

RENASANT CORP
Form 10-K
March 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2013
Commission file number 001-13253

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

Mississippi 64-0676974
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

209 Troy Street, Tupelo, Mississippi 38804-4827
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (662) 680-1001
Securities registered pursuant to Section 12(b) of the

Act:
Title of each class Name of each exchange on which registered
Common Stock, \$5.00 par value The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No þ

As of June 30, 2013, the aggregate market value of the registrant's common stock, \$5.00 par value per share, held by non-affiliates of the registrant, computed by reference to the last sale price as reported on The NASDAQ Global Select Market for such date, was \$588,684,368.

As of February 28, 2014, 31,477,367 shares of the registrant's common stock, \$5.00 par value per share, were outstanding. The registrant has no other classes of securities outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2014 Annual Meeting of Shareholders of Renasant Corporation are incorporated by reference into Part III of this Form 10-K.

Renasant Corporation and Subsidiaries
 Form 10-K
 For the Year Ended December 31, 2013
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PART I

This Annual Report on Form 10-K may contain or incorporate by reference statements 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. Prospective investors are 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 those risks identified in Item 1A, Risk Factors, of this Form 10-K as well as significant fluctuations in interest rates, inflation, economic recession, significant changes in the federal and state legal and regulatory environment, significant underperformance in our portfolio of outstanding loans and competition in our markets. We undertake 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.

The information set forth in this Annual Report on Form 10-K is as of February 28, 2014, unless otherwise indicated herein.

ITEM 1. BUSINESS

General

Renasant Corporation (referred to herein as the “Company,” “we,” “our,” or “us”), a Mississippi corporation incorporated in 1982, owns and operates Renasant Bank, a Mississippi banking association with operations in Mississippi, Tennessee, Alabama and Georgia, and Renasant Insurance, Inc., a Mississippi corporation with operations in Mississippi. Renasant Insurance, Inc. is a wholly-owned subsidiary of Renasant Bank. Renasant Bank is referred to herein as the “Bank” and Renasant Insurance, Inc. is referred to herein as “Renasant Insurance.”

Our vision is to be the financial services advisor and provider of choice in each community we serve. With this vision in mind, management has organized the branch banks into community banks using a franchise concept. The franchise approach empowers community bank presidents to execute their own business plans in order to achieve our vision. Specific performance measurement tools are available to assist these presidents in determining the success of their plan implementation. A few of the ratios used in measuring the success of their business plan include:

- | | |
|------------------------------------|--|
| — return on average assets | — net interest margin and spread |
| — the efficiency ratio | — fee income shown as a percentage of loans and deposits |
| — loan and deposit growth | — the number and type of services provided per household |
| — net charge-offs to average loans | — the percentage of loans past due and nonaccruing |

While we have preserved decision-making at a local level, we have centralized our legal, accounting, investment, loan review, human resources, audit and data processing functions. The centralization of these processes enables us to maintain consistent quality of these functions and achieve certain economies of scale.

Our vision is further validated through our core values. These values state that (1) employees are our greatest assets, (2) quality is not negotiable and (3) clients’ trust is foremost. Centered on these values was the development of five different objectives that are the focal point of our strategic plan. Those objectives include: (1) client satisfaction and development, (2) financial soundness and profitability, (3) growth, (4) employee satisfaction and development and (5) shareholder satisfaction and development.

Members of our Board of Directors also serve as members of the Board of Directors of the Bank. Responsibility for the management of our Bank remains with the Board of Directors and officers of the Bank; however, management services rendered by the Company to the Bank are intended to supplement internal management and expand the scope of banking services normally offered by the Bank.

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 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 September 1, 2013, 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 \$156.8 million. Including the effect of purchase accounting adjustments, the Company acquired assets with a fair value of \$1.5 billion, including loans with a fair value of \$899.2 million, and assumed liabilities with a fair value of \$1.4 billion, including deposits with a fair value of \$1.3 billion. At the acquisition date, approximately \$91.3 million of goodwill and \$25.0 million of core deposit intangible assets were recorded.

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Acquisition of RBC Bank (USA) Trust Division

On August 31, 2011, the Company acquired the Birmingham, Alabama-based trust division of RBC Bank (USA), which services clients in Alabama and Georgia. Under the terms of the transaction, RBC Bank (USA) (which has since been acquired by PNC Bank) transferred its approximately \$680 million in assets under management, comprised of personal and institutional clients with over 200 trust, custodial and escrow accounts, to a wholly-owned subsidiary, and Renasant Bank acquired all of the ownership interests in the subsidiary. The subsidiary was merged into Renasant Bank and the acquired operations were reconstituted into a separate division of Renasant Bank, titled Renasant Asset Management. In connection with the acquisition, the Company recognized a gain of \$570 thousand.

FDIC-Assisted Acquisition of Certain Assets and Liabilities of American Trust Bank

On February 4, 2011, the Bank acquired specified assets and assumed specified liabilities of American Trust Bank, a Georgia-chartered bank headquartered in Roswell, Georgia (“American Trust”), from the Federal Deposit Insurance Corporation (the “FDIC”), as receiver for American Trust. American Trust operated, and the Company acquired and retained, 3 branches in the northwest region of Georgia, one of which was subsequently closed in October 2011. The Bank acquired assets with a fair value of \$248 million, including loans with a fair value of \$74 million, and assumed liabilities with a fair value of \$239 million, including deposits with a fair value of \$223 million. At the acquisition date, approximately \$74 million of the acquired loans were covered by loss-share agreements between the FDIC and the Bank. The acquisition of American Trust resulted in a pre-tax gain of approximately \$9 million.

FDIC-Assisted Acquisition of Certain Assets and Liabilities of Crescent Bank & Trust Company

On July 23, 2010, the Bank acquired specified assets and assumed specified liabilities of Crescent Bank & Trust Company, a Georgia-chartered bank headquartered in Jasper, Georgia (“Crescent”), from the FDIC, as receiver for Crescent. Crescent operated, and the Company acquired and retained, 11 branches in the northwest region of Georgia. The branch in Adairsville, Georgia was later closed in July 2011. The Bank acquired assets with a fair value of \$959 million, including loans with a fair value of \$371 million, and assumed liabilities with a fair value of \$917 million, including deposits with a fair value of \$890 million. At the acquisition date, approximately \$361 million of acquired loans and \$50 million of other real estate owned were covered by loss-share agreements between the FDIC and the Bank. The acquisition of Crescent resulted in a pre-tax gain of approximately \$42 million.

Operations

The Company has three reportable segments: a Community Banks segment, an Insurance segment and a Wealth Management segment. Financial information about our segments for each of the last three years, including information with respect to revenues from external customers, profit or loss and total assets for each segment is contained in Note Q, “Segment Reporting,” in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data.

Neither we nor the Bank have any foreign operations.

Operations of Community Banks

Substantially all of our business activities are conducted through, and substantially all of our assets and revenues are derived from, the operations of our community banks, which offer a complete range of banking and financial services to individuals and to small to medium-size businesses. These services include checking and savings accounts, business and personal loans, interim construction loans, equipment leasing, as well as safe deposit and night depository facilities. Automated teller machines are located throughout our market area. Our Online and Mobile Banking products and our call center also provide 24-hour banking services. Accounts receivable financing is also available to qualified businesses.

As of February 28, 2014, we had 115 banking and financial services offices located throughout our markets in north and north central Mississippi, Tennessee, north and central Alabama and north Georgia.

Lending Activities. Income generated by our lending activities, in the form of both interest income and loan-related fees, comprises a substantial portion of our revenue, accounting for approximately 64.74%, 62.32% and 60.83% of our total gross revenues in 2013, 2012 and 2011, respectively. Total gross revenues consist of interest income on a fully taxable equivalent basis and noninterest income. Our lending philosophy is to minimize credit losses by following strict credit approval standards, diversifying our loan portfolio by both type and geography and conducting ongoing review and management of the loan portfolio. The following is a description of each of the principal types of

loans in our loan portfolio, the relative risk of each type of loan and the steps we take to reduce credit risk. A further discussion of our risk reduction policies and procedures can be found in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, under the heading “Risk Management – Credit Risk and Allowance for Loan Losses.” We have omitted a discussion of lease financing, as such financing comprised approximately 0.01% of our portfolio at December 31, 2013. Our loans are primarily generated within the market areas where our branches are located.

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— Commercial, Financial and Agricultural Loans. Commercial, financial and agricultural loans (referred to as “commercial loans”), which accounted for approximately 12.08% of our total loans at December 31, 2013, are customarily granted to established local business customers in our market area on a fully collateralized basis to meet their credit needs. The terms and loan structure are dependent on the collateral and strength of the borrower. The loan-to-value ratios range from 50% to 80%, depending on the type of collateral. Terms are typically short term in nature and are commensurate with the secondary source of repayment which is our collateral.

Commercial lending generally involves different risks from those associated with commercial real estate lending or construction lending. Although commercial loans may be collateralized by equipment or other business assets, the repayment of these types of loans depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the general business conditions of the local economy and the local business borrower’s ability to sell its products and services, thereby generating sufficient operating revenue to repay us under the agreed upon terms and conditions, are the chief considerations when assessing the risk of a commercial loan. The liquidation of collateral is considered a secondary source of repayment because equipment and other business assets may, among other things, be obsolete or of limited resale value. Tertiary source of repayment is the strength of the guarantors. To manage these risks, the Bank’s policy is to secure its commercial loans with both the assets of the borrowing business and any other additional collateral and guarantees that may be available. In addition, we actively monitor certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors. We use commercial loan credit scoring models for smaller level commercial loans.

— Real Estate – Construction. Our real estate – construction loans (“construction loans”) represented approximately 4.16% of our total loans at December 31, 2013. Our construction loan portfolio consists of loans for the construction of single family residential properties, multi-family properties and commercial projects. Maturities for construction loans generally range from 6 to 12 months for residential property and from 12 to 24 months for non-residential and multi-family properties. Construction lending entails significant additional risks compared to residential real estate or commercial real estate lending. A significant additional risk is that loan funds are advanced upon the security of the property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and to calculate related loan-to-value ratios, however, for many of our construction loans, the Bank engages an independent third party to actively manage the construction process to ensure advances are in line with projects or budgets. To minimize the risks associated with construction lending, we limit loan-to-value ratios to 85% of when-completed appraised values for owner-occupied and investor-owned residential or commercial properties.

— Real Estate – 1-4 Family Mortgage. We are active in the real estate – 1-4 family mortgage area (referred to as “residential real estate loans”), with approximately 31.13% of our total loans at December 31, 2013, being residential real estate loans. We offer both first and second mortgages on residential real estate. Loans secured by residential real estate in which the property is the principal residence of the borrower are referred to as “primary” 1-4 family mortgages. Loans secured by residential real estate in which the property is rented to tenants or is not the principal residence of the borrower are referred to as “rental/investment” 1-4 family mortgages. We also offer loans for the preparation of residential real property prior to construction (referred to in this Annual Report as “residential land development loans”). In addition, we offer home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for purchases, refinances, home improvements, education and other personal expenditures. Both fixed and variable rate loans are offered with competitive terms and fees. Originations of residential real estate loans are generated through either retail efforts in our branches or through loans either originated by or referred by our mortgage operations. We attempt to minimize the risk associated with residential real estate loans by strictly scrutinizing the financial condition of the borrower; typically, we also limit the maximum loan-to-value ratio. We retain loans for our portfolio when the Bank has sufficient liquidity to fund the needs of established customers and when rates are favorable to retain the loans. We also originate residential real estate loans with the intention of selling them in the secondary market to third party private investors or directly to government sponsored agencies. These loans are collateralized by one-to-four family residential real estate. When these loans are sold, we either release or retain the related servicing rights, depending on a number of factors including the pricing of such loans in the secondary market, fluctuations in interest rates that would impact the profitability of the loans, as well as other

market-related conditions. Residential real estate originations 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 we are 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. The Company does not actively market or originate subprime mortgage loans.

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We also offer home equity loans or lines of credit as an option to borrowers who elect to utilize the accumulated equity in their homes by borrowing money through either a first or second lien home equity loan or line of credit. We limit our exposure to second lien home equity loans or lines of credit, which inherently carry a higher risk of loss upon default, by limiting these types of loans to borrowers with high credit scores.

— Real Estate – Commercial Mortgage. Our real estate – commercial mortgage loans (“commercial real estate loans”) represented approximately 50.26% of our total loans at December 31, 2013. We offer loans in which the owner develops a property with the intention of locating its business there. These loans are referred to as “owner-occupied” commercial real estate loans. Payments on these loans are dependent on the successful development, management of the business and the borrower’s ability to generate sufficient operating revenue to repay the loan. If our estimate of value proves to be inaccurate, we may not be able to obtain full repayment on the loan in the event of default and foreclosure. In most instances, in addition to our mortgage on the underlying real estate of the business, our commercial real estate loans are secured by other non-real estate collateral, such as equipment or other assets used in the course of business.

In addition to owner-occupied commercial real estate loans, we offer loans in which the owner develops a property where the source of repayment of the loan will come from the sale or lease of the developed property, for example, retail shopping centers, hotels, storage facilities, nursing homes, etc. These loans are referred to as “non-owner occupied” commercial real estate loans. We also offer commercial real estate loans to developers of commercial properties for purposes of site acquisition and preparation and other development prior to actual construction (referred to in this Annual Report as “commercial land development loans”). Non-owner occupied commercial real estate loans and commercial land development loans are dependent on the successful completion of the project and may be affected by adverse conditions in the real estate market or the economy as a whole.

We seek to minimize risks relating to all commercial real estate loans by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral, the management of the property securing the loan and, where applicable, the financial strength of the tenant occupying the property. Loans are usually structured either to fully amortize over the term of the loan or to balloon after the third year or fifth year of the loan, typically with an amortization period not to exceed 20 years. We also actively monitor such financial measures as advance rate, cash flow, collateral value and other appropriate credit factors. We generally obtain loan guarantees from financially capable parties to the transaction based on a review of the guarantor’s financial statements.

— Installment Loans to Individuals. Installment loans to individuals (or “consumer loans”), which represented approximately 2.37% of our total loans at December 31, 2013, are granted to individuals for the purchase of personal goods. These loans are generally granted for periods ranging between one and six years at fixed rates of interest from 100 to 500 basis points above the prime interest rate quoted in The Wall Street Journal. Loss or decline of income by the borrower due to unplanned occurrences represents the primary risk of default to us. In the event of default, a shortfall in the value of the collateral may pose a loss to us in this loan category. Before granting a consumer loan, we assess the applicant’s credit history and ability to meet existing and proposed debt obligations. Although the applicant’s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. We obtain a lien against the collateral securing the loan and hold title until the loan is repaid in full.

As the general economic environment in the United States and the markets in which we operate began to decline in late 2008, management responded by implementing a strategy to diversify the Company’s loan portfolio by specifically reducing the concentration of construction and land development loans (both residential and commercial). To accomplish this, management applied more stringent levels of underwriting on new originations of such loans and required principal reductions of these loans at time of renewal. The construction loan portfolio was further reduced as such loans were refinanced into permanent financing arrangements due to the completion of the construction phase of underlying projects and thus reclassified to commercial or residential real estate loans. The Company will continue this strategy to reduce the concentration of construction and land development loans in the portfolio. At December 31, 2013 and 2012, construction and land development loans represented 10.34%, and 11.90%, respectively, of the total loan portfolio.

Deposit Services. We offer a broad range of deposit services and products to our consumer and commercial clients. Through our community branch networks, we offer consumer checking accounts with free Internet banking with bill pay and free debit cards, interest bearing checking, money market accounts and savings accounts. In addition, Renasant offers certificates of deposit, individual retirement accounts and health savings accounts. For our commercial clients, we offer a competitive suite of cash management products which include, but are not limited to, remote deposit capture, account reconciliation with CD-ROM statements, electronic statements, positive pay, ACH origination and wire transfer, wholesale and retail lockbox, investment sweep accounts, enhanced business Internet banking, outbound data exchange and multi-bank reporting.

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The deposit services we offer accounted for approximately 12.69%, 12.32% and 11.65% of our total gross revenues in 2013, 2012 and 2011, respectively, in the form of fees for deposit services. The deposits held by our Bank have been primarily generated within the market areas where our branches are located.

Operations of Wealth Management

Through the Wealth Management segment, we offer a wide variety of fiduciary services and administer (as trustee or in other fiduciary or representative capacities) qualified retirement plans, profit sharing and other employee benefit plans, personal trusts and estates. In addition, the Wealth Management segment offers annuities, mutual funds and other investment services through a third party broker-dealer. At December 31, 2013, the Wealth Management segment contributed total revenue of \$8.7 million, or 3.36%, of the Company's total gross revenues. Wealth Management operations are headquartered in Tupelo, Mississippi, and Birmingham, Alabama, but our products and services are available to customers in all of our markets through our community banks.

Operations of Insurance

Renasant Insurance is a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. At December 31, 2013, Renasant Insurance contributed total revenue of \$5.8 million, or 2.23%, of the Company's total gross revenues and operated seven offices - one office each in Ackerman, Corinth, Durant, Kosciusko, Louisville, Starkville and Tupelo, Mississippi.

Competition**Community Banks**

Vigorous competition exists in all major product and geographic areas in which we conduct banking business. We compete through our Bank for available loans and deposits with state, regional and national banks in all of our service areas, as well as savings and loan associations, credit unions, finance companies, mortgage companies, insurance companies, brokerage firms and investment companies. All of these numerous institutions compete in the delivery of services and products through availability, quality and pricing, and many of our competitors are larger and have substantially greater resources than we do, including higher total assets and capitalization, greater access to capital markets and a broader offering of financial services.

For 2013, we maintained approximately 12% of the market share (deposit base) in our entire Mississippi area, approximately 1% in our entire Tennessee area, approximately 2% in our entire Alabama area and approximately 1% in our entire Georgia area. Certain markets in which we operate have demographics which we believe indicate the possibility of future growth at higher rates than other markets in which we operate. The following table shows our deposit share in those markets as of June 30, 2013 (which is the latest date that such information is available):

Market	Available Deposits (in billions)	Deposit Share	
Mississippi			
Tupelo	\$1.9	44.9	%
DeSoto County	2.1	7.2	%
Oxford	0.9	12.0	%
Columbus	0.9	5.9	%
Starkville	0.8	14.3	%
Jackson	11.2	3.6	%
Tennessee			
Memphis	18.9	1.4	%
Nashville	31.2	1.0	%
Maryville	1.9	1.3	%
Alabama			
Birmingham	27.3	1.3	%
Decatur	1.6	17.1	%
Huntsville/Madison	6.1	1.6	%
Montgomery	6.5	0.4	%

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Tuscaloosa	2.8	0.4	%
Georgia			
Alpharetta/Roswell	6.1	2.1	%
Canton/Woodstock	2.3	7.0	%
Cumming	2.0	4.4	%

Source: FDIC, As of June 30, 2013

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Wealth Management

Our Wealth Management segment competes with other banks, brokerage firms, financial advisers and trust companies, which provide one or more of the services and products that we offer. Our wealth management operations compete on the basis of available product lines, rates and fees, as well as reputation and professional expertise. No particular company or group of companies dominates this industry.

Insurance

We encounter strong competition in the markets in which we conduct insurance operations. Through our insurance subsidiary, we compete with independent insurance agencies and agencies affiliated with other banks and/or other insurance carriers. All of these agencies compete in the delivery of personal and commercial product lines. There is no dominant insurance agency in our markets.

Supervision and Regulation

General

The U.S. banking industry is highly regulated under federal and state law. We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”). As a result, we are subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Bank is a commercial bank chartered under the laws of the State of Mississippi; it is not a member of the Federal Reserve System. As a Mississippi bank, the Bank is subject to supervision, regulation and examination by the Mississippi Department of Banking and Consumer Finance, as the chartering entity of the bank, and by the FDIC, as the insurer of the Bank’s deposits. As a result of this extensive system of supervision and regulation, the growth and earnings performance of the Company and the Bank is affected not only by management decisions and general and local economic conditions, but also by the statutes, rules, regulations and policies administered by the Federal Reserve, the FDIC and the Mississippi Department of Banking and Consumer Finance, as well as by other federal and state regulatory authorities with jurisdiction over our operations.

The bank regulatory scheme has two primary goals: to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This comprehensive system of supervision and regulation is intended primarily for the protection of the FDIC’s deposit insurance fund, banks depositors and the public, rather than our shareholders or creditors. To this end, federal and state banking laws and regulations control, among other things, the types of activities in which we and the Bank may engage, permissible investments, the level of reserves that the Bank must maintain against deposits, minimum equity capital levels, the nature and amount of collateral required for loans, maximum interest rates that can be charged, the manner and amount of the dividends that may be paid, and corporate activities regarding mergers, acquisitions and the establishment of branch offices.

The description below summarizes certain elements of the bank regulatory framework applicable to us and the Bank. This summary is not, however, intended to describe all laws, regulations and policies applicable to us and the Bank, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretative letters and other written guidance that are described below.

Dodd-Frank Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act imposes new restrictions and an expanded regulatory oversight for financial institutions, including depository institutions like the Bank. Although the Dodd-Frank Act is primarily aimed at the activities of investment banks and large commercial banks, many of the provisions of the legislation will impact operations of community banks such as the Bank. In addition to the Volcker Rule, which is discussed in more detail below, the following aspects of the Dodd-Frank Act are related to our operations:

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- The Consumer Financial Protection Bureau (the “CFPB”) was established as an independent bureau within the Federal Reserve. The CFPB has broad regulatory, supervisory and enforcement authority with respect to the offering and provision of consumer financial products and services under federal consumer protection laws. However, smaller financial institutions like the Bank remain subject only to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.
- Tier 1 capital treatment for “hybrid” capital items like trust preferred securities is eliminated, subject to various grandfathering and transition rules.
-