgage	242,363	666	243,029
Installment loans to individuals	84,855	79	84,934
Total	$1,399,290	$3,448	$1,402,738

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

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
June 30, 2014				
Commercial, financial, agricultural	$—	$7,677	$20,672	$28,349
Lease financing	—	—	—	—
Real estate – construction	—	1,648	229	1,877
Real estate – 1-4 family mortgage	1,255	48,361	42,594	92,210
Real estate – commercial mortgage	19,044	89,122	164,827	272,993
Installment loans to individuals	—	22	5,534	5,556
Total	$20,299	$146,830	$233,856	$400,985
December 31, 2013				
Commercial, financial, agricultural	$—	$9,546	$25,938	$35,484
Lease financing	—	—	—	—
Real estate – construction	—	1,648	1,237	2,885
Real estate – 1-4 family mortgage	835	53,631	48,096	102,562
Real estate – commercial mortgage	23,684	92,302	185,204	301,190

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

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

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

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
Contractually-required principal and interest	$57,279	$183,328	$317,561	$558,168
Nonaccretable difference[1]	(36,979)	(33,251)	(50,579)	(120,809)
Cash flows expected to be collected	20,300	150,077	266,982	437,359
Accretable yield[2]	(1)	(3,247)	(33,126)	(36,374)
Fair value	$20,299	$146,830	$233,856	$400,985

(1) Represents contractual principal and interest cash flows of $112,523 and $8,286, respectively, not expected to be collected.
(2) Represents contractual interest payments of $3,387 expected to be collected and purchase discount of $32,987.

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

	Impaired Covered Loans	Other Covered Loans	Not Covered Loans	Total
Balance at January 1, 2014	$(1)	$(3,758)	$(36,191)	$(39,950)
Reclasses from nonaccretable difference	(50)	(3,389)	(355)	(3,794)
Accretion	50	3,900	3,420	7,370
Balance at June 30, 2014	$(1)	$(3,247)	$(33,126)	$(36,374)

Allowance for Loan Losses

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

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

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[1]	Total
Three Months Ended June 30, 2014						
Allowance for loan losses:						
Beginning balance	$ 3,128	$ 1,109	$ 18,478	$ 24,147	$ 1,186	$ 48,048
Charge-offs	—	—	(1,985)	(483)	(61)	(2,529)
Recoveries	75	3	206	28	23	335
Net (charge-offs) recoveries	75	3	(1,779)	(455)	(38)	(2,194)
Provision for loan losses	(95)	154	(5,187)	7,522	57	2,451
Benefit attributable to FDIC loss-share agreements	—	—	(66)	(1,476)	—	(1,542)
Recoveries payable to FDIC	156	1	351	33	—	541
Provision for loan losses charged to operations	61	155	(4,902)	6,079	57	1,450
Ending balance	$ 3,264	$ 1,267	$ 11,797	$ 29,771	$ 1,205	$ 47,304
Six Months Ended June 30, 2014						
Allowance for loan losses:						
Beginning balance	$ 3,090	$ 1,091	$ 18,629	$ 23,688	$ 1,167	$ 47,665
Charge-offs	(119)	—	(2,872)	(543)	(292)	(3,826)
Recoveries	112	8	357	58	30	565
Net (charge-offs) recoveries	(7)	8	(2,515)	(485)	(262)	(3,261)
Provision for loan losses	88	167	(4,691)	8,002	300	3,866
Benefit attributable to FDIC loss-share agreements	(68)	—	(135)	(1,471)	—	(1,674)
Recoveries payable to FDIC	161	1	509	37	—	708
Provision for loan losses charged to operations	181	168	(4,317)	6,568	300	2,900
Ending balance	$ 3,264	$ 1,267	$ 11,797	$ 29,771	$ 1,205	$ 47,304
Period-End Amount Allocated to:						
Individually evaluated for impairment	$ 245	$ —	$ 2,062	$ 8,584	$—	$ 10,891
Collectively evaluated for impairment	3,019	1,267	9,735	21,187	1,205	36,413
Acquired with deteriorated credit quality	—	—	—	—	—	—
Ending balance	$ 3,264	$ 1,267	$ 11,797	$ 29,771	$ 1,205	$ 47,304

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	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[(1)]	Total
Three Months Ended June 30, 2013						
Allowance for loan losses:						
Beginning balance	$2,942	$676	$19,737	$22,096	$1,054	$46,505
Charge-offs	(46)	—	(652)	(2,527)	(288)	(3,513)
Recoveries	90	47	132	756	17	1,042
Net (charge-offs) recoveries	44	47	(520)	(1,771)	(271)	(2,471)
Provision for loan losses	563	140	521	1,962	239	3,425
Benefit attributable to FDIC loss-share agreements	(83)	—	(369)	(50)	—	(502)
Recoveries payable to FDIC	12	—	63	2	—	77
Provision for loan losses charged to operations	492	140	215	1,914	239	3,000
Ending balance	$3,478	$863	$19,432	$22,239	$1,022	$47,034
Six Months Ended June 30, 2013						
Allowance for loan losses:						
Beginning balance	$3,307	$711	$18,347	$21,416	$566	$44,347
Charge-offs	(280)	—	(1,266)	(3,120)	(352)	(5,018)
Recoveries	247	63	471	847	27	1,655
Net (charge-offs) recoveries	(33)	63	(795)	(2,273)	(325)	(3,363)
Provision for loan losses	510	88	1,718	3,787	781	6,884
Benefit attributable to FDIC loss-share agreements	(330)	—	(630)	(711)	—	(1,671)
Recoveries payable to FDIC	24	1	792	20	—	837
Provision for loan losses charged to operations	204	89	1,880	3,096	781	6,050
Ending balance	$3,478	$863	$19,432	$22,239	$1,022	$47,034
Period-End Amount Allocated to:						
Individually evaluated for impairment	$834	$—	$7,843	$7,267	$—	$15,944
Collectively evaluated for impairment	2,644	863	11,589	14,972	1,022	31,090
Acquired with deteriorated credit quality	—	—	—	—	—	—
Ending balance	$3,478	$863	$19,432	$22,239	$1,022	$47,034

(1) Includes lease financing receivables.

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

	Commercial	Real Estate - Construction	Real Estate - 1-4 Family Mortgage	Real Estate - Commercial Mortgage	Installment and Other[1]	Total
June 30, 2014						
Individually evaluated for impairment	$701	$—	$15,270	$42,531	$—	$58,502
Collectively evaluated for impairment	418,776	174,700	1,113,808	1,699,795	90,964	3,498,043
Acquired with deteriorated credit quality	28,349	1,877	92,210	272,993	5,556	400,985
Ending balance	$447,826	$176,577	$1,221,288	$2,015,319	$96,520	$3,957,530
December 31, 2013						
Individually evaluated for impairment	$743	$—	$25,374	$30,624	$183	$56,924
Collectively evaluated for impairment	432,736	158,551	1,080,297	1,618,758	84,822	3,375,164
Acquired with deteriorated credit quality	35,484	2,885	102,562	301,190	6,809	448,930
Ending balance	$468,963	$161,436	$1,208,233	$1,950,572	$91,814	$3,881,018

(1) Includes lease financing receivables.

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

	Covered OREO	Not Covered OREO	Total OREO
June 30, 2014			
Residential real estate	$1,286	$6,507	$7,793
Commercial real estate	2,182	8,557	10,739
Residential land development	625	8,563	9,188
Commercial land development	3,379	10,704	14,083
Total	$7,472	$34,331	$41,803
December 31, 2013			
Residential real estate	$2,133	$6,767	$8,900
Commercial real estate	3,598	8,984	12,582
Residential land development	1,161	12,334	13,495
Commercial land development	6,050	11,860	17,910
Other	—	—	—
Total	$12,942	$39,945	$52,887

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

	Covered OREO	Not Covered OREO	Total OREO
Balance at January 1, 2014	$12,942	$39,945	$52,887
Transfers of loans	3,363	2,666	6,029
Capitalized improvements	—	—	—
Impairments[(1)]	(1,950)	(656)	(2,606)
Dispositions	(6,589)	(7,753)	(14,342)
Other	(294)	129	(165)
Balance at June 30, 2014	$7,472	$34,331	$41,803

(1) Of the total impairment charges of $1,950 recorded for covered OREO, $390 was included in the Consolidated Statements of Income for the six months ended June 30, 2014, while the remaining $1,560 increased the FDIC loss-share indemnification asset.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Repairs and maintenance	$756	$555	$1,537	$908
Property taxes and insurance	56	304	297	657
Impairments	207	1,249	1,045	2,235
Net losses (gains) on OREO sales	102	(252)	(12)	218
Rental income	(53)	(83)	(98)	(196)
Total	$1,068	$1,773	$2,769	$3,822

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

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

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

Balance at January 1, 2014	$26,273
Changes in expected cash flows from initial estimates on:	
Covered Loans	(2,904)
Covered OREO	662
Reimbursable expenses	592
Accretion	—
Reimbursements received from the FDIC	(4,760)
Balance at June 30, 2014	$19,863

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

Balance at January 1, 2014	$8,994
Capitalization	1,875
Amortization	(589)
Balance at June 30, 2014	$10,280

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

Unpaid principal balance	$1,029,444
Weighted-average prepayment speed (CPR)	5.36%
Estimated impact of a 10% increase	$(931)
Estimated impact of a 20% increase	(1,236)
Discount rate	11.26%
Estimated impact of a 10% increase	$(959)
Estimated impact of a 20% increase	(1,286)
Weighted-average coupon interest rate	3.77%

Weighted-average servicing fee (basis points)	25.09
Weighted-average remaining maturity (in years)	24.33

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

	Pension Benefits Three Months Ended June 30,		Other Benefits Three Months Ended June 30,	
	2014	2013	2014	2013
Service cost	$—	$—	$6	$6
Interest cost	318	187	23	15
Expected return on plan assets	(539)	(309)	—	—
Prior service cost recognized	—	—	—	—
Recognized actuarial loss	46	102	27	36
Net periodic benefit cost (return)	$(175)	$(20)	$56	$57

	Pension Benefits Six Months Ended June 30,		Other Benefits Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	$—	$—	$12	$13
Interest cost	636	375	46	27
Expected return on plan assets	(1,078)	(620)	—	—
Prior service cost recognized	—	—	—	—
Recognized actuarial loss	91	199	54	55
Net periodic benefit cost (return)	$(351)	$(46)	$112	$95

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

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

In connection with its merger with First M&F during the third quarter of 2013, the Company assumed First M&F's 2005 Equity Incentive Plan and Stock Option Plan, under which options to purchase an aggregate of 11,557 shares of the Company's common stock were outstanding as of the date of assumption. The assumed options had a weighted average exercise price of $21.16 and a weighted average remaining contractual life of 2.05 years at the date of assumption. The fair value of the stock options assumed on the date of assumption was $68 and was estimated using the Black-Scholes option-pricing model. No additional options or other forms of equity incentives will be granted or awarded under these plans. At June 30, 2014, there were 6,934 remaining shares of the Company's common stock outstanding related to the First M&F Equity Incentive Plan and Stock Option Plan. The remaining options have a weighted average exercise price of $24.61 and a weighted average remaining contractual life of 1.24 years.

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

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	1,060,350	$18.64
Assumed from acquisition	—	—
Granted	—	—
Exercised	(144,105)	17.01
Forfeited	(1,000)	16.91
Options outstanding at end of period	915,245	$18.90

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

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

During the six months ended June 30, 2014, the Company reissued 131,973 shares from treasury in connection with the exercise of stock options and award of restricted stock. The Company recorded total stock-based compensation expense of $951 and $477 for the three months ended June 30, 2014 and 2013, respectively, and $1,822 and $955 for the six months ended June 30, 2014 and 2013, respectively.

Note H – Segment Reporting
(In Thousands)

The operations of the Company's reportable segments are described as follows:

- The Community Banks segment delivers a complete range of banking and financial services to individuals and small to medium-sized businesses including checking and savings accounts, business and personal loans, equipment leasing, as well as safe deposit and night depository facilities.

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- The Insurance segment includes a full service insurance agency offering all major lines of commercial and personal insurance through major carriers.
- The Wealth Management segment offers a broad range of fiduciary services which includes the administration and management of trust accounts including personal and corporate benefit accounts, self-directed IRA’s, and custodial accounts. In addition, the Wealth Management segment offers annuities, mutual funds and other investment services through a third party broker-dealer.

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

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The following table provides financial information for the Company’s operating segments for the periods presented:

	Community Banks	Insurance	Wealth Management	Other	Consolidated
Three months ended June 30, 2014					
Net interest income	52,744	49	320	(944)	52,169
Provision for loan losses	1,501	—	(51)	—	1,450
Noninterest income	15,129	2,138	2,181	23	19,471
Noninterest expense	45,530	1,684	1,999	183	49,396
Income (loss) before income taxes	20,842	503	553	(1,104)	20,794
Income taxes	6,168	202	—	(429)	5,941
Net income (loss)	14,674	301	553	(675)	14,853
Total assets	$5,744,942	$17,864	$46,259	$16,955	$5,826,020
Goodwill	273,379	2,767	—	—	276,146
Three months ended June 30, 2013					
Net interest income	$34,251	$24	$324	$(195)	$34,404
Provision for loan losses	2,990	—	10	—	3,000
Noninterest income	14,658	973	1,681	5	17,317
Noninterest expense	34,921	813	1,736	264	37,734
Income (loss) before income taxes	10,998	184	259	(454)	10,987
Income taxes	3,079	71	—	(182)	2,968
Net income (loss)	$7,919	$113	$259	$(272)	$8,019
Total assets	$4,183,079	$10,460	$42,886	$12,856	$4,249,281
Goodwill	181,996	2,783	—	—	184,779

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	Community Banks	Insurance	Wealth Management	Other	Consolidated
Six months ended June 30, 2014					
Net interest income	103,380	112	631	(1,983)	102,140
Provision for loan losses	2,890	—	10	—	2,900
Noninterest income	29,212	4,531	4,297	47	38,087
Noninterest expense	89,655	3,158	3,867	361	97,041
Income (loss) before income taxes	40,047	1,485	1,051	(2,297)	40,286
Income taxes	12,146	582	—	(892)	11,836
Net income (loss)	27,901	903	1,051	(1,405)	28,450
Total assets	$5,744,942	$17,864	$46,259	$16,955	$5,826,020
Goodwill	273,379	2,767	—	—	276,146
Six months ended June 30, 2013					
Net interest income	$67,928	$47	$619	$(809)	$67,785
Provision for loan losses	5,907	—	143	—	6,050
Noninterest income	29,201	2,006	3,462	26	34,695
Noninterest expense	70,023	1,626	3,317	368	75,334
Income (loss) before income taxes	21,199	427	621	(1,151)	21,096
Income taxes	5,802	165	—	(461)	5,506
Net income (loss)	$15,397	$262	$621	$(690)	$15,590
Total assets	$4,183,079	$10,460	$42,886	$12,856	$4,249,281
Goodwill	181,996	2,783	—	—	184,779

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

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

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

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

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

	Level 1	Level 2	Level 3	Totals
June 30, 2014				
Financial assets:				
Securities available for sale:				
Obligations of other U.S. Government agencies and corporations	$—	$6,122	$—	$6,122
Residential mortgage-backed securities:				
Government agency mortgage backed securities	—	305,668	—	305,668
Government agency collateralized mortgage obligations	—	162,946	—	162,946
Commercial mortgage-backed securities:				
Government agency mortgage backed securities	—	47,383	—	47,383
Government agency collateralized mortgage obligations	—	5,461	—	5,461
Trust preferred securities	—	—	18,309	18,309
Other debt securities	—	18,701	—	18,701
Other equity securities	—	4,458	—	4,458
Total securities available for sale	—	550,739	18,309	569,048
Derivative instruments:				
Interest rate swaps	—	—	—	—
Interest rate contracts	—	1,285	—	1,285
Interest rate lock commitments	—	1,887	—	1,887
Forward contracts	—	—	—	—
Total derivative instruments	—	3,172	—	3,172
Mortgage loans held for sale	—	28,116	—	28,116
Total financial assets	$—	$582,027	$18,309	$600,336
Financial liabilities:				
Derivative instruments:				
Interest rate swaps	$—	$2,838	$—	$2,838
Interest rate contracts	—	1,285	—	1,285
Interest rate lock commitments	—	—	—	—
Forward commitments	—	624	—	624
Total derivative instruments	—	4,747	—	4,747
Total financial liabilities	$—	$4,747	$—	$4,747

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

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

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

	Securities available for sale		
Three Months Ended June 30, 2014	Trust preferred securities	Other equity securities	Total
Balance at April 1, 2014	$19,378	$—	$19,378
Realized gains included in net income	16	—	16
Unrealized gains included in other comprehensive income	(926)	—	(926)
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(159)	—	(159)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at June 30, 2014	$18,309	$—	$18,309

	Securities available for sale		
Three Months Ended June 30, 2013	Trust preferred securities	Other equity securities	Total
Balance at April 1, 2013	$16,162	$—	$16,162
Realized gains included in net income	—	—	—
Unrealized gains included in other comprehensive income	(84)	—	(84)
Reclassification adjustment	—	—	—
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(118)	—	(118)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at June 30, 2013	$15,960	$—	$15,960

	Securities available for sale		
Six Months Ended June 30, 2014	Trust preferred securities	Other equity securities	Total
Balance at January 1, 2014	$17,671	$—	$17,671
Realized gains included in net income	16	—	16
Unrealized gains included in other comprehensive income	798	—	798
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	(176)	—	(176)
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance at June 30, 2014	$18,309	$—	$18,309

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Six Months Ended June 30, 2013	Securities available for sale Trust preferred securities	Other equity securities	Total
Balance at January 1, 2013	$15,068	$—	$15,068
Realized gains included in net income	—	—	—
Unrealized gains included in other comprehensive income	1,794	—	1,794
Reclassification adjustment	—	—	—
Purchases	—	—	—
Sales	—	—	—
Issues	—	—	—
Settlements	—	—	—
Transfers into Level 3	(902)	—	(902)
Transfers out of Level 3	—	—	—
Balance at June 30, 2013	$15,960	$—	$15,960

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

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Trust preferred securities	$18,309	Discounted cash flows	Default rate	0-100%

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

June 30, 2014	Level 1	Level 2	Level 3	Totals
Impaired loans	$—	$—	$9,646	$9,646
OREO	—	—	6,128	6,128
Total	$—	$—	$15,774	$15,774

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

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

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Impaired loans: Loans considered impaired are reserved for at the time the loan is identified as impaired taking into account the fair value of the collateral less estimated selling costs. Collateral may be real estate and/or business assets including but not limited to equipment, inventory and accounts receivable. The fair value of real estate is determined based on appraisals by qualified licensed appraisers. The fair value of the business assets is generally based on amounts reported on the business's financial statements. Appraised and reported values may be adjusted based on changes in market conditions from the time of valuation and management's knowledge of the client and the client's business. Since not all valuation inputs are observable, these nonrecurring fair value determinations are classified as Level 3. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors previously identified. Impaired loans covered under loss-share agreements were recorded at their fair value upon the acquisition date, and no fair value adjustments were necessary for the three or six months ended June 30, 2014 and 2013, respectively. Impaired loans not covered under loss-share agreements that were measured or re-measured at fair value had a carrying value of $12,751 and $12,998 at June 30, 2014 and December 31, 2013, respectively, and a specific reserve for these loans of $3,105 and $1,098 was included in the allowance for loan losses for the periods ended on such respective dates.
Other real estate owned: OREO is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. OREO covered under loss-share agreements is recorded at its fair value on its acquisition date. OREO not covered under loss-share agreements acquired in settlement of indebtedness is recorded at the fair value of the real estate less estimated costs to sell. Subsequently, it may be necessary to record nonrecurring fair value adjustments for declines in fair value. Fair value, when recorded, is determined based on appraisals by qualified licensed appraisers and adjusted for management's estimates of costs to sell. Accordingly, values for OREO are classified as Level 3.
The following table presents OREO measured at fair value on a nonrecurring basis that was still held in the Consolidated Balance Sheets as of the dates presented:

	June 30, 2014	December 31, 2013
OREO covered under loss-share agreements:		
Carrying amount prior to remeasurement	$4,074	$13,067
Impairment recognized in results of operations	(274)	(707)
Increase in FDIC loss-share indemnification asset	(1,096)	(2,829)
Receivable from other guarantor	(64)	(768)
Fair value	$2,640	$8,763
OREO not covered under loss-share agreements:		
Carrying amount prior to remeasurement	$4,128	$30,436
Impairment recognized in results of operations	(640)	(2,893)
Fair value	$3,488	$27,543

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

Financial instrument	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Impaired loans	$9,646	Appraised value of collateral less estimated costs to sell	Estimated costs to sell	4-10%
OREO	6,128	Appraised value of property less estimated costs to sell	Estimated costs to sell	4-10%

Fair Value Option

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

Net gains of $75 and $11 resulting from fair value changes of these mortgage loans were recorded in income during the three and six months ended June 30, 2014, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both mortgage loans held for sale and the related derivative instruments are recorded in "Gains on sales of mortgage loans held for sale" in the Consolidated Statements of Income.
The Company's valuation of mortgage loans held for sale incorporates an assumption for credit risk; however, given the short-term period that the Company holds these loans, valuation adjustments attributable to instrument-specific credit risk is nominal. Interest income on mortgage loans held for sale measured at fair value is accrued as it is earned based on contractual rates and is reflected in loan interest income on the Consolidated Statements of Income.
The following table summarizes the differences between the fair value and the principal balance for mortgage loans held for sale measured at fair value as of:

June 30, 2014	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Difference
Mortgage loans held for sale measured at fair value	$28,116	$27,882	$234
Past due loans of 90 days or more	—	—	—
Nonaccrual loans	—	—	—

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

		Fair Value			
As of June 30, 2014	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$181,220	$181,220	$—	$—	$181,220
Securities held to maturity	438,283	—	446,267	—	446,267
Securities available for sale	569,048	—	550,739	18,309	569,048
Mortgage loans held for sale	28,116	—	28,116	—	28,116
Loans covered under loss-share agreements	167,129	—	—	161,558	161,558
Loans not covered under loss-share agreements, net	3,743,097	—	—	3,703,082	3,703,082
FDIC loss-share indemnification asset	19,863	—	—	19,863	19,863
Mortgage servicing rights	10,280	—	—	11,159	11,159
Derivative instruments	3,172	—	3,172	—	3,172
Financial liabilities					
Deposits	$4,886,731	$3,470,306	$1,421,756	$—	$4,892,062
Short-term borrowings	25,505	25,505	—	—	25,505
Federal Home Loan Bank advances	69,944	—	95,588	—	95,588
Junior subordinated debentures	94,381	—	80,662	—	80,662
Derivative instruments	4,781	—	4,781	—	4,781

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		Fair Value			
As of December 31, 2013	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$246,648	$246,648	$—	$—	$246,648
Securities held to maturity	412,075	—	408,567	—	408,567
Securities available for sale	501,254	—	483,583	17,671	501,254
Mortgage loans held for sale	33,440	—	33,440	—	33,440
Loans covered under loss-share agreements	181,674	—	—	182,244	182,244
Loans not covered under loss-share agreements, net	3,651,679	—	—	3,590,446	3,590,446
FDIC loss-share indemnification asset	26,273	—	—	26,273	26,273
Mortgage servicing rights	8,994	—	—	9,840	9,840
Derivative instruments	2,818	—	2,818	—	2,818
Financial liabilities					
Deposits	$4,841,912	$3,327,688	$1,520,667	$—	$4,848,355
Short-term borrowings	228	2,283	—	—	2,283
Federal Home Loan Bank advances	75,405	—	80,989	—	80,989
Junior subordinated debentures	94,187	—	78,301	—	78,301
Derivative instruments	3,096	—	3,096	—	3,096

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

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

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Mortgage servicing rights: The Company retains the right to service certain mortgage loans that it sells to secondary market investors. These servicing rights are carried at the lower of amortized cost or fair value. Fair value is determined using an income approach with various assumptions including expected cash flows, market discount rates, prepayment speeds, servicing costs, and other factors. Because these factors are not all observable and include management's assumptions, mortgage servicing rights are classified within Level 3 of the fair value hierarchy. Mortgage servicing rights were carried at amortized cost at June 30, 2014 and December 31, 2013, and no impairment charges were recognized in earnings for the three or six months ended June 30, 2014 and 2013, respectively.
Deposits: The fair values disclosed for demand deposits, both interest-bearing and noninterest-bearing, are, by definition, equal to the amount payable on demand at the reporting date. Such deposits are classified within Level 1 of the fair value hierarchy. The fair values of certificates of deposit and individual retirement accounts are estimated using a discounted cash flow based on currently effective interest rates for similar types of deposits. These deposits are classified within Level 2 of the fair value hierarchy.
Short-term borrowings: Short-term borrowings consist of securities sold under agreements to repurchase and federal funds purchased. The fair value of these borrowings approximates the carrying value of the amounts reported in the Consolidated Balance Sheets for each respective account given the short-term nature of the liabilities.
Federal Home Loan Bank advances: The fair value for Federal Home Loan Bank ("FHLB") advances is determined by discounting the expected future cash outflows using current market rates for similar borrowings, or Level 2 inputs.
Junior subordinated debentures: The fair value for the Company's junior subordinated debentures is determined by discounting the future cash flows using the current market rate.

Note J - Derivative Instruments
(In Thousands)
The Company utilizes derivative financial instruments, including interest rate contracts such as swaps, caps and/or floors, as part of its ongoing efforts to mitigate its interest rate risk exposure and to facilitate the needs of its customers. The Company also from time to time enters into derivative instruments that are not designated as hedging instruments to help its commercial customers manage their exposure to interest rate fluctuations. To mitigate the interest rate risk associated with these customer contracts, the Company enters into an offsetting derivative contract position. The Company manages its credit risk, or potential risk of default by its commercial customers, through credit limit approval and monitoring procedures. At June 30, 2014, the Company had notional amounts of $73,628 on interest rate contracts with corporate customers and $73,628 in offsetting interest rate contracts with other financial institutions to mitigate the Company's rate exposure on its corporate customers' contracts and certain fixed-rate loans.

On June 5, 2014, the Company entered into two forward interest rate swap contracts on floating rate liabilities at the Bank level with notional amounts of $15.0 million each. The interest rate swap contracts are accounted for as a cash flow hedge with the objective of protecting against any interest rate volatility on future FHLB borrowings for a four-year and five-year period beginning June 1, 2018 and December 3, 2018 and ending June 2022 and June 2023, respectively. Under these contracts, Renasant Bank will pay a fixed interest rate of 3.593% and 3.738%, respectively, and will receive a variable interest rate based on the three-month LIBOR, with quarterly net settlements.
In March and April 2012, the Company entered into two interest rate swap agreements effective March 30, 2014 and March 17, 2014, respectively. The Company receives a variable rate of interest based on the three-month LIBOR plus a pre-determined spread and pays a fixed rate of interest. The agreements, which both terminate in March 2022, are accounted for as cash flow hedges to reduce the variability in cash flows resulting from changes in interest rates on $32,000 of the Company's junior subordinated debentures.
In connection with its merger with First M&F, the Company assumed an interest rate swap designed to convert floating rate interest payments into fixed rate payments. Based on the terms of the agreement, which terminates in

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

In May 2010, the Company terminated two interest rate swaps, each designated as a cash flow hedge, designed to convert the variable interest rate on an aggregate of $75,000 of loans to a fixed rate. As of the termination date, there were $1,679 of deferred gains related to the swaps, which are being amortized into interest income over the designated hedging periods ending in August 2012 and August 2013, respectively. Deferred gains amortized into net interest income were $0 and $80 for the three months ended June 30, 2014 and 2013, respectively, and $0 and $165 for the six months ended June 30, 2014 and 2013, respectively.

The Company enters into interest rate lock commitments with its customers to mitigate the interest rate risk associated with the commitments to fund fixed-rate residential mortgage loans. The notional amount of commitments to fund fixed-rate mortgage loans was $88,293 and $54,807 at June 30, 2014 and December 31, 2013, respectively. The Company also enters into forward commitments to sell residential mortgage loans to secondary market investors. The notional amount of commitments to sell residential mortgage loans to secondary market investors was $80,000 and $50,000 at June 30, 2014 and December 31, 2013, respectively.

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

	Balance Sheet Location	Fair Value June 30, 2014	December 31, 2013
Derivative assets:			
Designated as hedging instruments			
Interest rate swap	Other Assets	$—	$208
Totals		$—	$208
Not designated as hedging instruments:			
Interest rate contracts	Other Assets	$1,285	$1,812
Interest rate lock commitments	Other Assets	1,887	464
Forward commitments	Other Assets	—	335
Totals		$3,172	$2,611
Derivative liabilities:			
Designated as hedging instruments:			
Interest rate swap	Other Liabilities	$2,838	$1,428
Totals		$2,838	$1,428
Not designated as hedging instruments:			
Interest rate contracts	Other Liabilities	$1,285	$1,812
Interest rate lock commitments	Other Liabilities	—	52
Forward commitments	Other Liabilities	624	24
Totals		$1,909	$1,888

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Derivatives designated as hedging instruments:				
Interest rate swaps (terminated May 2010):				
Included in interest income on loans	$—	$80	$—	$165
Total	$—	$80	$—	$165
Derivatives not designated as hedging instruments:				
Interest rate contracts:				
Included in interest income on loans	$767	$801	$1,546	$1,600
Included in other noninterest expense	—	(25)	—	67
Interest rate lock commitments:				
Included in gains on sales of mortgage loans held for sale	927	(2,284)	1,493	(2,101)
Forward commitments				
Included in gains on sales of mortgage loans held for sale	(634)	4,678	(445)	4,876
Total	$1,060	$3,170	$2,594	$4,442

Offsetting

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

	Offsetting Derivative Assets		Offsetting Derivative Liabilities	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Gross amounts recognized	$3,172	$2,818	$4,747	$3,315
Gross amounts offset in the consolidated balance sheets	—	—	—	—
Net amounts presented in the consolidated balance sheets	3,172	2,818	4,747	3,315
Gross amounts not offset in the consolidated balance sheets				
Financial instruments	17	1,664	17	1,664
Financial collateral pledged	—	—	2,838	—
Net amounts	$3,155	$1,154	$1,892	$1,651

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

	Pre-Tax	Tax Expense (Benefit)	Net of Tax
Three months ended June 30, 2014			
Securities available for sale:			
Unrealized holding gains on securities	$1,953	$747	$1,206
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	—	—	—
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(64)	(25)	(39)
Total securities available for sale	1,889	722	1,167
Derivative instruments:			
Unrealized holding losses on derivative instruments	(641)	(245)	(396)
Reclassification adjustment for gains realized in net income	—	—	—
Total derivative instruments	(641)	(245)	(396)
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	73	28	45
Total defined benefit pension and post-retirement benefit plans	73	28	45
Total other comprehensive income	$1,321	$505	$816
Three months ended June 30, 2013			
Securities available for sale:			
Unrealized holding gains on securities	$(11,369)	$(4,350)	$(7,019)
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	—	—	—
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(88)	(34)	(54)
Total securities available for sale	(11,457)	(4,384)	(7,073)
Derivative instruments:			
Unrealized holding losses on derivative instruments	1,607	615	992
Reclassification adjustment for gains realized in net income	(83)	(32)	(51)
Total derivative instruments	1,524	583	941
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	138	53	85
Total defined benefit pension and post-retirement benefit plans	138	53	85
Total other comprehensive income	$(9,795)	$(3,748)	$(6,047)

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	Pre-Tax	Tax Expense (Benefit)	Net of Tax
Six months ended June 30, 2014			
Securities available for sale:			
Unrealized holding losses on securities	$6,462	$2,472	$3,990
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for losses realized in net income	—	—	—
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(135)	(52)	(83)
Total securities available for sale	6,327	2,420	3,907
Derivative instruments:			
Unrealized holding gains on derivative instruments	(1,320)	(505)	(815)
Reclassification adjustment for gains realized in net income	—	—	—
Total derivative instruments	(1,320)	(505)	(815)
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	146	56	90
Total defined benefit pension and post-retirement benefit plans	146	56	90
Total other comprehensive income	$5,153	$1,971	$3,182
Six months ended June 30, 2013			
Securities available for sale:			
Unrealized holding gains on securities	$(11,133)	$(4,260)	$(6,873)
Non-credit related portion of other-than-temporary impairment on securities	—	—	—
Reclassification adjustment for gains realized in net income	115	44	71
Amortization of unrealized holding gains on securities transferred to the held to maturity category	(194)	(74)	(120)
Total securities available for sale	(11,212)	(4,290)	(6,922)
Derivative instruments:			
Unrealized holding losses on derivative instruments	1,942	743	1,199
Reclassification adjustment for gains realized in net income	(168)	(64)	(104)
Total derivative instruments	1,774	679	1,095
Defined benefit pension and post-retirement benefit plans:			
Net gain (loss) arising during the period	—	—	—
Amortization of net actuarial loss recognized in net periodic pension cost	254	97	157
Total defined benefit pension and post-retirement benefit plans	254	97	157
Total other comprehensive income	$(9,184)	$(3,514)	$(5,670)

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

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

	June 30, 2014	December 31, 2013
Unrealized gains on securities	$14,277	$10,370
Non-credit related portion of other-than-temporary impairment on securities	(17,428)	(17,428)
Unrealized losses on derivative instruments	(827)	(12)
Unrecognized defined benefit pension and post-retirement benefit plans obligations	(4,814)	(4,903)
Total accumulated other comprehensive loss	$(8,792)	$(11,973)

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

	Three Months Ended June 30,	
	2014	2013
Basic		
Net income applicable to common stock	$14,853	$8,019
Average common shares outstanding	31,496,737	25,223,749
Net income per common share - basic	$0.47	$0.32
Diluted		
Net income applicable to common stock	$14,853	$8,019
Average common shares outstanding	31,496,737	25,223,749
Effect of dilutive stock-based compensation	201,461	150,119
Average common shares outstanding - diluted	31,698,198	25,373,868
Net income per common share - diluted	$0.47	$0.32

	Six Months Ended June 30,	
	2014	2013
Basic		
Net income applicable to common stock	$28,450	$15,590
Average common shares outstanding	31,466,610	25,205,092
Net income per common share - basic	$0.90	$0.62
Diluted		
Net income applicable to common stock	$28,450	$15,590
Average common shares outstanding	31,466,610	25,205,092
Effect of dilutive stock-based compensation	215,886	129,806
Average common shares outstanding - diluted	31,682,496	25,334,898
Net income per common share - diluted	$0.90	$0.62

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

	Three Months Ended June 30,	
	2014	2013
Number of shares	109,068	162,339
Range of exercise prices	\$29.57 - \$30.63	\$19.14 - \$30.63

	Six Months Ended June 30,	
	2014	2013
Number of shares	109,068	388,446
Range of exercise prices	\$29.57 - \$30.63	\$19.14 - \$30.63

Note M – Mergers and Acquisitions

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

The Company recorded approximately \$116.5 million in intangible assets which consist of goodwill of \$91,512 and core deposit intangible of \$25,033. The fair value of the core deposit intangible is being amortized on an accelerated basis over the estimated useful life, currently expected to be approximately 10 years. The intangible assets are not deductible for income tax purposes.

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

The following table summarizes the allocation of purchase price to assets and liabilities acquired in connection with the Company’s acquisition of First M&F based on their fair values on September 1, 2013. The Company is finalizing the fair value of certain assets and liabilities. As a result, the adjustments included in the following table are preliminary and may change.

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Allocation of Purchase Price for First M&F Corporation.

Purchase Price:		
Shares issued to common shareholders	6,175,576	
Purchase price per share	$25.17	
Value of stock paid		$155,439
Cash paid for fractional shares		17
Fair value of stock based compensation assumed		68
Deal charges		1,321
Total Purchase Price		$156,845
Net Assets Acquired:		
Stockholders’ equity at 9/1/13	$79,440	
Increase (decrease) to net assets as a result of fair value adjustments to assets acquired and liabilities assumed:		
Securities	253	
Loans, net of First M&F's allowance for loan losses(1)	(45,761)	
Fixed assets	(3,228)	
Core deposits intangible, net of First M&F’s existing core deposit intangible	21,158	
Other real estate owned(1)	(5,797)	
Other assets	(443)	
Deposits	(3,207)	
Junior Subordinated Debt	12,371	
Other liabilities	1,748	
Deferred income taxes	8,799	
Total Net Assets Acquired		65,333
Goodwill resulting from merger(2)		$91,512

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

The following table summarizes the fair value of assets acquired and liabilities assumed at acquisition date in connection with the merger with First M&F. The Company is finalizing the fair value of certain assets and liabilities associated with First M&F's mortgage operations. As a result, the values included in the following table are preliminary and may change.

Cash and cash equivalents	$169,995
Securities	227,693
Mortgage loans held for sale	1,659
Loans, net of unearned income	899,236
Premises and equipment	32,101
Other real estate owned	13,527
Intangible assets	116,544
Other assets	55,848
Total assets	1,516,603
Deposits	1,325,872
Borrowings	25,346
Other liabilities	9,861

The following unaudited pro forma combined condensed consolidated financial information presents the results of operations for the three and six months ended June 30, 2013 of the Company as though the merger with First M&F had been completed as of the beginning of 2013.

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	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Interest income	$55,946	$110,800
Interest expense	7,588	15,294
Net interest income	48,358	95,506
Provision for loan losses	4,380	8,710
Noninterest income	19,903	42,983
Noninterest expense	52,474	104,120
Income before income taxes	11,407	25,659
Income taxes	2,829	6,646
Net income	$8,578	$19,013
Earnings per share:		
Basic	$0.28	$0.61
Diluted	$0.27	$0.60

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

(In Thousands, Except Share Data)

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

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

Financial Condition

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

Acquisition of First M&F Corporation

On September 1, 2013, the Company completed its acquisition of First M&F Corporation ("First M&F") , a bank holding company headquartered in Kosciusko, Mississippi, and Renasant Bank (the "Bank") completed its acquisition of First M&F's wholly-owned subsidiary, Merchants and Farmers Bank. Prior to the merger, First M&F operated 35 full-service banking offices and eight insurance offices throughout Mississippi, Tennessee and Alabama. The Company issued approximately 6.2 million shares of its common stock for 100% of the voting equity interests in First M&F in a transaction valued at $156,845. Including the effect of purchase accounting adjustments, the Company acquired assets with a fair value of $1,516,603 including loans with a fair value of $899,236, and assumed liabilities with a fair value of $1,361,079, including deposits with a fair value of $1,325,872. In connection with the merger, approximately $91,512 of goodwill and $25,033 of core deposit intangible assets were recorded. See Note M, "Mergers and Acquisitions," in the Notes to Consolidated Financial Statements included in Item 1, "Financial Statements," for additional details regarding the Company's merger with First M&F.

Assets

Total assets were $5,826,020 at June 30, 2014 compared to $5,746,270 at December 31, 2013.

Investments

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

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	June 30, 2014	Percentage of Portfolio		December 31, 2013	Percentage of Portfolio	
Obligations of other U.S. Government agencies and corporations	$131,688	13.07	%	$131,129	13.72	%
Obligations of states and political subdivisions	312,717	31.04		287,014	46.40	
Mortgage-backed securities	521,458	51.77		453,644	33.78	
Trust preferred securities	18,309	1.82		17,671	2.24	
Other debt securities	18,701	1.86		19,554	3.40	
Other equity securities	4,458	0.44		4,317	0.46	
	$1,007,331	100.00	%	$913,329	100.00	%

The balance of our securities portfolio at June 30, 2014 increased $94,002 to $1,007,331 from $913,329 at December 31, 2013. During the six months ended June 30, 2014, we purchased $251,965 in investment securities. Mortgage-backed securities and collateralized mortgage obligations (“CMOs”), in the aggregate, comprised 39.83%of the purchases. CMOs are included in the “Mortgage-backed securities” line item in the above table. The mortgage-backed securities and CMOs held in our investment portfolio are primarily issued by government sponsored entities. U.S. Government Agency securities and municipal securities accounted for 45.74% and 14.43%, respectively, of total securities purchased in the second quarter of 2014. There were no securities sold during the first six months of 2014. Maturities and calls of securities during the first six months of 2014 totaled $162,117.

The Company holds investments in pooled trust preferred securities. This portfolio had a cost basis of $27,371 and $27,531 and a fair value of $18,309 and $17,671 at June 30, 2014 and December 31, 2013, respectively. The investment in pooled trust preferred securities consists of four securities representing interests in various tranches of trusts collateralized by debt issued by over 320 financial institutions. Management’s determination of the fair value of each of its holdings is based on the current credit ratings, the known deferrals and defaults by the underlying issuing financial institutions and the degree to which future deferrals and defaults would be required to occur before the cash flow for our tranches is negatively impacted. The Company’s quarterly evaluation of these investments for other-than-temporary-impairment resulted in no additional write-downs during the second quarter of 2014 or 2013. Furthermore, the Company's analysis of the pooled trust preferred securities during the current quarter supported a return to accrual status for two of the four securities. An observed history of interest payments combined with improved qualitative and quantitative factors described above justifies the accrual of interest on these securities going forward. However, the remaining two securities are still in "payment in kind" status where interest payments are not expected until a future date, and the Company's analysis of the qualitative and quantitative factors described above does not justify a return to accrual status. As such, these two securities were classified as nonaccruing with investment interest recorded on the cash-basis method. For more information about the Company’s trust preferred securities, see Note B, “Securities,” in the Notes to Consolidated Financial Statements of the Company in Item 1, “Financial Statements,” in this report.

Loans

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

	June 30, 2014	Percentage of Total Loans		December 31, 2013	Percentage of Total Loans	
Commercial, financial, agricultural	$447,826	11.32	%	$468,963	12.08	%
Lease financing	1,767	0.05		52	—	
Real estate – construction	176,577	4.46		161,436	4.16	
Real estate – 1-4 family mortgage	1,221,288	30.86		1,208,233	31.13	
Real estate – commercial mortgage	2,015,319	50.92		1,950,572	50.26	
Installment loans to individuals	94,753	2.39		91,762	2.37	
Total loans, net of unearned income	$3,957,530	100.00	%	$3,881,018	100.00	%

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

Total loans at June 30, 2014 were $3,957,530, an increase of $76,512 from $3,881,018 at December 31, 2013. Loans covered under loss-share agreements with the FDIC (referred to as “covered loans”) were $167,129 at June 30, 2014, a decrease of $14,545, or 8.01%, compared to $181,674 at December 31, 2013. For covered loans, the FDIC will reimburse Renasant Bank 80% of the

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losses incurred on 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 provides reimbursement for five years from the acquisition date.

Loans not covered under loss-share agreements with the FDIC at June 30, 2014 were $3,790,401, compared to $3,699,344 at December 31, 2013. Loans acquired from First M&F totaled $694,115 at June 30, 2014 compared to $813,543 at December 31, 2013. Excluding the loans acquired from First M&F, not covered loans increased $210,485 during the six months ended June 30, 2014. The increase in loans not covered under loss-share agreements was attributable to growth in owner and non-owner occupied commercial real estate loans and commercial loans, as well as loan production generated by our de novo expansion. Loans from our de novo locations in Columbus and Starkville, Mississippi, Tuscaloosa and Montgomery, Alabama and Maryville, Bristol, Jonesborough and Johnson City, Tennessee contributed $67,084 of the total increase in loans from December 31, 2013.

During the first six months of 2014, loans in our de novo markets of Mississippi, Tennessee and Alabama , excluding the contribution from First M&F, increased $21,149, $23,674, $22,261, respectively.

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

	June 30, 2014			
	Not Acquired	Acquired and Covered Under Loss Share	Acquired and Non-covered	Total Loans
Commercial, financial, agricultural	$365,262	$7,677	$74,887	$447,826
Lease financing	1,767	—	—	1,767
Real estate – construction:				
Residential	81,301	1,648	2,087	85,036
Commercial	90,456	—	—	90,456
Condominiums	562	—	523	1,085
Total real estate – construction	172,319	1,648	2,610	176,577
Real estate – 1-4 family mortgage:				
Primary	550,943	16,203	141,323	708,469
Home equity	216,599	10,666	31,892	259,157
Rental/investment	152,233	17,937	28,107	198,277
Land development	46,771	4,810	3,804	55,385
Total real estate – 1-4 family mortgage	966,546	49,616	205,126	1,221,288
Real estate – commercial mortgage:				
Owner-occupied	603,868	52,366	197,323	853,557
Non-owner occupied	789,889	30,844	168,190	988,923
Land development	122,615	24,956	25,268	172,839
Total real estate – commercial mortgage	1,516,372	108,166	390,781	2,015,319
Installment loans to individuals	74,020	22	20,711	94,753
Total loans, net of unearned income	$3,096,286	$167,129	$694,115	$3,957,530

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

Mortgage loans held for sale were $28,116 at June 30, 2014 compared to $33,440 at December 31, 2013. Originations of mortgage loans to be sold totaled $254,578 in the six months ended June 30, 2014 compared to $374,448 for the same period in 2013. Mortgage rates in the latter half of 2011 declined to historic lows and remained at these historically low levels throughout the first quarter of 2013, which prompted a significant increase in refinancings and, thus mortgage originations during this time period. Beginning in the second quarter of 2013 and continuing through the second quarter of 2014, mortgage rates increased from these historically low levels, resulting in a slowdown in originations. The increase in mortgage rates could result in lower future mortgage originations as refinancings decrease.

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

Deposits

The Company relies on deposits as its major source of funds. Total deposits were $4,886,731 and $4,841,912 at June 30, 2014 and December 31, 2013, respectively. Noninterest-bearing deposits were $902,766 and $856,020 at June 30, 2014 and December 31, 2013, respectively, while interest-bearing deposits were $3,983,965 and $3,985,892 at June 30, 2014 and December 31, 2013, respectively. The increase in total deposits at June 30, 2014 as compared to December 31, 2013 is primarily attributable to management's focus on growing and maintaining a stable source of funding, specifically core deposits, and allowing more costly deposits, including certain time deposits, to mature. The source of funds that we select depends on the terms and how those terms assist us in mitigating interest rate risk and maintaining our net interest margin. Accordingly, funds are only acquired when needed and at a rate that is prudent under the circumstances. Deposits from our de novo locations have also contributed to

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the increase in deposits during the first six months of 2014. Deposits from our de novo locations in Columbus and Starkville, Mississippi, Tuscaloosa and Montgomery, Alabama and Maryville and Jonesborough, Tennessee totaled $334,913 at June 30, 2014 representing an increase of $63,235 from December 31, 2013.

Public fund deposits are those of counties, municipalities, or other political subdivisions and may be readily obtained based on the Company's pricing bid in comparison with competitors. Since public fund deposits are obtained through a bid process, these deposit balances may fluctuate as competitive and market forces change. The Company has focused on growing stable sources of deposits which has resulted in the Company relying less on public fund deposits. However, the Company continues to participate in the bidding process for public fund deposits. Our public fund transaction accounts are principally obtained from municipalities including school boards and utilities. Public fund deposits were $655,992 and $615,825 at June 30, 2014 and December 31, 2013, respectively.

Deposits in our Alabama and Georgia markets decreased $26,060 and $33,594, respectively, at June 30, 2014 from December 31, 2013. Deposits in our Mississippi and Tennessee markets increased $69,738 and $19,558, respectively, at June 30, 2014 from December 31, 2013.

Borrowed Funds

Total borrowings include securities sold under agreements to repurchase, federal funds purchased, advances from the FHLB and junior subordinated debentures and are classified on the Consolidated Balance Sheets as either short-term borrowings or long-term debt. Short-term borrowings have original maturities less than one year and typically include securities sold under agreements to repurchase, federal funds purchased and FHLB advances. There was $25,505 of short-term borrowings on the balance sheet at June 30, 2014, which is an increase of $23,222 from December 31, 2013. The composition of our short-term borrowings was federal funds purchased of $20,100 and security repurchase agreements of $5,405 at June 30, 2014.

At June 30, 2014, long-term debt totaled $164,325 compared to $169,592 at December 31, 2013. Funds are borrowed from the FHLB primarily to match-fund against certain loans, negating interest rate exposure when rates rise. Such match-funded loans are typically large, fixed rate commercial or real estate loans with long-term maturities. FHLB advances were $69,944 and $75,405 at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, $1,749 of the total FHLB advances outstanding were scheduled to mature within twelve (12) months or less. The Company had $1,603,437 of availability on unused lines of credit with the FHLB at June 30, 2014 compared to $1,595,864 at December 31, 2013. The cost of our FHLB advances was 4.15% and 4.25% for the first six months of 2014 and 2013, respectively.

Results of Operations

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

Net Income

Net income for the three month period ended June 30, 2014 was $14,853 compared to net income of $8,019 for the three month period ended June 30, 2013. Basic and diluted earnings per share for the three month period ended June 30, 2014 were $0.47 as compared to $0.32 for the three month period ended June 30, 2013. The increase in net income and earnings per share in the second quarter of 2014 as compared to the second quarter of 2013 was due primarily to the acquisition of First M&F, improvement in our net interest margin and continued improvement in our credit risk profile.

Net Interest Income

Net interest income, the difference between interest earned on assets and the cost of interest-bearing liabilities, is the largest component of our net income, comprising 73.46% of total net revenue for the second quarter of 2014. Total net revenue consists of net interest income on a fully taxable equivalent basis and noninterest income. The primary concerns in managing net interest income are the volume, mix and repricing of assets and liabilities.

Net interest income increased to $52,169 for the second quarter of 2014 compared to $34,404 for the same period in 2013. On a tax equivalent basis, net interest income was $53,893 for the second quarter of 2014 as compared to $35,790 for the second quarter 2013