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

FORM 10-Q

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

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

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

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

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

(In Thousands, Except Share Data)

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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:

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

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

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

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

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

Impaired Loans

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

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

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

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

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

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

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

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

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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 nine months ended September 30, 2014.

Restructured Loans

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

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

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

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

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

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

Credit Quality

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

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

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

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

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

Loans Acquired with Deteriorated Credit Quality

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

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

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

(1) Includes lease financing receivables.

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

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

(1) Includes lease financing receivables.

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

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

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

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

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

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

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

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

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

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

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

Note F – Mortgage Servicing Rights
(In Thousands)

The Company retains the right to service certain mortgage loans that it sells to secondary market investors. These mortgage servicing rights, included in "Other assets" on the Consolidated Balance Sheets, are recognized as a separate asset on the date the corresponding mortgage loan is sold. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. These servicing rights are carried at the lower of amortized cost or fair value. Fair value is determined using an income approach with various assumptions including expected cash flows, prepayment speeds, market discount rates, servicing costs, and other factors. Mortgage servicing rights were carried at amortized cost at September 30, 2014 and December 31, 2013.

Impairment losses on mortgage servicing rights are recognized to the extent by which the unamortized cost exceeds fair value. No impairment losses on mortgage servicing rights were recognized in earnings for the three or nine months ended September 30, 2014 or 2013.

Changes in the Company's mortgage servicing rights were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill	272,545	2,783	—	—	275,328

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

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

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

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

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

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

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

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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	