SOUTH STATE 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)

x 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 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-0799315**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
520 Gervais Street **Columbia, South Carolina**	**29201**
(Address of principal executive offices)	(Zip Code)

(800) 277-2175

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x 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 x	Accelerated Filer o
Non-Accelerated Filer o	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 x

Indicate the number of shares outstanding of each of issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding as of October 31, 2014
Common Stock, $2.50 par value	24,140,272

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South State Corporation and Subsidiary

September 30, 2014 Form 10-Q

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	September 30, 2014 (Unaudited)	December 31, 2013 (Note 1)	September 30, 2013 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 269,480**	$ 184,611	$ 292,625
Interest-bearing deposits with banks	**7,382**	32,632	4,720
Federal funds sold and securities purchased under agreements to resell	**226,166**	262,218	347,821
Total cash and cash equivalents	**503,028**	479,461	645,166
Investment securities:			
Securities held to maturity (fair value of $11,019, $12,891, and $12,992, respectively)	**10,389**	12,426	12,426
Securities available for sale, at fair value	**805,114**	786,791	626,798
Other investments	**10,518**	13,386	13,386
Total investment securities	**826,021**	812,603	652,610
Loans held for sale	**56,595**	30,586	51,207
Loans:			
Acquired credit impaired (covered of $197,944, $289,123, and $321,969, respectively; non-covered of $782,548, $931,515 and $994,659, respectively), net of allowance for loan losses	**980,492**	1,220,638	1,316,628
Acquired non-credit impaired (covered of $9,459, $7,824, and $8,430, respectively; non-covered of $1,367,884, $1,593,111 and $1,656,904, respectively)	**1,377,343**	1,600,935	1,665,334
Non-acquired	**3,304,708**	2,865,216	2,741,242
Less allowance for non-acquired loan losses	**(34,804)**	(34,331)	(36,145)
Loans, net	**5,627,739**	5,652,458	5,687,059
FDIC receivable for loss share agreements	**30,983**	86,447	108,149
Other real estate owned (covered of $18,961, $27,520, and $40,543, respectively; non-covered of $32,289, $37,398, and $35,330, respectively)	**51,250**	64,918	75,873
Premises and equipment, net	**173,425**	188,114	184,959
Bank owned life insurance	**98,505**	97,197	96,058
Deferred tax assets	**60,322**	72,914	73,135
Mortgage servicing rights	**22,052**	20,729	18,908
Core deposit and other intangibles	**51,291**	59,908	62,195
Goodwill	**317,688**	317,688	317,688
Other assets	**61,189**	48,475	55,434
Total assets	**$ 7,880,088**	$ 7,931,498	$ 8,028,441
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			

Noninterest-bearing	**$ 1,654,308**	$ 1,487,798	$ 1,477,793
Interest-bearing	**4,863,920**	5,067,699	5,181,315
Total deposits	**6,518,228**	6,555,497	6,659,108
Federal funds purchased and securities sold under agreements to repurchase	**231,229**	211,401	233,792
Other borrowings	**101,127**	102,060	101,347
Other liabilities	**62,509**	81,071	64,168
Total liabilities	**6,913,093**	6,950,029	7,058,415
Shareholders equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; 0, 65,000, and 65,000 shares issued and outstanding, respectively		1	1
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,135,220, 24,104,124, and 24,066,545 shares issued and outstanding, respectively	**60,338**	60,260	60,166
Surplus	**700,579**	762,354	760,507
Retained earnings	**207,219**	168,577	159,980
Accumulated other comprehensive loss	**(1,141)**	(9,723)	(10,628)
Total shareholders equity	**966,995**	981,469	970,026
Total liabilities and shareholders equity	**$ 7,880,088**	$ 7,931,498	$ 8,028,441

The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Interest income:				
Loans, including fees	**$ 78,700**	$ 78,771	**$ 239,988**	$ 184,974
Investment securities:				
Taxable	**3,982**	3,315	**11,860**	7,572
Tax-exempt	**1,236**	1,202	**3,463**	3,582
Federal funds sold and securities purchased under agreements to resell	**430**	505	**1,331**	1,366
Total interest income	**84,348**	83,793	**256,642**	197,494
Interest expense:				
Deposits	**2,395**	2,711	**7,056**	5,733
Federal funds purchased and securities sold under agreements to repurchase	**87**	92	**277**	343
Other borrowings	**1,497**	1,235	**4,500**	2,572
Total interest expense	**3,979**	4,038	**11,833**	8,648
Net interest income	**80,369**	79,755	**244,809**	188,846
Provision for loan losses	**2,091**	659	**5,109**	1,898
Net interest income after provision for loan losses	**78,278**	79,096	**239,700**	186,948
Noninterest income:				
Service charges on deposit accounts	**9,126**	8,966	**27,258**	20,462
Bankcard services income	**7,489**	6,476	**22,314**	14,614
Trust and investment services income	**4,490**	3,593	**13,845**	8,345
Mortgage banking income	**4,124**	1,342	**12,098**	6,629
Securities gains	**(90)**		**(2)**	
Amortization of FDIC indemnification assets, net	**(4,825)**	(7,625)	**(17,718)**	(22,106)
Other	**4,139**	2,418	**11,602**	5,229
Total noninterest income	**24,453**	15,170	**69,397**	33,173
Noninterest expense:				
Salaries and employee benefits	**40,029**	34,463	**119,398**	81,461
Merger and branding related expense	**6,846**	10,397	**19,341**	13,220
Net occupancy expense	**5,387**	5,079	**16,758**	11,696
Information services expense	**3,417**	3,905	**12,154**	10,088
Furniture and equipment expense	**3,166**	3,513	**10,171**	8,296
Bankcard expense	**2,141**	1,865	**6,520**	4,264
Amortization of intangibles	**2,080**	1,738	**6,268**	3,794
OREO expense and loan related	**3,374**	3,461	**9,313**	9,383
FDIC assessment and other regulatory charges	**1,268**	1,521	**4,111**	3,841
Professional fees	**1,068**	1,329	**3,501**	2,780
Advertising and marketing	**837**	1,313	**2,984**	2,803
Other	**5,445**	6,824	**17,843**	15,109
Total noninterest expense	**75,058**	75,408	**228,362**	166,735
Earnings:				
Income before provision for income taxes	**27,673**	18,858	**80,735**	53,386
Provision for income taxes	**8,346**	6,804	**26,546**	18,151

Net income	**$**	**19,327**	$	12,054	**$**	**54,189**	$	35,235
Preferred stock dividends				542		**1,073**		542
Net income available to common shareholders	**$**	**19,327**	$	11,512	**$**	**53,116**	$	34,693
Earnings per common share:								
Basic	**$**	**0.81**	$	0.53	**$**	**2.22**	$	1.87
Diluted	**$**	**0.80**	$	0.52	**$**	**2.20**	$	1.85
Dividends per common share	**$**	**0.21**	$	0.19	**$**	**0.60**	$	0.55
Weighted-average common shares outstanding:								
Basic		**23,899**		21,894		**23,890**		18,518
Diluted		**24,160**		22,128		**24,139**		18,717

The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
Net income	**$ 19,327**	$ 12,054	**$ 54,189**	$ 35,235
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	**(2,877)**	(1,676)	**13,287**	(18,240)
Tax effect	**1,097**	639	**(5,066)**	6,955
Reclassification adjustment for losses included in net income	**90**		**2**	
Tax effect	**(34)**		**(1)**	
Net of tax amount	**(1,724)**	(1,037)	**8,222**	(11,285)
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	**41**	(77)	**(144)**	225
Tax effect	**(16)**	29	**55**	(86)
Reclassification adjustment for losses included in interest expense	**78**	77	**232**	229
Tax effect	**(30)**	(29)	**(88)**	(87)
Net of tax amount	**73**		**55**	281
Changes in pension plan obligation:				
Reclassification adjustment for changes included in net income	**165**		**495**	
Tax effect	**(63)**		**(190)**	
Net of tax amount	**102**		**305**	
Other comprehensive income (loss), net of tax	**(1,549)**	(1,037)	**8,582**	(11,004)
Comprehensive income	**$ 17,778**	$ 11,017	**$ 62,771**	$ 24,231

The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Changes in Shareholders Equity (unaudited)

Nine months ended September 30, 2014 and 2013

(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock			Retained	Accumulated Other Comprehensive	
	Shares	**Amount**	**Shares**	**Amount**	**Surplus**	**Earnings**	**Income (Loss)**	**Total**
Balance, December 31, 2012		$	16,937,464	$ 42,344	$ 328,843	$ 135,986	$ 376	$ 507,549
Comprehensive income						35,235	(11,004)	24,231
Cash dividends on Series A preferred stock at annual dividend rate of 5%						(542)		(542)
Cash dividends declared on common stock at $0.55 per share						(10,699)		(10,699)
Employee stock purchases			9,385	23	379			402
Stock options exercised			37,021	92	962			1,054
Restricted stock awards			77,354	194	(194)			
Common stock repurchased			(12,953)	(32)	(641)			(673)
Share-based compensation expense					2,332			2,332
Common stock issued in First Financial Holdings, Inc. acquisition			7,018,274	17,545	363,827			381,372
Preferred stock assumed in First Financial Holdings, Inc. acquisition	65,000	1			64,999			65,000
Balance, September 30, 2013	65,000	$ 1	24,066,545	$ 60,166	$ 760,507	$ 159,980	$ (10,628)	$ 970,026
Balance, December 31, 2013	**65,000**	**$ 1**	**24,104,124**	**$ 60,260**	**$ 762,354**	**$ 168,577**	**$ (9,723)**	**$ 981,469**
Comprehensive income						**54,189**	**8,582**	**62,771**
Cash dividends on Series A preferred stock at annual dividend rate of 9%						**(1,073)**		**(1,073)**
Cash dividends declared on common stock at $0.60 per share						**(14,474)**		**(14,474)**
Employee stock purchases			**7,058**	**18**	**395**			**413**
Stock options exercised			**9,122**	**23**	**248**			**271**
Restricted stock awards			**21,560**	**54**	**(54)**			
Repurchase of Series A preferred stock	**(65,000)**	**(1)**			**(64,999)**			**(65,000)**
Common stock repurchased			**(6,644)**	**(17)**	**(387)**			**(404)**
Share-based compensation expense					**3,022**			**3,022**
Balance, September 30, 2014		**$**	**24,135,220**	**$ 60,338**	**$ 700,579**	**$ 207,219**	**$ (1,141)**	**$ 966,995**

The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$ **54,189**	$ 35,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**15,846**	11,811
Provision for loan losses	**5,109**	1,898
Deferred income taxes	**7,301**	11,712
Gain on sale of securities	**2**	
Share-based compensation expense	**3,022**	2,332
Amortization on FDIC indemnification asset	**17,718**	22,106
Accretion of discount related to performing acquired loans	**(7,580)**	(3,505)
Loss on sale of premises and equipment	**1,402**	5
Gain on sale of OREO	**(6,826)**	(8,809)
Net amortization of premium on investment securities	**3,057**	3,014
OREO write downs	**8,673**	5,180
Originations and purchases of mortgage loans for sale	**(560,000)**	(674,295)
Proceeds from sales of mortgage loans for sale	**533,982**	706,971
Net change in:		
Accrued interest receivable	**(4,129)**	(3,462)
Prepaid assets	**4,845**	4,166
FDIC Loss Share Receivable	**37,567**	37,629
Accrued interest payable	**(1,154)**	(1,629)
Accrued income taxes	**(5,813)**	33,144
Miscellaneous assets and liabilities	**(12,542)**	(12,642)
Net cash provided by operating activities	**94,669**	170,861
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	**9,315**	177,468
Proceeds from maturities and calls of investment securities held to maturity	**1,535**	3,014
Proceeds from maturities and calls of investment securities available for sale	**114,441**	121,535
Proceeds from sales of investment securities held to maturity	**411**	
Proceeds from sales of other investment securities	**2,868**	17,019
Purchases of investment securities available for sale	**(131,823)**	(121,018)
Purchases of other investments	**(6,186)**	
Net decrease (increase) in loans	**(21,877)**	113,143
Net cash received from acquisitions		173,502
Purchases of premises and equipment	**(13,258)**	(7,291)
Proceeds from sale of credit card loans	**20,350**	
Proceeds from sale of OREO	**48,102**	44,578
Proceeds from sale of premises and equipment	**3,914**	50
Net cash provided by investing activities	**27,792**	522,000
Cash flows from financing activities:		
Net decrease in deposits	**(37,269)**	(157,066)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**19,828**	(4,829)
Repayment of other borrowings	**(1,186)**	(256,072)
Common stock issuance	**413**	402

Preferred stock repurchase		**(65,000)**		
Common stock repurchase		**(404)**		(673)
Dividends paid on preferred stock		**(1,073)**		(542)
Dividends paid on common stock		**(14,474)**		(10,699)
Stock options exercised		**271**		1,054
Net cash used in financing activities		**(98,894)**		(428,425)
Net increase in cash and cash equivalents		**23,567**		264,436
Cash and cash equivalents at beginning of period		**479,461**		380,730
Cash and cash equivalents at end of period	**$**	**503,028**	$	645,166
Supplemental Disclosures:				
Cash Flow Information:				
Cash paid for:				
Interest	**$**	**12,988**	$	5,199
Income taxes	**$**	**22,239**	$	8,408
Schedule of Noncash Investing Transactions:				
Real estate acquired in full or in partial settlement of loans (covered of $13,393 and $17,499, respectively; and non-covered of $22,888 and $22,106, respectively)	**$**	**36,281**	$	39,605

The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

On June 30, 2014, First Financial Holdings, Inc. changed its name to South State Corporation, and SCBT, the wholly-owned bank subsidiary of South State Corporation, changed its name to South State Bank. Unless otherwise mentioned or unless the context requires otherwise, references herein to South State, the Company we, us, our or similar references mean South State Corporation and its consolidated subsidiar References to the Bank means South State Bank, a South Carolina banking corporation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States (GAAP) 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. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for complete financial statements.

Note 2 Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission (the SEC) on February 28, 2014, should be referenced when reading these unaudited condensed consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events for accounting and disclosure purposes through the date the financial statements are issued.

Note 3 Recent Accounting and Regulatory Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-14: *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40) Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure* (ASU 2014-14). ASU 2014-14 provides clarifying guidance related to how creditors classify government-guaranteed loans upon foreclosure. ASU 2014-14 requires that a mortgage loan be derecognized and a separate receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The amendments can be applied using either a prospective transition method or a modified retrospective transition method. Early adoption is permitted. The adoption of ASU 2014-14 is not expected to have a material impact on the Company s financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force* (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. An entity may apply the standards (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. The adoption of ASU 2014-12 is not expected to have a material impact on the Company s financial statements.

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Note 3 Recent Accounting and Regulatory Pronouncements (Continued)

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but does not expect it to have a material impact.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers, Topic 606* (ASU 2014-09). The new standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but the Company does not expect it to have a material impact.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force* (ASU 2014-04). ASU 2014-04 clarifies that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective for public companies for interim and annual periods beginning after December 15, 2014, with early adoption permitted. Once adopted, an entity can elect either (i) a modified retrospective transition method or (ii) a prospective transition method. The modified retrospective transition method is applied by means of a cumulative-effect adjustment to residential mortgage loans and foreclosed residential real estate properties existing as of the beginning of the period for which the amendments of ASU 2014-04 are effective, with real estate reclassified to loans measured at the carrying value of the real estate at the date of adoption and loans reclassified to real estate measured at the lower of net carrying value of the loan or the fair value of the real estate less costs to sell at the date of adoption. The prospective transition method is applied by means of applying the amendments of ASU 2014-04 to all instances of receiving physical possession of residential real estate properties that occur after the date of adoption. The adoption of ASU 2014-04 is not expected to have a material impact on the Company s financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* (ASU 2014-01). ASU 2014-01 amends FASB ASC 323, *Investments Equity Method and Joint Ventures*, to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). ASU 2014-01 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 and should be applied retrospectively. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but the Company does not expect it to have a material impact.

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (ASU 2013-10). The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013 and did not have a significant impact on the Company s financial statements.

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Note 4 Mergers and Acquisitions

The following mergers and acquisitions are referenced throughout this Form 10-Q:

- Community Bank & Trust (CBT) January 29, 2010 Federal Deposit Insurance Corporation (FDIC) purchase and assumption agreement
- Habersham Bank (Habersham) February 18, 2011 FDIC purchase and assumption agreement
- BankMeridian, N.A. (BankMeridian) July 29, 2011 FDIC purchase and assumption agreement
- Peoples Bancorporation, Inc. (Peoples) April 24, 2012 Whole bank acquisition
- The Savannah Bancorp, Inc. (Savannah) December 13, 2012 Whole bank acquisition
- Former First Financial Holdings, Inc. (FFHI) July 26, 2013 Whole bank acquisition with FDIC purchase and assumption agreements of Cape Fear Bank (Cape Fear) April 10, 2009 and Plantation Federal Bank (Plantation) April 27, 2012

FDIC purchase and assumption agreement means that only certain assets and liabilities were acquired by the bank from the FDIC. A whole bank acquisition means that the two parties in the transaction agreed to the transaction, and there was no involvement of the FDIC. A whole bank acquisition with FDIC purchase and assumption agreements means that the two parties in the transaction agreed to the merger, and there were existing FDIC purchase and assumption agreements.

First Financial Holdings, Inc. Merger

On July 26, 2013, the Company acquired all of the outstanding common stock of FFHI, of Charleston, South Carolina, the bank holding company for First Federal Bank (First Federal), in a stock transaction. FFHI common shareholders received 0.4237 shares of the Company s common stock in exchange for each share of FFHI common stock, resulting in the Company issuing 7,018,274 shares of its common stock. Each outstanding share of FFHI Fixed Rate Cumulative Perpetual Preferred Stock, Series A (FFHI Preferred Stock), was converted into the right to receive one share of preferred stock of the Company, designated Series A Fixed Rate Cumulative Perpetual Preferred Stock and having such rights, preferences and privileges as are not materially less favorable than the rights, preferences and privileges of the FFHI Preferred Stock. In total, the purchase price for the FFHI acquisition was $447.0 million including $65.0 million in preferred stock and the value of in the money outstanding stock options (i.e., stock options for which the exercise price of the stock option is below the market price of the underlying stock) totaling $530,000. On March 28, 2014, the Company redeemed all 65,000 outstanding shares of the Series A Fixed Rate Cumulative Perpetual Preferred Stock. The shares had a liquidation preference of $1,000 per share and dividends were accruing at 9% per annum.

The FFHI transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date.

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Note 4 Mergers and Acquisitions (Continued)

The following table presents the assets acquired and liabilities assumed as of July 26, 2013, as recorded by FFHI on the acquisition date and initial and subsequent fair value adjustments.

(Dollars in thousands)	As Recorded by FFHI	Initial Fair Value Adjustments	Subsequent Fair Value Adjustments	As Recorded by the Company
Assets				
Cash and cash equivalents	$ 174,082	$	$	$ 174,082
Investment securities	313,200	(1,388)(a)		311,812
Loans held for sale	19,858	6(b)		19,864
Loans	2,355,527	(92,720)(b)	12,875(b)	2,275,682
Premises and equipment	82,399	(5,435)(c)	(597)(c)	76,367
Intangible assets	7,037	33,738(d)	(2,542)(d)	38,233
Mortgage servicing rights	19,156			19,156
Other real estate owned	13,271	(2,065)(e)	1,972(e)	13,178
FDIC receivable for loss sharing agreement	47,459	(18,122)(f), (k)	(7,624)(f)	21,713
Bank owned life insurance	51,513		(493)(m)	51,020
Deferred tax asset	(5,279)	42,741(g)	(4,585)(g)	32,877
Other assets	47,257	(6,125)(h)	4,248(l)	45,380
Total assets	$ 3,125,480	$ (49,370)	$ 3,254	$ 3,079,364
Liabilities				
Deposits:				
Noninterest-bearing	$ 430,517	$	$	$ 430,517
Interest-bearing	2,083,495	7,801(i)		2,091,296
Total deposits	2,514,012	7,801		2,521,813
Other borrowings	280,187	21,526(j)		301,713
Other liabilities	25,584	(2,059)(k)	(245)(k)	23,280
Total liabilities	2,819,783	27,268	(245)	2,846,806
Net identifiable assets acquired over (under) liabilities assumed	305,697	(76,638)	3,499	232,558
Goodwill		217,894	(3,499)	214,395
Net assets acquired over liabilities assumed	$ 305,697	$ 141,256	$	$ 446,953
Consideration:				
Common shares issued	7,018,274			
Purchase price per share of the Company s common stock	$ 54.34			
Company common stock issued and cash exchanged for fractional shares	381,423			
Cash paid for stock options outstanding	530			
Assumption of preferred stock	65,000			
Fair value of total consideration transferred	$ 446,953			

Explanation of fair value adjustments

(a) Adjustment reflects marking the securities portfolio to fair value as of the acquisition date.

(b) Adjustment reflects the fair value adjustments based on the Company s evaluation of the acquired loan portfolio and excludes the allowance for loan losses recorded by FFHI.

(c) Adjustment reflects the fair value adjustments based on the Company s evaluation of the acquired premises and equipment.

(d) Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts and other intangibles for credit cards and customer lists.

(e) Adjustment reflects the fair value adjustments to OREO based on the Company s evaluation of the acquired OREO portfolio. (f) Adjustment reflects the fair value adjustments to the FDIC receivable for loss sharing agreements based on the Company s evaluation of the losses on the acquired assets covered under loss share agreements with the FDIC net of any clawback.

(g) Adjustment to record deferred tax asset related to fair value adjustments.

(h) Adjustment reflects uncollectible portion of accrued interest receivable and loan fees receivable.

(i) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.

(j) Adjustment reflects the fair value adjustment which was equal to the prepayment fee paid to fully pay off the Federal Home Loan Bank (the FHLB) advances on July 26, 2013. This fair value adjustment and the fair value adjustment of the junior subordinated debt were determined based upon interest rates.

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Note 4 Mergers and Acquisitions (Continued)

(k) Adjustment reflects the reclassification of the clawback to net against the FDIC receivable, the incremental accrual for employee related benefits, lease liabilities, and adjustment of other miscellaneous accruals.

(l) Adjustment reflects the change in insurance-related receivable and increase in the current income tax receivable for the short-period income tax returns filed.

(m) Adjustment reflects the fair value adjustments to bank owned life insurance based on the Company s evaluation of the policies.

The operating results of the Company for the period ended September 30, 2014 include the operating results of the acquired assets and assumed liabilities since the acquisition date of July 26, 2013. Merger and branding related charges of $6.8 million and $19.3 million were recorded in the consolidated statements of income for the three and nine months ended September 30, 2014, respectively; and include incremental costs related to the closing of certain branch locations, employment related cost, professional cost (legal, accounting and audit related), travel, printing and supplies, and other related costs.

The following table discloses the impact of the merger with FFHI (excluding the impact of merger and branding related expenses) for the three and nine months ended September 30, 2014. The table also presents comparative pro forma information as if FFHI had been acquired on January 1, 2013. These results combine the historical results of FFHI in the Company s consolidated statements of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2013.

Merger-related costs of $35,000 and $2.9 million from the acquisition of Savannah were included in the Company s consolidated statements of income for the three and nine months ended September 30, 2013 and are not included in the pro forma information below. The Company expects to incur additional expenses related to systems conversions and other costs of integration during the remainder of 2014 related to the acquisition of FFHI. The Company also expects to achieve further operating cost savings and other business synergies as a result of the systems conversion and integration effort which are not reflected in the pro forma amounts below:

(Dollars in thousands)	Three Months Ended September 30, 2014	Pro Forma Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Pro Forma Nine Months Ended September 30, 2013
Total revenues *(net interest income plus noninterest income)*	**$ 104,822**	$ 107,069	**$ 314,206**	$ 329,046
Net operating income available to common shareholders	**$ 24,108**	$ 19,092	**$ 66,098**	$ 58,163

Note 5 Investment Securities

The following is the amortized cost and fair value of investment securities held to maturity:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014:				
State and municipal obligations	**$ 10,389**	**$ 630**	**$**	**$ 11,019**
December 31, 2013:				
State and municipal obligations	$ 12,426	$ 480	$ (15)	$ 12,891
September 30, 2013:				
State and municipal obligations	$ 12,426	$ 579	$ (13)	$ 12,992

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Note 5 Investment Securities (Continued)

The following is the amortized cost and fair value of investment securities available for sale:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2014:								
Government-sponsored entities debt *	**$**	**140,438**	**$**	**127**	**$**	**(3,106)**		**137,459**
State and municipal obligations		**137,733**		**3,834**		**(309)**		**141,258**
Mortgage-backed securities **		**519,569**		**5,608**		**(2,168)**		**523,009**
Corporate stocks		**3,161**		**538**		**(311)**		**3,388**
	$	**800,901**	**$**	**10,107**	**$**	**(5,894)**	**$**	**805,114**
December 31, 2013:								
Government-sponsored entities debt *	$	149,708	$	185	$	(6,899)	$	142,994
State and municipal obligations		142,934		1,798		(4,081)		140,651
Mortgage-backed securities **		500,000		4,394		(4,915)		499,479
Corporate stocks		3,161		638		(132)		3,667
	$	795,803	$	7,015	$	(16,027)	$	786,791
September 30, 2013:								
Government-sponsored entities debt *	$	107,906	$	282	$	(5,515)	$	102,673
State and municipal obligations		144,359		2,161		(3,942)		142,578
Mortgage-backed securities **		376,030		5,027		(2,431)		378,626
Corporate stocks		2,661		263		(3)		2,921
	$	630,956	$	7,733	$	(11,891)	$	626,798

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* - The Company s government-sponsored entities holdings are comprised of debt securities offered by Federal Home Loan Mortgage Corporation (FHLMC) or Freddie Mac, Federal National Mortgage Association (FNMA) or Fannie Mae, FHLB, and Federal Farm Credit Banks (FFCB). Also included in the Company s government-sponsored entities are debt securities offered by the Small Business Administration (SBA), which have the full faith and credit backing of the United States Government.

** - All of the mortgage-backed securities are issued by government-sponsored entities; there are no private-label holdings.

The following is the amortized cost and fair value of other investment securities:

(Dollars in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2014:								
Federal Home Loan Bank stock	**$**	**7,484**	**$**		**$**		**$**	**7,484**
Investment in unconsolidated subsidiaries		**3,034**						**3,034**
	$	**10,518**	**$**		**$**		**$**	**10,518**
December 31, 2013:								
Federal Home Loan Bank stock	$	10,352	$		$		$	10,352
Investment in unconsolidated subsidiaries		3,034						3,034
	$	13,386	$		$		$	13,386

September 30, 2013:							
Federal Home Loan Bank stock	$	10,352	$		$	$	10,352
Investment in unconsolidated subsidiaries		3,034					3,034
	$	13,386	$		$	$	13,386

The Company has determined that the investment in FHLB stock is not other than temporarily impaired as of September 30, 2014 and ultimate recoverability of the par value of these investments is probable.

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Note 5 Investment Securities (Continued)

The amortized cost and fair value of debt securities at September 30, 2014 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 730	$ 735	$ 6,990	$ 7,078
Due after one year through five years	986	1,019	23,994	24,262
Due after five years through ten years	8,673	9,265	234,954	235,857
Due after ten years			534,963	537,917
	$ 10,389	$ 11,019	$ 800,901	$ 805,114

Information pertaining to the Company s securities with gross unrealized losses at September 30, 2014, December 31, 2013 and September 30, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2014:				
Securities Available for Sale				
Government-sponsored entities debt	**$ 71**	**$ 18,422**	**$ 3,035**	**$ 81,384**
State and municipal obligations	**1**	**831**	**308**	**11,558**
Mortgage-backed securities	**811**	**147,160**	**1,357**	**62,638**
Corporate Stocks	**311**	**1,919**		
	$ 1,194	**$ 168,332**	**$ 4,700**	**$ 155,580**
December 31, 2013:				
Securities Held to Maturity				
State and municipal obligations	$ 15	$ 486	$	$
Securities Available for Sale				
Government-sponsored entities debt	$ 6,899	$ 112,085	$	$
State and municipal obligations	3,901	87,060	180	3,900
Mortgage-backed securities	4,874	263,383	41	2,125
Corporate stocks	132	2,099		
	$ 15,806	$ 464,627	$ 221	$ 6,025
September 30, 2013:				
Securities Held to Maturity				
State and municipal obligations	$ 13	$ 488	$	$
Securities Available for Sale				
Government-sponsored entities debt	$ 5,515	$ 85,500	$	$
State and municipal obligations	3,942	88,497		

Mortgage-backed securities	2,404	112,833	27	2,225
Corporate stocks	3	7		
	$ 11,864	$ 286,837	$ 27	$ 2,225

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Note 5 Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the anticipated outlook for changes in the general level of interest rates. All securities available for sale in an unrealized loss position as of September 30, 2014 continue to perform as scheduled. As part of the Company s evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at September 30, 2014. Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 385,318**	$ 299,951	$ 288,199
Commercial non-owner occupied	**318,470**	291,171	282,678
Total commercial non-owner occupied real estate	**703,788**	591,122	570,877
Consumer real estate:			
Consumer owner occupied	**702,521**	548,170	498,734
Home equity loans	**276,341**	257,139	255,291
Total consumer real estate	**978,862**	805,309	754,025
Commercial owner occupied real estate	**881,403**	833,513	814,259
Commercial and industrial	**355,580**	321,824	301,845
Other income producing property	**154,822**	143,204	140,024
Consumer	**183,451**	136,410	116,312
Other loans	**46,802**	33,834	43,900
Total non-acquired loans	**3,304,708**	2,865,216	2,741,242
Less allowance for loan losses	**(34,804)**	(34,331)	(36,145)
Non-acquired loans, net	**$ 3,269,904**	$ 2,830,885	$ 2,705,097

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following is a summary of acquired non-credit impaired loans accounted for under FASB ASC Topic 310-20, net of related discount:

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 27,705**	$ 58,396	$ 55,259
Commercial non-owner occupied	**50,307**	58,598	65,181
Total commercial non-owner occupied real estate	**78,012**	116,994	120,440
Consumer real estate:			
Consumer owner occupied	**673,099**	745,481	769,086
Home equity loans	**242,720**	264,150	274,893
Total consumer real estate	**915,819**	1,009,631	1,043,979
Commercial owner occupied real estate	**65,420**	73,714	83,133
Commercial and industrial	**35,072**	58,773	64,069
Other income producing property	**68,557**	74,566	78,344
Consumer	**214,463**	267,257	275,369
Total FASB ASC Topic 310-20 acquired loans	**$ 1,377,343**	$ 1,600,935	$ 1,665,334

In accordance with FASB ASC Topic 310-30, the Company aggregated acquired loans that have common risk characteristics into pools of loan categories as described in the table below.

The following is a summary of acquired credit impaired loans accounted for under FASB ASC Topic 310-30 (identified as credit impaired at the time of acquisition), net of related discount:

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	**$ 17,097**	$ 24,109	$ 25,934
Commercial real estate	**354,715**	439,785	477,968
Commercial real estate construction and development	**73,322**	114,126	130,967
Residential real estate	**406,276**	481,247	504,707
Consumer	**90,038**	103,998	108,420
Commercial and industrial	**46,988**	68,862	80,778
Single pay	**88**	129	114
Total FASB ASC Topic 310-30 acquired loans	**988,524**	1,232,256	1,328,888
Less allowance for loan losses	**(8,032)**	(11,618)	(12,260)
FASB ASC Topic 310-30 acquired loans, net	**$ 980,492**	$ 1,220,638	$ 1,316,628

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Note 6 Loans and Allowance for Loan Losses (Continued)

The table below reflects refined contractual loan payments (principal and interest), estimates of the amounts not expected to be collected (non-accretable difference), accretable yield (interest income recognized over time), and the resulting fair values at the acquisition date for FFHI (July 26, 2013). These refinements did not materially change the carrying value of these pools of loans. The changes were the result of the conversion to one loan system and a better projection of the timing of cash flows for these acquired credit impaired loans.

	July 26, 2013		
(Dollars in thousands)	**Loans Impaired at Acquisition**	**Loans Not Impaired at Acquisition**	**Total**
Contractual principal and interest	$ 662,273	$ 238,166	$ 900,439
Non-accretable difference	(110,069)	(11,905)	(121,974)
Cash flows expected to be collected	552,204	226,261	778,465
Accretable yield	(129,834)	(52,122)	(181,956)
Carrying value	$ 422,370	$ 174,139	$ 596,509

The table above excludes $1.67 billion ($1.71 billion in contractual principal less a $40.6 million fair value adjustment) in acquired loans at fair value that were identified as either performing with no discount related to credit or as revolving lines of credit (commercial or consumer) as of the acquisition date and are accounted for under FASB ASC Topic 310-20.

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of acquired credit impaired loans as of September 30, 2014, December 31, 2013 and September 30, 2013 are as follows:

(Dollars in thousands)	**September 30, 2014**	**December 31, 2013**	**September 30, 2013**
Contractual principal and interest	**$ 1,416,207**	$ 1,727,417	$ 1,871,569
Non-accretable difference	**(161,465)**	(193,645)	(231,865)
Cash flows expected to be collected	**1,254,742**	1,533,772	1,639,704
Accretable yield	**(266,218)**	(301,516)	(310,816)
Carrying value	**$ 988,524**	$ 1,232,256	$ 1,328,888
Allowance for acquired loan losses	**$ (8,032)**	$ (11,618)	$ (12,260)

Income on acquired credit impaired loans that are not impaired at the acquisition date is recognized in the same manner as loans impaired at the acquisition date. A portion of the fair value discount on acquired non-impaired loans has been ascribed as an accretable difference that is accreted into interest income over the estimated remaining life of the loans. The remaining nonaccretable difference represents cash flows not expected to be collected.

The following are changes in the carrying value of acquired credit impaired loans:

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013
Balance at beginning of period	**$ 1,220,638**	$ 969,395
Fair value of acquired loans		596,509
Net reductions for payments, foreclosures, and accretion	**(243,732)**	(248,284)
Change in the allowance for loan losses on acquired loans	**3,586**	(992)
Balance at end of period, net of allowance for loan losses on acquired loans	**$ 980,492**	$ 1,316,628

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Note 6 Loans and Allowance for Loan Losses (Continued)

The table below reflects refined accretable difference for acquired credit impaired loans for the nine months ended September 30, 2014 and 2013 (see the discussion on the previous page for more information):

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013
Balance at beginning of period	**$ 301,516**	$ 160,849
Addition from the FFHI acquisition		181,956
Accretion	**(79,579)**	(72,004)
Reclass of nonaccretable difference due to improvement in expected cash flows	**46,960**	48,244
Other changes, net	**(2,679)**	(8,229)
Balance at end of period	**$ 266,218**	$ 310,816

Our loan loss policy adheres to generally accepted accounting principles in the United States as well as interagency guidance. The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The allowance for loan losses on non-acquired loans consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience for each class of loans and management s evaluation and risk grading of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. Currently, these adjustments are applied to the non-acquired loan portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management s evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Generally, the need for specific reserve is evaluated on impaired loans greater than $250,000, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

With the FFHI acquisition, the Company segregated the loan portfolio into performing loans (non-credit impaired) and acquired credit impaired loans. The performing loans and revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non-acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

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Note 6 Loans and Allowance for Loan Losses (Continued)

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are reclassified from the non-accretable difference to accretable difference and recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Management analyzes the acquired loan pools using various assessments of risk to determine an expected loss. The expected loss is derived based upon a loss given default based upon the collateral type and/or detailed review by loan officers and the probability of default that is determined based upon historical data at the loan level. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses.

An aggregated analysis of the changes in allowance for loan losses is as follows:

(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Three months ended September 30, 2014:				
Balance at beginning of period	$ 35,422	$	$ 9,159	$ 44,581
Loans charged-off	(2,713)	(879)		(3,592)
Recoveries of loans previously charged off	575	441		1,016
Net charge-offs	(2,138)	(438)		(2,576)
Provision for loan losses	1,520	438	(658)	1,300
Benefit attributable to FDIC loss share agreements			791	791
Total provision for loan losses charged to operations	1,520	438	133	2,091
Provision for loan losses recorded through the FDIC loss share receivable			(791)	(791)
Reduction due to loan removals			(469)	(469)
Balance at end of period	$ 34,804	$	$ 8,032	$ 42,836
Three months ended September 30, 2013:				
Balance at beginning of period	$ 38,625	$	$ 14,461	$ 53,086
Loans charged-off	(4,294)			(4,294)
Recoveries of loans previously charged off	1,249			1,249
Net charge-offs	(3,045)			(3,045)
Provision for loan losses	565		(456)	109
Benefit attributable to FDIC loss share agreements			550	550
Total provision for loan losses charged to operations	565		94	659
Provision for loan losses recorded through the FDIC loss share receivable			(550)	(550)
Reduction due to loan removals			(1,745)	(1,745)
Balance at end of period	$ 36,145	$	$ 12,260	$ 48,405

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Note 6 Loans and Allowance for Loan Losses (Continued)

(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Nine months ended September 30, 2014:				
Balance at beginning of period	**$ 34,331**	**$**	**$ 11,618**	**$ 45,949**
Loans charged-off	**(5,972)**	**(879)**		**(6,851)**
Recoveries of loans previously charged off	**2,170**	**441**		**2,611**
Net charge-offs	**(3,802)**	**(438)**		**(4,240)**
Provision for loan losses	**4,275**	**438**	**(1,792)**	**2,921**
Benefit attributable to FDIC loss share agreements			**2,188**	**2,188**
Total provision for loan losses charged to operations	**4,275**	438	**396**	**5,109**
Provision for loan losses recorded through the FDIC loss share receivable			**(2,188)**	**(2,188)**
Reduction due to loan removals			**(1,794)**	**(1,794)**
Balance at end of period	**$ 34,804**	**$**	**$ 8,032**	**$ 42,836**
Nine months ended September 30, 2013:				
Balance at beginning of period	$ 44,378	$	$ 17,218	$ 61,596
Loans charged-off	(12,121)			(12,121)
Recoveries of loans previously charged off	2,870			2,870
Net charge-offs	(9,251)			(9,251)
Provision for loan losses	1,018		(991)	27
Benefit attributable to FDIC loss share agreements			1,871	1,871
Total provision for loan losses charged to operations	1,018		880	1,898
Provision for loan losses recorded through the FDIC loss share receivable			(1,871)	(1,871)
Reduction due to loan removals			(3,967)	(3,967)
Balance at end of period	$ 36,145	**$**	$ 12,260	$ 48,405

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Three months ended September 30, 2014										
Allowance for loan losses:										
Balance, June 30, 2014	$ 6,652	$ 3,398	$ 7,958	$ 6,537	$ 2,975	$ 3,640	$ 2,588	$ 1,270	$ 404	$ 35,422
Charge-offs	(825)		(3)		(501)	(4)	(83)	(1,297)		(2,713)
Recoveries	120	5	68	20	18	93	13	238		575
Provision	464	(307)	123	(83)	346	(187)	70	1,120	(26)	1,520
Balance, September 30, 2014	$ 6,411	$ 3,096	$ 8,146	$ 6,474	$ 2,838	$ 3,542	$ 2,588	$ 1,331	$ 378	$ 34,804
Loans individually evaluated for impairment	$ 402	$ 30	$ 100	$ 121	$	$ 12	$ 711	$ 1	$	$ 1,377
Loans collectively evaluated for impairment	$ 6,009	$ 3,066	$ 8,046	$ 6,353	$ 2,838	$ 3,530	$ 1,877	$ 1,330	$ 378	$ 33,427
Loans:										
Loans individually evaluated for impairment	$ 4,876	$ 3,784	$ 9,436	$ 2,427	$	$ 1,110	$ 6,380	$ 50	$	$ 28,063
Loans collectively evaluated for impairment	380,442	314,686	871,967	700,094	276,341	354,470	148,442	183,401	46,802	3,276,645
Total non-acquired loans	$ 385,318	$ 318,470	$ 881,403	$ 702,521	$ 276,341	$ 355,580	$ 154,822	$ 183,451	$ 46,802	$ 3,304,708
Three months ended September 30, 2013										
Allowance for loan losses:										
Balance, June 30, 2013	$ 8,431	$ 4,866	$ 7,984	$ 6,438	$ 2,974	$ 4,039	$ 3,260	$ 426	$ 207	$ 38,625
Charge-offs	(1,244)	(652)	(219)	(888)	(206)	(154)	(179)	(751)		(4,293)
Recoveries	650	18	1	104	75	187	12	201		1,248
Provision	(108)	(462)	(53)	448	91	(301)	(58)	955	53	565
Balance, September 30, 2013	$ 7,729	$ 3,770	$ 7,713	$ 6,102	$ 2,934	$ 3,771	$ 3,035	$ 831	$ 260	$ 36,145
Loans individually evaluated for impairment	$ 558	$	$ 19	$ 21	$	$	$ 703	$	$	$ 1,301
Loans collectively evaluated for impairment	$ 7,171	$ 3,770	$ 7,694	$ 6,081	$ 2,934	$ 3,771	$ 2,332	$ 831	$ 260	$ 34,844
Loans:										
Loans individually evaluated for impairment	$ 8,201	$ 2,804	$ 14,683	$ 575	$	$ 707	$ 2,614	$	$	$ 29,584

Loans collectively evaluated for impairment	279,998	279,874	799,576	498,159	255,291	301,138	137,410	116,312	43,900	2,711,658
Total non-acquired loans	$ 288,199	$ 282,678	$ 814,259	$ 498,734	$ 255,291	$ 301,845	$ 140,024	$ 116,312	$ 43,900	$ 2,741,242

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Nine months ended September 30, 2014										
Allowance for loan losses:										
Balance, December 31, 2013	**$ 6,789**	**$ 3,677**	**$ 7,767**	**$ 6,069**	**$ 2,782**	**$ 3,592**	**$ 2,509**	**$ 937**	**$ 209**	**$ 34,331**
Charge-offs	**5**	**(236)**	**(531)**	**(299)**	**(917)**	**(1,024)**	**(251)**	**(2,719)**		**(5,972)**
Recoveries	**362**	**352**	**85**	**262**	**58**	**221**	**172**	**658**		**2,170**
Provision	**(745)**	**(697)**	**825**	**442**	**915**	**753**	**158**	**2,455**	**169**	**4,275**
Balance, September 30, 2014	**$ 6,411**	**$ 3,096**	**$ 8,146**	**$ 6,474**	**$ 2,838**	**$ 3,542**	**$ 2,588**	**$ 1,331**	**$ 378**	**$ 34,804**
Nine months ended September 30, 2013										
Allowance for loan losses:										
Balance, December 31, 2012	$ 10,836	$ 4,921	$ 8,743	$ 6,568	$ 3,626	$ 4,939	$ 3,747	$ 781	$ 217	$ 44,378
Charge-offs	(4,457)	(652)	(1,622)	(1,276)	(868)	(781)	(652)	(1,813)		(12,121)
Recoveries	1,043	345	16	234	174	324	123	611		2,870
Provision	307	(844)	576	576	2	(711)	(183)	1,252	43	1,018
Balance, September 30, 2013	$ 7,729	$ 3,770	$ 7,713	$ 6,102	$ 2,934	$ 3,771	$ 3,035	$ 831	$ 260	$ 36,145

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired non-credit impaired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Three months ended September 30, 2014									
Allowance for loan losses:									
Balance, June 30, 2014	$	$	$	$	$	$	$	$	$
Charge-offs	(60)			(22)	(363)	(273)	(14)	(147)	(879)
Recoveries				1	79	347		14	441
Provision	60			21	284	(74)	14	133	438
Balance, September 30, 2014	$	$	$	$	$	$	$	$	$
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans:									
Loans individually evaluated for impairment	$ 169	$	$	$	$	$ 55	$	$	$ 224
Loans collectively evaluated for impairment	27,536	50,307	65,420	673,099	242,720	35,017	68,557	214,463	1,377,119
Total non-acquired loans	$ 27,705	$ 50,307	$ 65,420	$ 673,099	$ 242,720	$ 35,072	$ 68,557	$ 214,463	$ 1,377,343

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired non-credit impaired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Nine months ended September 30, 2014									
Allowance for loan losses:									
Balance, December 31, 2013	$	$	$	$	$	$	$	$	$
Charge-offs	(60)			(22)	(363)	(273)	(14)	(147)	(879)
Recoveries				1	79	347		14	441
Provision	60			21	284	(74)	14	133	438
Balance, September 30, 2014	$	$	$	$	$	$	$	$	$

As of September 30, 2013, the Company had not recorded an allowance for loan losses for acquired non-credit impaired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired credit impaired loans:

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Three months ended September 30, 2014								
Allowance for loan losses:								
Balance, June 30, 2014	$ 201	$ 1,616	$ 815	$ 5,118	$ 385	$ 950	$ 74	$ 9,159
Provision for loan losses before benefit attributable to FDIC loss share agreements	(6)	(132)	(9)	(279)	(39)	(191)	(2)	(658)
Benefit attributable to FDIC loss share agreements	6	144	9	394	40	198		791
Total provision for loan losses charged to operations		12		115	1	7	(2)	133
Provision for loan losses recorded through the FDIC loss share receivable	(6)	(144)	(9)	(394)	(40)	(198)		(791)
Reduction due to loan removals			(405)	(32)	(16)	(16)		(469)
Balance, September 30, 2014	$ 195	$ 1,484	$ 401	$ 4,807	$ 330	$ 743	$ 72	$ 8,032
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$ 195	$ 1,484	$ 401	$ 4,807	$ 330	$ 743	$ 72	$ 8,032
Loans:*								
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	17,097	354,715	73,322	406,276	90,038	46,988	88	988,524
Total acquired loans	$ 17,097	$ 354,715	$ 73,322	$ 406,276	$ 90,038	$ 46,988	$ 88	$ 988,524
Three months ended September 30, 2013:								
Allowance for loan losses:								
Balance, June 30, 2013	$ 1,855	$ 821	$ 4,392	$ 4,727	$ 475	$ 2,100	$ 91	$ 14,461
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,284)	331	(39)	485	1	(55)	105	(456)
Benefit attributable to FDIC loss share agreements	1,220	(264)	31	(390)	(1)	53	(99)	550
Total provision for loan losses charged to operations	(64)	67	(8)	95		(2)	6	94
Provision for loan losses recorded through the FDIC loss share receivable	(1,220)	264	(31)	390	1	(53)	99	(550)
Reduction due to loan removals	(436)		(1,209)	2		(102)		(1,745)
Balance, September 30, 2013	$ 135	$ 1,152	$ 3,144	$ 5,214	$ 476	$ 1,943	$ 196	$ 12,260
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$ 135	$ 1,152	$ 3,144	$ 5,214	$ 476	$ 1,943	$ 196	$ 12,260

Loans:*								
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	25,934	477,968	130,967	504,707	108,420	80,778	114	1,328,888
Total acquired loans	$ 25,934	$ 477,968	$ 130,967	$ 504,707	$ 108,420	$ 80,778	$ 114	$ 1,328,888

* The carrying value of acquired credit impaired loans includes a non-accretable difference which is primarily associated with the assessment of credit quality of acquired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired credit impaired loans:

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Nine months ended September 30, 2014								
Allowance for loan losses:								
Balance, December 31, 2013	**$ 303**	**$ 1,816**	**$ 2,244**	**$ 5,132**	**$ 538**	**$ 1,481**	**$ 104**	**$ 11,618**
Provision for loan losses before benefit attributable to FDIC loss share agreements	**(129)**	**(328)**	**(623)**	**(205)**	**(144)**	**(366)**	**3**	**(1,792)**
Benefit attributable to FDIC loss share agreements	**182**	**364**	**795**	**338**	**141**	**372**	**(4)**	**2,188**
Total provision for loan losses charged to operations	**53**	**36**	**172**	**133**	**(3)**	**6**	**(1)**	**396**
Provision for loan losses recorded through the FDIC loss share receivable	**(182)**	**(364)**	**(795)**	**(338)**	**(141)**	**(372)**	**4**	**(2,188)**
Reduction due to loan removals	**21**	**(4)**	**(1,220)**	**(120)**	**(64)**	**(372)**	**(35)**	**(1,794)**
Balance, September 30, 2014	**$ 195**	**$ 1,484**	**$ 401**	**$ 4,807**	**$ 330**	**$ 743**	**$ 72**	**$ 8,032**
Nine months ended September 30, 2013:								
Allowance for loan losses:								
Balance, December 31, 2012	$ 5,337	$ 1,517	$ 1,628	$ 4,207	$ 96	$ 4,139	$ 294	$ 17,218
Provision for loan losses before benefit attributable to FDIC loss share agreements	(3,263)	(365)	2,725	1,018	380	(1,408)	(78)	(991)
Benefit attributable to FDIC loss share agreements	3,098	240	(2,067)	(494)	(318)	1,337	75	1,871
Total provision for loan losses charged to operations	(165)	(125)	658	524	62	(71)	(3)	880
Provision for loan losses recorded through the FDIC loss share receivable	(3,098)	(240)	2,067	494	318	(1,337)	(75)	(1,871)
Reduction due to loan removals	(1,939)		(1,209)	(11)		(788)	(20)	(3,967)
Balance, September 30, 2013	$ 135	$ 1,152	$ 3,144	$ 5,214	$ 476	$ 1,943	$ 196	$ 12,260

As part of the ongoing monitoring of the credit quality of the Company s loan portfolio, management tracks certain credit quality indicators, including trends related to (i) the level of classified loans, (ii) net charge-offs, (iii) non-performing loans (see details below), and (iv) the general economic conditions of the markets that we serve.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- Pass These loans range from minimal credit risk to average, however, still acceptable credit risk.

- Special mention A special mention loan has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution s credit position at some future date.

- Substandard A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents the credit risk profile by risk grade of commercial loans for non-acquired loans:

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 358,474**	$ 263,698	$ 244,321	**$ 292,231**	$ 259,120	$ 238,940	**$ 827,322**	$ 785,406	$ 764,267
Special mention	**16,433**	20,814	24,775	**20,412**	24,779	35,052	**39,261**	26,148	23,871
Substandard	**10,411**	15,439	19,103	**5,827**	7,272	8,686	**14,820**	21,959	26,121
Doubtful									
	$ 385,318	$ 299,951	$ 288,199	**$ 318,470**	$ 291,171	$ 282,678	**$ 881,403**	$ 833,513	$ 814,259

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 346,394**	$ 309,360	$ 288,945	**$ 139,946**	$ 124,519	$ 121,565	**$ 1,964,367**	$ 1,742,103	$ 1,658,038
Special mention	**7,786**	10,376	9,734	**8,078**	9,903	9,282	**91,970**	92,020	102,714
Substandard	**1,400**	2,088	3,135	**6,798**	8,753	9,177	**39,256**	55,511	66,222
Doubtful			31		29			29	31
	$ 355,580	$ 321,824	$ 301,845	**$ 154,822**	$ 143,204	$ 140,024	**$ 2,095,593**	$ 1,889,663	$ 1,827,005

The following table presents the credit risk profile by risk grade of consumer loans for non-acquired loans:

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 660,578**	$ 500,999	$ 454,368	**$ 262,080**	$ 243,615	$ 241,624	**$ 182,489**	$ 135,476	$ 115,163
Special mention	**24,144**	25,317	21,444	**9,097**	8,437	8,218	**636**	646	849
Substandard	**16,899**	21,854	22,922	**5,142**	5,064	5,426	**326**	288	300
Doubtful	**900**			**22**	23	23			
	$ 702,521	$ 548,170	$ 498,734	**$ 276,341**	$ 257,139	$ 255,291	**$ 183,451**	$ 136,410	$ 116,312

	Other			Consumer Total		
	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 46,802**	$ 33,834	$ 43,900	**$ 1,151,949**	$ 913,924	$ 855,055
Special mention				**33,877**	34,400	30,511
Substandard				**22,367**	27,206	28,648
Doubtful				**922**	23	23
	$ 46,802	$ 33,834	$ 43,900	**$ 1,209,115**	$ 975,553	$ 914,237

The following table presents the credit risk profile by risk grade of total non-acquired loans:

	Total Non-acquired Loans		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 3,116,316**	$ 2,656,027	$ 2,513,093
Special mention	**125,847**	126,420	133,225
Substandard	**61,623**	82,717	94,870
Doubtful	**922**	52	54
	$ 3,304,708	$ 2,865,216	$ 2,741,242

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents the credit risk profile by risk grade of commercial loans for acquired non-credit impaired loans:

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 25,855**	$ 57,389	$ 54,863	**$ 42,087**	$ 56,539	$ 63,362	**$ 64,283**	$ 71,984	$ 81,973
Special mention	**805**	109		**7,982**	1,565	1,332	**363**	318	325
Substandard	**1,045**	898	396	**238**	494	487	**774**	1,412	835
Doubtful									
	$ 27,705	$ 58,396	$ 55,259	**$ 50,307**	$ 58,598	$ 65,181	**$ 65,420**	$ 73,714	$ 83,133

	Commercial & Industrial			Other Income Producing Property		
	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 33,163**	$ 56,777	$ 61,025	**$ 66,202**	$ 70,812	$ 75,624
Special mention	**869**	924	2,280	**899**	2,177	1,869
Substandard	**1,040**	1,072	764	**1,456**	1,577	851
Doubtful						
	$ 35,072	$ 58,773	$ 64,069	**$ 68,557**	$ 74,566	$ 78,344

The following table presents the credit risk profile by risk grade of consumer loans for acquired non-credit impaired loans:

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 666,517**	$ 742,778	$ 767,359	**$ 229,377**	$ 246,274	$ 257,631	**$ 211,709**	$ 266,645	$ 270,728
Special mention	**2,200**	417	425	**5,490**	6,733	6,517	**600**	127	1,899
Substandard	**4,382**	2,286	1,302	**7,853**	11,143	10,745	**2,154**	485	2,741
Doubtful									
	$ 673,099	$ 745,481	$ 769,086	**$ 242,720**	$ 264,150	$ 274,893	**$ 214,463**	$ 267,257	$ 275,368

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents the credit risk profile by risk grade of acquired credit impaired loans (identified as credit-impaired at the time of acquisition), net of the related discount (this table should be read in conjunction with the allowance for acquired credit impaired loan losses table found on page 21):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate Construction and Development		
(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 12,431**	$ 12,047	$ 12,603	**$ 218,900**	$ 244,293	$ 220,307	**$ 28,135**	$ 38,748	$ 41,115
Special mention	**1,041**	2,513	2,635	**41,711**	46,159	69,406	**10,346**	13,762	19,672
Substandard	**3,625**	9,549	10,696	**94,104**	149,333	188,255	**34,841**	61,616	70,180
Doubtful									
	$ 17,097	$ 24,109	$ 25,934	**$ 354,715**	$ 439,785	$ 477,968	**$ 73,322**	$ 114,126	$ 130,967

	Residential Real Estate			Consumer			Commercial & Industrial		
	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 185,636**	$ 203,296	$ 208,086	**$ 8,150**	$ 8,804	$ 8,639	**$ 27,211**	$ 38,450	$ 41,031
Special mention	**78,683**	91,468	93,537	**30,616**	38,322	40,038	**2,853**	3,968	4,173
Substandard	**141,957**	186,405	203,084	**51,272**	56,872	59,743	**16,924**	26,444	35,458
Doubtful		78							116
	$ 406,276	$ 481,247	$ 504,707	**$ 90,038**	$ 103,998	$ 108,420	**$ 46,988**	$ 68,862	$ 80,778

	Single Pay		
	September 30, 2014	December 31, 2013	September 30, 2013
Pass	**$ 60**	$ 52	$ 46
Special mention			
Substandard	**28**	77	68
Doubtful			
	$ 88	$ 129	$ 114

The risk grading of acquired credit impaired loans is determined utilizing a loan s contractual balance, while the amount recorded in the financial statements and reflected above is the carrying value. In an FDIC-assisted acquisition, covered acquired loans are initially recorded at their fair value, including a credit discount due to the high concentration of substandard and doubtful loans. In addition to the credit discount and the allowance for loan losses on covered acquired loans, the Company s risk of loss is mitigated by the FDIC loss share arrangement.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents an aging analysis of past due loans, segregated by class for non-acquired loans:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2014						
Commercial real estate:						
Construction and land development	**$ 510**	**$ 195**	**$ 1,208**	**$ 1,913**	**$ 383,405**	**$ 385,318**
Commercial non-owner occupied	**878**		**2,819**	**3,697**	**314,773**	**318,470**
Commercial owner occupied	**177**	**4,079**	**2,149**	**6,405**	**874,998**	**881,403**
Consumer real estate:						
Consumer owner occupied	**1,842**	**646**	**2,293**	**4,781**	**697,740**	**702,521**
Home equity loans	**1,178**	**291**	**404**	**1,873**	**274,468**	**276,341**
Commercial and industrial	**408**	**121**	**113**	**642**	**354,938**	**355,580**
Other income producing property	**264**	**219**	**2,202**	**2,685**	**152,137**	**154,822**
Consumer	**442**	**153**	**117**	**712**	**182,739**	**183,451**
Other loans	**105**	**32**	**38**	**175**	**46,627**	**46,802**
	$ 5,804	**$ 5,736**	**$ 11,343**	**$ 22,883**	**$ 3,281,825**	**$ 3,304,708**
December 31, 2013						
Commercial real estate:						
Construction and land development	$ 557	$ 476	$ 2,707	$ 3,740	$ 296,211	$ 299,951
Commercial non-owner occupied	1,780	1	2,684	4,465	286,706	291,171
Commercial owner occupied	457	650	3,601	4,708	828,805	833,513
Consumer real estate:						
Consumer owner occupied	1,526	1,107	2,621	5,254	542,916	548,170
Home equity loans	780	214	422	1,416	255,723	257,139
Commercial and industrial	390	105	370	865	320,959	321,824
Other income producing property	950	19	2,634	3,603	139,601	143,204
Consumer	337	142	28	507	135,903	136,410
Other loans	33	36	30	99	33,735	33,834
	$ 6,810	$ 2,750	$ 15,097	$ 24,657	$ 2,840,559	$ 2,865,216
September 30, 2013						
Commercial real estate:						
Construction and land development	$ 2,239	$ 2,181	$ 4,834	$ 9,254	$ 278,945	$ 288,199
Commercial non-owner occupied	1,658	15	2,493	4,166	278,512	282,678
Commercial owner occupied	1,009	334	5,924	7,267	806,992	814,259
Consumer real estate:						
Consumer owner occupied	2,806	1,449	2,755	7,010	491,724	498,734
Home equity loans	767	168	503	1,438	253,853	255,291
Commercial and industrial	139	103	672	914	300,931	301,845
Other income producing property	818	218	2,395	3,431	136,593	140,024
Consumer	300	201	61	562	115,750	116,312
Other loans	53	24	32	109	43,791	43,900
	$ 9,789	$ 4,693	$ 19,669	$ 34,151	$ 2,707,091	$ 2,741,242

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents an aging analysis of past due loans, segregated by class for acquired non-credit impaired loans:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2014						
Commercial real estate:						
Construction and land development	**$ 1,216**	**$**	**$ 41**	**$ 1,257**	**$ 26,448**	**$ 27,705**
Commercial non-owner occupied	**17**			**17**	**50,290**	**50,307**
Commercial owner occupied	**1,054**		**37**	**1,091**	**64,329**	**65,420**
Consumer real estate:						
Consumer owner occupied	**7,429**	**664**	**2,338**	**10,431**	**662,668**	**673,099**
Home equity loans	**1,124**	**403**	**945**	**2,472**	**240,248**	**242,720**
Commercial and industrial	**218**	**56**	**240**	**514**	**34,558**	**35,072**
Other income producing property	**276**	**75**	**85**	**436**	**68,121**	**68,557**
Consumer	**1,488**	**283**	**637**	**2,408**	**212,055**	**214,463**
	$ 12,822	**$ 1,481**	**$ 4,323**	**$ 18,626**	**$ 1,358,717**	**$ 1,377,343**
December 31, 2013						
Commercial real estate:						
Construction and land development	$ 371	$	$ 464	$ 835	$ 57,561	$ 58,396
Commercial non-owner occupied	105		17	122	58,476	58,598
Commercial owner occupied		71	272	343	73,371	73,714
Consumer real estate:						
Consumer owner occupied	3,368	393	1,196	4,957	740,524	745,481
Home equity loans	857	67	625	1,549	262,601	264,150
Commercial and industrial	827	894	282	2,003	56,770	58,773
Other income producing property	431			431	74,135	74,566
Consumer	291	213	154	658	266,599	267,257
	$ 6,250	$ 1,638	$ 3,010	$ 10,898	$ 1,590,037	$ 1,600,935
September 30, 2013						
Commercial real estate:						
Construction and land development	$	$ 78	$ 409	$ 487	$ 54,772	$ 55,259
Commercial non-owner occupied	17			17	65,164	65,181
Commercial owner occupied	1,250		62	1,312	81,821	83,133
Consumer real estate:						
Consumer owner occupied	26	714		740	768,346	769,086
Home equity loans	1,262	483	309	2,054	272,839	274,893
Commercial and industrial	381		147	528	63,541	64,069
Other income producing property	414			414	77,930	78,344
Consumer	231	92	78	401	274,967	275,368
	$ 3,581	$ 1,367	$ 1,005	$ 5,953	$ 1,659,380	$ 1,665,333

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents an aging analysis of past due loans, segregated by class for acquired credit impaired loans:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2014						
Commercial loans greater than or equal to $1 million-CBT	$	$	$ **3,625**	$ **3,625**	$ **13,472**	$ **17,097**
Commercial real estate	**7,352**	**2,723**	**16,462**	**26,537**	**328,178**	**354,715**
Commercial real estate construction and development	**700**	**529**	**9,930**	**11,159**	**62,163**	**73,322**
Residential real estate	**17,424**	**4,784**	**15,678**	**37,886**	**368,390**	**406,276**
Consumer	**5,070**	**1,517**	**2,166**	**8,753**	**81,285**	**90,038**
Commercial and industrial	**1,058**	**456**	**4,628**	**6,142**	**40,846**	**46,988**
Single pay					**88**	**88**
	$ **31,604**	$ **10,009**	$ **52,489**	$ **94,102**	$ **894,422**	$ **988,524**
December 31, 2013						
Commercial loans greater than or equal to $1 million-CBT	$	$	$ 7,217	$ 7,217	$ 16,892	$ 24,109
Commercial real estate	4,493	3,728	24,362	32,583	407,202	439,785
Commercial real estate construction and development	4,847	9,166	17,567	31,580	82,546	114,126
Residential real estate	13,794	3,792	27,061	44,647	436,600	481,247
Consumer	2,390	552	2,050	4,992	99,006	103,998
Commercial and industrial	3,875	634	3,829	8,338	60,524	68,862
Single pay			46	46	83	129
	$ 29,399	$ 17,872	$ 82,132	$ 129,403	$ 1,102,853	$ 1,232,256
September 30, 2013						
Commercial loans greater than or equal to $1 million-CBT	$	$ 787	$ 6,761	$ 7,548	$ 18,386	$ 25,934
Commercial real estate	11,992	2,552	29,451	43,995	433,973	477,968
Commercial real estate construction and development	2,616	671	18,682	21,969	108,998	130,967
Residential real estate	10,994	4,054	27,640	42,688	462,019	504,707
Consumer	1,754	477	2,036	4,267	104,153	108,420
Commercial and industrial	1,439	882	4,628	6,949	73,829	80,778
Single pay		19	22	41	73	114
	$ 28,795	$ 9,442	$ 89,220	$ 127,457	$ 1,201,431	$ 1,328,888

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following is a summary of information pertaining to impaired non-acquired and acquired loans accounted for under FASB ASC Topic 310-20:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
September 30, 2014					
Commercial real estate:					
Construction and land development	**$ 7,386**	**$ 2,229**	**$ 2,647**	**$ 4,876**	**$ 402**
Commercial non-owner occupied	**4,846**	**2,700**	**1,084**	**3,784**	**30**
Commercial owner occupied	**13,097**	**5,576**	**3,860**	**9,436**	**100**
Consumer real estate:					
Consumer owner occupied	**2,972**		**2,427**	**2,427**	**121**
Home equity loans					
Commercial and industrial	**1,447**	**693**	**417**	**1,110**	**12**
Other income producing property	**7,066**	**914**	**5,466**	**6,380**	**711**
Consumer	**81**		**50**	**50**	**1**
Other loans					
Total impaired loans	**$ 36,895**	**$ 12,112**	**$ 15,951**	**$ 28,063**	**$ 1,377**
December 31, 2013					
Commercial real estate:					
Construction and land development	$ 7,341	$ 3,555	$ 2,184	$ 5,739	$ 704
Commercial non-owner occupied	3,592	2,681		2,681	
Commercial owner occupied	14,017	10,441	1,119	11,560	10
Consumer real estate:					
Consumer owner occupied	3,063		3,013	3,013	271
Home equity loans					
Commercial and industrial	477	405		405	
Other income producing property	2,794	554	2,095	2,649	646
Consumer					
Other loans					
Total impaired loans	$ 31,284	$ 17,636	$ 8,411	$ 26,047	$ 1,631
September 30, 2013					
Commercial real estate:					
Construction and land development	$ 15,447	$ 4,986	$ 3,215	$ 8,201	$ 558
Commercial non-owner occupied	4,543	1,269	1,535	2,804	
Commercial owner occupied	17,826	12,166	2,517	14,683	19
Consumer real estate:					
Consumer owner occupied	625		575	575	21
Home equity loans					

Commercial and industrial	954	707		707	
Other income producing property	3,073	253	2,361	2,614	703
Consumer					
Other loans					
Total impaired loans	$ 42,468	$ 19,381	$ 10,203	$ 29,584	$ 1,301

Acquired credit impaired loans are accounted for in pools as shown on page 21 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following summarizes the average investment in impaired loans, non-acquired and acquired loans accounted for under FASB ASC Topic 310-20, and interest income recognized on these loans:

	Three Months Ended September 30,			
	2014		2013	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 5,277	$ 23	$ 9,028	$ 42
Commercial non-owner occupied	4,966	8	3,779	
Commercial owner occupied	10,294	27	16,004	33
Consumer real estate:				
Consumer owner occupied	2,480	30	1,066	
Home equity loans				
Commercial and industrial	929	2	1,253	
Other income producing property	6,377	52	2,993	14
Consumer	68	1		
Other loans				
Total Impaired Loans	$ 30,391	$ 143	$ 34,123	$ 89

	Nine Months Ended September 30,			
	2014		2013	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 5,308	$ 58	$ 11,151	$ 69
Commercial non-owner occupied	3,469	36	4,325	1
Commercial owner occupied	10,242	103	15,791	94
Consumer real estate:				
Consumer owner occupied	2,720	63	1,093	7
Home equity loans				
Commercial and industrial	757	15	1,329	
Other income producing property	4,515	112	3,856	22
Consumer	25	4		
Other loans				
Total Impaired Loans	$ 27,036	$ 391	$ 37,545	$ 193

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following is a summary of information pertaining to non-acquired nonaccrual loans by class, including restructured loans:

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Commercial non-owner occupied real estate:			
Construction and land development	**$ 2,851**	$ 5,819	$ 8,058
Commercial non-owner occupied	**2,483**	2,912	2,804
Total commercial non-owner occupied real estate	**5,334**	8,731	10,862
Consumer real estate:			
Consumer owner occupied	**1,481**	8,382	10,579
Home equity loans	**4,034**	1,128	1,255
Total consumer real estate	**5,515**	9,510	11,834
Commercial owner occupied real estate	**6,532**	7,753	10,184
Commercial and industrial	**648**	586	987
Other income producing property	**2,235**	4,704	4,701
Consumer	**155**	49	63
Other loans			
Restructured loans	**9,633**	10,690	10,837
Total loans on nonaccrual status	**$ 30,052**	$ 42,023	$ 49,468

The following is a summary of information pertaining to acquired non-credit impaired nonaccrual loans by class, including restructured loans:

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Commercial non-owner occupied real estate:			
Construction and land development	**$**	$	$
Commercial non-owner occupied	**14**		
Total commercial non-owner occupied real estate	**14**		
Consumer real estate:			
Consumer owner occupied	**2,733**		
Home equity loans	**1,228**		
Total consumer real estate	**3,961**		
Commercial owner occupied real estate	**38**		
Commercial and industrial	**165**		
Other income producing property	**318**		
Consumer	**863**		
Restructured loans			
Total loans on nonaccrual status	**$ 5,359**	$	$

In the course of resolving delinquent loans, the Bank may choose to restructure the contractual terms of certain loans. Any loans that are modified are reviewed by the Bank to determine if a troubled debt restructuring (TDR or restructured loan) has occurred. A TDR is a modification in which the Bank grants a concession to a borrower that it would not otherwise consider due to economic or legal reasons related to a borrower s financial difficulties. The concessions granted on TDRs generally include terms to reduce the interest rate, extend the term of the debt obligation, or modify the payment structure on the debt obligation.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The Bank designates loan modifications as TDRs when it grants a concession to the borrower that it would not otherwise consider due to the borrower experiencing financial difficulty (FASB ASC Topic 310-40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accruing status when there is economic substance to the restructuring, there is documented credit evaluation of the borrower s financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

The following table presents non-acquired and acquired non-credit impaired loans designated as TDRs segregated by class and type of concession that were restructured during the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,					
	2014			2013		
(Dollars in thousands)	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Interest rate modification						
Construction and land development	**1**	**$ 170**	**$ 170**		$	$
Consumer owner occupied	**1**	**121**	**121**			
Total interest rate modifications	**2**	**291**	**291**			
Term modification						
Other income producing property	**1**	**1,243**	**1,232**			
Total term modifications	**1**	**1,243**	**1,232**			
	3	**$ 1,534**	**$ 1,523**		$	$

	Nine Months Ended September 30,					
	2014			2013		
(Dollars in thousands)	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Interest rate modification						
Construction and land development	**3**	**$ 773**	**$ 745**		$	$
Commercial non-owner occupied				1	247	247
Commercial owner occupied				1	750	750
Consumer owner occupied	**3**	**407**	**398**	1	124	122
Other income producing property	**1**	**147**	**136**			

Total interest rate modifications	**7**		**1,327**		**1,279**	3		1,121		1,119
Term modification										
Construction and land development	**1**		**99**		**97**					
Commercial and industrial						1		696		134
Other income producing property	**1**		**1,243**		**1,232**					
Total term modifications	**2**		**1,342**		**1,329**	1		696		134
	9	**$**	**2,669**	**$**	**2,608**	4	$	1,817	$	1,253

At September 30, 2014 and 2013, the balance of accruing TDRs was $6.8 million and $4.2 million, respectively.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents the changes in status of non-acquired loans restructured within the previous 12 months as of September 30, 2014 by type of concession:

	Paying Under Restructured Terms		Converted to Nonaccrual		Foreclosures and Defaults	
(Dollars in thousands)	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**
Interest rate modification	8	$ 1,394		$		$
Term modification	3	3,288				
	11	$ 4,682		$		$

The amount of specific reserve associated with non-acquired restructured loans was $1.2 million at September 30, 2014, none of which was related to the restructured loans that had subsequently defaulted. The Company had $12,000 remaining availability under commitments to lend additional funds on these restructured loans at September 30, 2014.

Note 7 FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Nine Months Ended September 30,	
Balance at beginning of period	**$ 86,447**	$ 146,171
FDIC indemnification asset recorded for First Federal s FDIC loss share agreements		21,713
Decrease in expected losses on loans	**(2,188)**	(1,871)
Additional losses (recoveries) on OREO	**(3,710)**	(547)
Reimbursable expenses	**1,947**	3,855
Amortization of discounts and premiums, net	**(17,718)**	(22,106)
Reimbursements from FDIC	**(33,795)**	(39,066)
Balance at end of period	**$ 30,983**	$ 108,149

The FDIC indemnification asset is measured separately from the related covered assets. At September 30, 2014, the projected cash flows related to the FDIC indemnification asset for losses on assets acquired were approximately $18.8 million less than the current carrying value. This amount is being recognized as amortization (in non-interest income) over the shorter of the underlying asset s remaining life or remaining term of the loss share agreements. Subsequent to September 30, 2014, the Company expects to receive $5.0 million from loss share claims filed, including reimbursable expenses.

Included in the FDIC indemnification asset is an expected true up with the FDIC related to both the BankMeridian and Plantation acquisitions. This amount is determined each reporting period and at September 30, 2014 was estimated to be approximately $4.1 million related to the

BankMeridian acquisition at the end of the loss share agreement (July 2021) and $3.1 million related to the Plantation acquisition at the end of the loss share agreement (April 2017). The actual payment to the FDIC will be determined at the end of the loss sharing agreement term for each of the five FDIC-assisted acquisitions and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. There was no true up expected from the CBT, Cape Fear, or Habersham FDIC-assisted transactions as of September 30, 2014.

Effective June 30, 2014, the Commercial Shared-Loss Agreement with the FDIC expired for Cape Fear and losses on assets covered under this agreement are no longer claimable after filing the second quarter of 2014 commercial loss share certificate. The Commercial Shared-Loss Agreement for CBT will expire March 31, 2015 and losses on assets covered under this agreement will no longer be claimable after this date.

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Note 8 Other Real Estate Owned

The following is a summary of information pertaining to OREO at September 30, 2014:

(Dollars in thousands)		OREO		Covered OREO		Total
Balance, December 31, 2013	$	**37,398**	$	**27,520**	$	**64,918**
Additions		**22,888**		**13,393**		**36,281**
Write-downs		**(4,375)**		**(4,298)**		**(8,673)**
Sold		**(23,622)**		**(17,654)**		**(41,276)**
Balance, September 30, 2014	$	**32,289**	$	**18,961**	$	**51,250**

The following is a summary of information pertaining to OREO at September 30, 2013:

(Dollars in thousands)		OREO		Covered OREO		Total
Balance, December 31, 2012	$	32,248	$	34,257	$	66,505
Acquired in FFHI acquisition		4,801	$	6,405		11,206
Additions		22,106		17,499		39,605
Write-downs		(5,446)		(247)		(5,693)
Sold		(18,379)		(17,371)		(35,750)
Balance, September 30, 2013	$	35,330	$	40,543	$	75,873

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At September 30, 2014, there were 336 properties included in OREO, with 174 uncovered and 162 covered by loss share agreement with the FDIC. At September 30, 2013, there were 519 properties included in OREO, with 202 uncovered and 317 covered by loss share agreement with the FDIC.

Note 9 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)		September 30, 2014		December 31, 2013		September 30, 2013
Certificates of deposit	$	**1,300,580**	$	1,525,567	$	1,674,205
Interest-bearing demand deposits		**2,900,140**		2,893,646		2,851,575
Non-interest bearing demand deposits		**1,654,308**		1,487,798		1,477,793
Savings deposits		**658,903**		647,648		651,727
Other time deposits		**4,297**		838		3,808

Total deposits	**$ 6,518,228**	$ 6,555,497	$ 6,659,108

At September 30, 2014, December 31, 2013, and September 30, 2013, the Company had $136.8 million, $166.1 million, and $108.9 million in certificates of deposits greater than $250,000, respectively. At September 30, 2014, December 31, 2013, and September 30, 2013, the Company had $24.7 million, $34.8 million and $42.9 million, in traditional, out-of-market brokered deposits, respectively.

Note 10 Retirement Plans

The Company and the Bank provide certain retirement benefits to their employees in the form of a non-contributory defined benefit pension plan and an employees savings plan. The non-contributory defined benefit pension plan covers all employees hired on or before December 31, 2005, who have attained age 21, and who have completed a year of eligible service. Employees hired on or after January 1, 2006 are not eligible to participate in the non-contributory defined benefit pension plan. On this date, a new benefit formula applies only to participants who have not attained age 45 or who do not have five years of service.

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Note 10 Retirement Plans (Continued)

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of September 30, 2014.

The components of net periodic pension expense recognized are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Interest cost	**$ (277)**	$ (250)	**$ (833)**	$ (750)
Expected return on plan assets	**487**	430	**1,463**	1,291
Recognized net actuarial loss	**(165)**	(301)	**(495)**	(903)
Net periodic pension benefit (expense)	**$ 45**	$ (121)	**$ 135**	$ (362)

The Company contributed $600,000 to the pension plan for the nine months ended September 30, 2014. The Company did not contribute to the pension plan for the three months ended September 30, 2014, and does not expect to make any additional contributions during the remainder of 2014. The plans assets currently exceed the projected benefit obligation of the plan, and no additional contributions are required for 2014.

Electing employees are eligible to participate in the employees savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Effective September 1, 2012, employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of salary. Prior to September 1, 2012, participating employees received a 50% matching of their 401(k) plan contribution, up to 6% of salary. The Company expensed $1.2 million and $871,000 for the 401(k) plan during the three months ended September 30, 2014 and 2013, respectively. The Company expensed $3.6 million and $2.1 million for the 401(k) plan during the nine months ended September 30, 2014 and 2013, respectively.

Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees savings plan.

Employees can enter the savings plan on or after the first day of each month. The employee may enter into a salary deferral agreement at any time to select an alternative deferral amount or to elect not to defer in the plan. If the employee does not elect an investment allocation, the plan administrator will select a retirement-based portfolio according to the employee s number of years until normal retirement age. The plan s investment valuations are generally provided on a daily basis.

Note 11 Earnings Per Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted-average shares of common stock outstanding during each period, excluding non-vested shares. The Company s diluted earnings per share are based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options or vesting of restricted shares. The weighted-average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits.

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Note 11 Earnings Per Share (Continued)

The following table sets forth the computation of basic and diluted earnings per share:

(Dollars and shares in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Basic earnings per share:				
Net income available to common shareholders	**$ 19,327**	$ 11,512	**$ 53,116**	$ 34,693
Weighted-average basic shares	**23,899**	21,894	**23,890**	18,518
Basic earnings per share	**$ 0.81**	$ 0.53	**$ 2.22**	$ 1.87
Diluted earnings per share:				
Net income available to common shareholders	**$ 19,327**	$ 11,512	**$ 53,116**	$ 34,693
Weighted-average basic shares	**23,899**	21,894	**23,890**	18,518
Effect of dilutive securities	**261**	234	**249**	199
Weighted-average dilutive shares	**24,160**	22,128	**24,139**	18,717
Diluted earnings per share	**$ 0.80**	$ 0.52	**$ 2.20**	$ 1.85

The calculation of diluted earnings per common share excludes outstanding stock options for which the results would have been anti-dilutive under the treasury stock method as follows:

(Shares in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Number of shares	**22,497**		**22,497**	21,361
Range of exercise prices	**$61.49-$66.32**	$	**$61.49-$66.32**	$41.45-$41.45

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Note 12 Share-Based Compensation

The Company s 2004 and 2012 share-based compensation programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options, restricted stock, and restricted stock units (RSUs).

Stock Options

With the exception of non-qualified stock options granted to directors under the 2004 and 2012 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than a year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within a year following the date of the grant, as these incentive stock options become exercisable in 25% increments pro ratably over the four-year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and expire ten years from the date of grant. No options were granted under the 2004 plan after January 26, 2012, and the 2004 plan is closed other than for any options still unexercised and outstanding. The 2012 plan is the only plan from which new share-based compensation grants may be issued. It is the Company s policy to grant options out of the 1,684,000 shares registered under the 2012 plan, of which no more than 817,476 shares can be granted as restricted stock or RSUs.

Activity in the Company s stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Options	**Number of Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (Yrs.)**	**Aggregate Intrinsic Value (000 s)**
Outstanding at January 1, 2014	295,916	$ 33.26		
Granted	22,497	65.59		
Exercised	(9,122)	29.79		
Expired/Forfeited	(13)	27.22		
Outstanding at September 30, 2014	309,278	35.71	4.60	$ 6,467
Exercisable at September 30, 2014	254,352	33.09	3.80	$ 5,816
Weighted-average fair value of options granted during the year	$ 26.44			

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options vesting periods. The following weighted-average assumptions were used in valuing options issued:

	Nine Months Ended September 30,	
	2014	**2013**
Dividend yield	**1.27%**	1.70%
Expected life	**6 years**	6 years
Expected volatility	**43.8%-44.7%**	42.0%
Risk-free interest rate	**2.10%**	1.02%

As of September 30, 2014, there was $756,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.29 years as of September 30, 2014. The total fair value of shares vested during the nine months ended September 30, 2014 was $413,000.

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Note 12 Share-Based Compensation (Continued)

Restricted Stock

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company s stock. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Restricted stock grants to employees typically cliff vest after four years. Grants to non-employee directors typically vest within a 12-month period.

Nonvested restricted stock for the nine months ended September 30, 2014 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	232,547	$ 35.15
Granted	26,014	60.40
Vested	(20,348)	41.82
Forfeited	(4,454)	41.45
Nonvested at September 30, 2014	233,759	37.26

As of September 30, 2014, there was $4.7 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.48 years as of September 30, 2014. The total fair value of shares vested during the nine months ended September 30, 2014 was $851,000.

Restricted Stock Units

The Company from time-to-time also grants performance RSUs to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Performance RSU grants contain a three year performance period. The Company communicates threshold, target, and maximum performance RSU awards and performance targets to the applicable key employees at the beginning of a performance period. Dividends are not paid in respect to the awards during the performance period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over three years based upon the probable performance target that will be met. For the nine months ended September 30, 2014, the Company accrued at the target RSU award level, or for 85% of the RSUs granted, based on Management s expectations of performance.

Nonvested RSUs for the nine months ended September 30, 2014 is summarized in the following table.

Restricted Stock Units	**Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested at January 1, 2014	43,820	$ 51.01
Granted	37,802	61.49
Vested	(2,314)	54.00
Nonvested at September 30, 2014	79,308	55.92

As of September 30, 2014, there was $2.9 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 1.73 years as of September 30, 2014. The total fair value of shares vested during the nine months ended September 30, 2014 was $125,000.

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Note 13 Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2014, commitments to extend credit and standby letters of credit totaled $1.3 billion. The Company does not anticipate any material losses as a result of these transactions.

The Company has been named as defendant in various legal actions, arising from its normal business activities, in which damages in various amounts are claimed. The Company is also exposed to litigation risk related to the prior business activities of banks acquired through whole bank acquisitions as well as banks from which assets were acquired and liabilities assumed in FDIC-assisted transactions. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, any such liability will not have a material effect on the Company s consolidated financial statements.

Note 14 Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. FASB ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities, derivative contracts, and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1	Observable inputs such as quoted prices in active markets;
Level 2	Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and The NASDAQ Stock Market, or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of FHLB stock approximates fair value based on the redemption provisions.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans held for sale are nonrecurring Level 2.

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Note 14 Fair Value (Continued)

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2014, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral; require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (OREO)

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-covered and covered OREO are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense, net of any FDIC indemnification proceeds in the case of covered OREO.

Derivative Financial Instruments

Fair value is estimated using pricing models of derivatives with similar characteristics; accordingly, the derivatives are classified within Level 2 of the fair value hierarchy (see Note 16 Derivative Financial Instruments for additional information).

Mortgage servicing rights (MSRs)

The estimated fair value of MSRs is obtained through an independent derivatives dealer analysis of future cash flows. The evaluation utilizes assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, as well as the market s perception of future interest rate movements. MSRs are classified as Level 3.

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Note 14 Fair Value (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014:				
Assets				
Derivative financial instruments	**$ 1,101**	**$**	**$ 1,101**	**$**
Securities available for sale:				
Government-sponsored entities debt	**137,459**		**137,459**	
State and municipal obligations	**141,258**		**141,258**	
Mortgage-backed securities	**523,009**		**523,009**	
Corporate stocks	**3,388**	**3,163**	**225**	
Total securities available for sale	**805,114**	**3,163**	**801,951**	
Mortgage servicing rights	**22,052**			**22,052**
	$ 828,267	**$ 3,163**	**$ 803,052**	**$ 22,052**
Liabilities				
Derivative financial instruments	**$ 986**	**$**	**$ 986**	**$**
December 31, 2013:				
Assets				
Derivative financial instruments	$ 701	$	$ 701	$
Securities available for sale:				
Government-sponsored entities debt	142,994		142,994	
State and municipal obligations	140,651		140,651	
Mortgage-backed securities	499,479		499,479	
Corporate stocks	3,667	3,442	225	
Total securities available for sale	786,791	3,442	783,349	
Mortgage servicing rights	20,729			20,729
	$ 808,221	$ 3,442	$ 784,050	$ 20,729
Liabilities				
Derivative financial instruments	$ 1,857	$	$ 1,857	$
September 30, 2013:				
Assets				
Derivative financial instruments	$ 209	$	$ 209	$
Securities available for sale:				
Government-sponsored entities debt	102,673		102,673	
State and municipal obligations	142,578		142,578	
Mortgage-backed securities	378,626		378,626	
Corporate stocks	2,921	2,696	225	
Total securities available for sale	626,798	2,696	624,102	
Mortgage servicing rights	18,908			18,908

	$	645,915	$	2,696	$	624,311	$	18,908
Liabilities								
Derivative financial instruments	$	1,259	$		$	1,259	$	

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Note 14 Fair Value (Continued)

Changes in Level 1, 2 and 3 Fair Value Measurements

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses below include changes in fair value due in part to observable factors that are part of the valuation methodology.

There were no changes in hierarchy classifications of Level 3 assets or liabilities for the nine months ended September 30, 2014. A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the nine months ended September 30, 2014 and 2013 is as follows:

(Dollars in thousands)		Assets		Liabilities
Fair value, January 1, 2014	**$**	**20,729**	**$**	
Mortgage and other loan income		**(2,252)**		
Purchases and issuances		**3,575**		
Fair value, September 30, 2014	**$**	**22,052**	**$**	
Fair value, January 1, 2013	$	3,851	$	
Mortgage and other loan income		(771)		
Acquired in the FFHI acquisition		19,156		
Purchases, issuances and settlements, net		(3,851)		
Transfers in and/or out of level 3		523		
Fair value, September 30, 2013	$	18,908	$	

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at September 30, 2014 or 2013.

See Note 19 Loan Servicing, Mortgage Obligation, and Loans Held for Sale for information about recurring Level 3 fair value measurements of mortgage servicing rights.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis:

(Dollars in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014:				
OREO	**$ 51,250**	**$**	**$**	**$ 51,250**
Non-acquired impaired loans	**10,655**			**10,655**
December 31, 2013:				
OREO	$ 64,918	$	$	$ 64,918
Non-acquired impaired loans	13,129			13,129
September 30, 2013:				
OREO	$ 75,873	$	$	$ 75,873
Non-acquired impaired loans	9,088			9,088

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Note 14 Fair Value (Continued)

Quantitative Information about Level 3 Fair Value Measurements as of September 30, 2014

	Valuation Technique	Unobservable Input	General Range	Weighted Average
Nonrecurring measurements:				
Impaired loans	Discounted appraisals	Collateral discounts	0-25%	4.91%
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	0-50%	27.46%

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2014, December 31, 2013 and September 30, 2013. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents The carrying amount is a reasonable estimate of fair value.

Investment Securities Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of FHLB stock approximates fair value based on the redemption provisions. The carrying value of the Company s investment in unconsolidated subsidiaries approximates fair value. See Note 5 Investment Securities for additional information, as well as page 39 regarding fair value.

Loans For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are estimated using discounted cash flow analyses based on the Company s current rates offered for new loans of the same type, structure and credit quality. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered by the Company for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

FDIC Receivable for Loss Share Agreements The fair value is estimated based on discounted future cash flows using current discount rates.

Deposit Liabilities The fair values disclosed for demand deposits (e.g., interest and non-interest bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase The carrying amount of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

Other Borrowings The fair value of other borrowings is estimated using discounted cash flow analysis on the Company s current incremental borrowing rates for similar types of instruments.

Accrued Interest The carrying amounts of accrued interest approximate fair value.

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Note 14 Fair Value (Continued)

Derivative Financial Instruments The fair value of derivative financial instruments (including interest rate swaps) is estimated using pricing models of derivatives with similar characteristics.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees The fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

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Note 14 Fair Value (Continued)

The estimated fair value, and related carrying amount, of the Company s financial instruments are as follows:

(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2014					
Financial assets:					
Cash and cash equivalents	**$ 503,028**	**$ 503,028**	**$ 503,028**	**$**	**$**
Investment securities	**826,021**	**826,651**	**13,681**	**812,970**	
Loans, net of allowance for loan losses, and loans held for sale	**5,684,334**	**5,736,759**		**56,595**	**5,680,164**
FDIC receivable for loss share agreements	**30,983**	**13,873**			**13,873**
Accrued interest receivable	**17,134**	**17,134**		**3,708**	**13,426**
Mortgage servicing rights	**22,052**	**22,052**			**22,052**
Interest rate swap non-designated hedge	**162**	**162**		**162**	
Other derivative financial instruments (mortgage banking related)	**939**	**939**		**939**	
Financial liabilities:					
Deposits	**6,518,228**	**6,224,652**		**6,224,652**	
Federal funds purchased and securities sold under agreements to repurchase	**231,229**	**231,229**		**231,229**	
Other borrowings	**101,127**	**101,627**		**101,627**	
Accrued interest payable	**4,234**	**4,234**		**4,234**	
Interest rate swap cash flow hedge	**824**	**824**		**824**	
Interest rate swap non-designated hedge	**162**	**162**		**162**	
Off balance sheet financial instruments:					
Commitments to extend credit		**12,007**		**12,007**	
Standby letters of credit and financial guarantees					
December 31, 2013					
Financial assets:					
Cash and cash equivalents	$ 479,461	$ 479,461	$ 479,461	$	$
Investment securities	812,603	813,068	16,828	796,240	
Loans, net of allowance for loan losses, and loans held for sale	5,683,044	5,742,078		30,586	5,711,492
FDIC receivable for loss share agreements	86,447	48,512			48,512
Accrued interest receivable	15,024	15,024		3,482	11,542
Mortgage servicing rights	20,729	20,729			20,729
Interest rate swap non-designated hedge	178	178		178	
Other derivative financial instruments (mortgage banking related)	523	523		523	
Financial liabilities:					
Deposits	6,555,497	6,313,543		6,313,543	
Federal funds purchased and securities sold under agreements to repurchase	211,401	211,401		211,401	
Other borrowings	102,060	92,751		92,751	
Accrued interest payable	5,388	5,388		5,388	
Interest rate swap cash flow hedge	914	914		914	
Interest rate swap non-designated hedge	178	178		178	
	765	765		765	

Other derivative financial instruments (mortgage banking related)		
Off balance sheet financial instruments:		
Commitments to extend credit	15,555	15,555
Standby letters of credit and financial guarantees		

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Note 14 Fair Value (Continued)

(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2013					
Financial assets:					
Cash and cash equivalents	$ 645,166	$ 645,166	$ 645,166	$	$
Investment securities	652,610	654,176	17,082	637,094	
Loans, net of allowance for loan losses, and loans held for sale	5,738,266	5,763,726		52,467	5,711,259
FDIC receivable for loss share agreements	108,149	77,465			77,465
Accrued interest receivable	15,000	15,000		3,391	11,609
Mortgage servicing rights	18,908	18,908			18,908
Interest rate swap non-designated hedge	209	209		209	
Other derivative financial instruments (mortgage banking related)	1,101	1,101	1,101		
Financial liabilities:					
Deposits	6,659,108	6,410,356		6,410,356	
Federal funds purchased and securities sold under agreements to repurchase	233,792	233,792		233,792	
Other borrowings	101,347	104,984		104,984	
Accrued interest payable	5,489	5,489		5,489	
Interest rate swap cash flow hedge	1,050	1,050		1,050	
Interest rate swap non-designated hedge	209	209		209	
Off balance sheet financial instruments:					
Commitments to extend credit		6,298		6,298	
Standby letters of credit and financial guarantees					

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Note 15 Accumulated Other Comprehensive Income (Loss)

The changes in each components of accumulated other comprehensive income (loss), net of tax, were as follows:

(Dollars in thousands)	Benefit Plans	Unrealized Gains and Losses on Securities Available for Sale	Gains and Losses on Cash Flow Hedges	Total
Three months ended September 30, 2014				
Balance at June 30, 2014	**$ (3,382)**	**$ 4,373**	**$ (583)**	**$ 408**
Other comprehensive income (loss) before reclassifications		**(1,780)**	**25**	**(1,755)**
Amounts reclassified from accumulated other comprehensive income (loss)	**102**	**56**	**48**	**206**
Net comprehensive income (loss)	**102**	**(1,724)**	**73**	**(1,549)**
Balance at September 30, 2014	**$ (3,280)**	**$ 2,649**	**$ (510)**	**$ (1,141)**
Three months ended September 30, 2013				
Balance at June 30, 2013	$ (7,458)	$ (1,484)	$ (649)	$ (9,591)
Other comprehensive income (loss) before reclassifications		(1,037)		(1,037)
Amounts reclassified from accumulated other comprehensive income (loss)				
Net comprehensive income (loss)		(1,037)		(1,037)
Balance at September 30, 2013	$ (7,458)	$ (2,521)	$ (649)	$ (10,628)
Nine months ended September 30, 2014				
Balance at December 31, 2013	**$ (3,585)**	**$ (5,573)**	**$ (565)**	**$ (9,723)**
Other comprehensive income (loss) before reclassifications		**8,221**	**(89)**	**8,132**
Amounts reclassified from accumulated other comprehensive income (loss)	**305**	**1**	**144**	**450**
Net comprehensive income (loss)	**305**	**8,222**	**55**	**8,582**
Balance at September 30, 2014	**$ (3,280)**	**$ 2,649**	**$ (510)**	**$ (1,141)**
Nine months ended September 30, 2013				
Balance at December 31, 2012	$ (7,458)	$ 8,764	$ (930)	$ 376
Other comprehensive income (loss) before reclassifications		(11,285)	139	(11,146)
Amounts reclassified from accumulated other comprehensive income (loss)			142	142
Net comprehensive income (loss)		(11,285)	281	(11,004)
Balance at September 30, 2013	$ (7,458)	$ (2,521)	$ (649)	$ (10,628)

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Note 15 Accumulated Other Comprehensive Income (Loss) (Continued)

The table below presents the reclassifications out of accumulated other comprehensive income (loss), net of tax:

Accumulated Other Comprehensive Income (Loss) Component	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended September 30, 2014	2013	For the Nine Months Ended September 30, 2014	2013	Income Statement Line Item Affected
Gains and losses on cash flow hedges:					
Interest rate contracts	**$ 78**	$ 77	**$ 232**	$ 229	Interest expense
	(30)	(29)	**(88)**	(87)	Provision for income taxes
	48	48	**144**	142	Net income
Losses on sales of available for sale securities:					
	$ 90	$	**$ 2**	$	Other noninterest income
	(34)		**(1)**		Provision for income taxes
	56		**1**		Net income
Amortization of defined benefit pension items:					
Actuarial losses	**$ 165**	$	**$ 495**	$	Salaries and employee benefits
	(63)		**(190)**		Provision for income taxes
	102		**305**		Net income
Total reclassifications for the period	**$ 206**	$ 48	**$ 450**	$ 142	

Note 16 Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

The Company utilizes this interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). During 2009, the Company entered into a forward starting interest rate swap agreement with a notional amount of $8.0 million to manage interest rate risk due to periodic rate resets on its junior subordinated debt issued by SCBT Capital Trust II, an unconsolidated subsidiary of the Company established for the purpose of issuing trust preferred securities. The Company hedges the variable rate cash flows of subordinated debt against future interest rate increases by using an interest rate swap that effectively fixed the rate on the debt beginning on June 15, 2010, at which time the debt contractually converted from a fixed interest rate to a variable interest rate. This hedge expires on June 15, 2019. The notional amount on which the interest payments are based will not be exchanged. This derivatives contract calls for the Company to pay a fixed rate of 4.06% on $8.0 million notional amount and receive a variable rate of three-month LIBOR on the $8.0 million notional amount.

The Company recognized an after-tax unrealized gain on its cash flow hedge in other comprehensive income of $73,000 and $55,000 for the three and nine months ended September 30, 2014, respectively, compared to an after-tax unrealized gain on its cash flow hedge in other comprehensive income of less than $1,000 and $281,000 for the three and nine months ended September 30, 2013, respectively. The Company recognized an $824,000 cash flow hedge liability in other liabilities on the balance sheet at September 30, 2014, compared to a $1.0 million liability recognized at September 30, 2013. There was no ineffectiveness in the cash flow hedge during the three and nine months ended September 30, 2014 and 2013.

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivatives dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivatives dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty s exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of September 30, 2014 and 2013, the Company was required to provide $950,000 and $1.1 million of collateral, respectively, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. Also, the Company has a netting agreement with the counterparty.

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Note 16 Derivative Financial Instruments (Continued)

Non-designated Hedges of Interest Rate Risk

Customer Swap

As of September 30, 2014, the Company has two interest rate swap contracts that were classified as non-designated hedges that were acquired through the merger transaction with Savannah. These derivatives are not designated as hedges and are not speculative in nature. One of the derivatives is an interest rate swap that was executed with a commercial borrower to facilitate a respective risk management strategy and allow the customer to pay a fixed rate of interest to the Company. This interest rate swap was simultaneously hedged by executing an offsetting interest rate swap that was entered into with a derivatives dealer to minimize the net risk exposure to the Company resulting from the transactions and allow the Company to receive a variable rate of interest.

The interest rate swap contract with the commercial borrower requires the borrower to pay or receive from the Company an amount equal to and offsetting the value of the interest rate swap. If the commercial borrower fails to perform and the market value for the interest rate swap with the derivatives dealer is negative (net liability position), the Company would be obligated to pay the settlement amount for the financial derivative with the dealer. If the market value for the interest rate swap with the derivatives dealer is positive (net asset position), the Company would receive a payment for the settlement amount for the financial derivative with the dealer. The settlement amount is determined by the fluctuation of interest rates.

As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2014, the interest rate swaps had an aggregate notional amount of approximately $4.1 million and the fair value of these two interest rate swap derivatives are recorded in other assets and in other liabilities for $162,000 on the balance sheet. The net effect of recording the derivatives at fair value through earnings was immaterial to the Company s financial condition and results of operations during 2014.

The Company also has an agreement with the derivatives dealer in this transaction that contains a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on this derivatives obligation. As of September 30, 2014, the fair value of the interest rate swap derivative with the derivatives dealer was in a net liability position of $162,000, which excludes any adjustment for nonperformance risk, related to these agreements. As of September 30, 2014, the Company provided $355,000 of collateral, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. If the Company had breached any of these provisions at September 30, 2014, it would have been required to settle its obligations under the agreement at the termination value, $162,000.

Mortgage Banking

The Company also has derivatives contracts that were classified as non-designated hedges that were acquired through the merger transaction with FFHI. These derivatives contracts are a part of the Company s risk management strategy for its mortgage banking activities. These instruments may include financial forwards, futures contracts, and options written and purchased, which are used to hedge mortgage servicing rights; while when-issued securities are typically used to hedge the mortgage pipeline. Such instruments derive their cash flows, and therefore their values, by reference to an underlying instrument, index or referenced interest rate. The Company does not elect hedge accounting treatment for any of these derivative instruments acquired through the merger with FFHI and as a result, changes in fair value of the instruments (both gains and losses) are recorded in the Company s consolidated statements of income in mortgage banking income.

Mortgage Servicing Rights

Derivatives contracts related to mortgage servicing rights are used to help offset changes in fair value and are written in amounts referred to as notional amounts. Notional amounts provide a basis for calculating payments between counterparties but do not represent amounts to be exchanged between the parties, and are not a measure of financial risk. On September 30, 2014, the Company had derivative financial instruments outstanding with notional amounts totaling $78.0 million related to mortgage servicing rights. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as a liability of $150,000 at September 30, 2014.

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Note 16 Derivative Financial Instruments (Continued)

Mortgage Pipeline

The following table presents the Company s notional value of forward sale commitments and the fair value of those obligations along with the fair value of the mortgage pipeline.

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Mortgage loan pipeline*	**$ 55,759**	$ 44,678	$ 33,894
Expected closures	**41,842**	33,508	25,421
Fair Value of mortgage loan pipeline commitments	**1,061**	112	714
Forward commitments	**59,455**	36,230	51,267
Fair value of forward commitments	**475**	296	(569)

*Represents at risk mortgage pipeline generally sold servicing retained to the agencies.

Note 17 Capital Ratios

The Company is subject to certain risk-based capital guidelines. Certain ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted to reflect credit risk. Under the guidelines promulgated by the Federal Reserve, which are substantially similar to those of the FDIC, Tier 1 risk-based capital must be at least 4% of risk-weighted assets, while total risk-based capital must be at least 8% of risk-weighted assets.

In conjunction with the risk-based capital ratios, the regulatory agencies have also prescribed a leverage capital ratio for assessing capital adequacy.

The Company s capital adequacy ratios are reflected below:

	September 30, 2014	December 31, 2013	September 30, 2013
South State Corporation:			
Tier 1 risk-based capital	**13.29%**	13.58%	13.15%
Total risk-based capital	**14.12%**	14.47%	14.40%
Tier 1 leverage	**9.16%**	9.30%	10.09%

South State Bank:			
Tier 1 risk-based capital	**13.11%**	13.37%	12.95%
Total risk-based capital	**13.94%**	14.26%	14.20%
Tier 1 leverage	**9.03%**	9.16%	9.95%

Note 18 Goodwill and Other Intangible Assets

The carrying amount of goodwill was $317.7 million at September 30, 2014. The Company s other intangible assets, consisting of core deposit intangibles, noncompete intangibles, and client list intangibles are included on the face of the balance sheet. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	**September 30, 2014**	**December 31, 2013**	**September 30, 2013**
Gross carrying amount	**$ 75,354**	$ 77,896	$ 77,963
Accumulated amortization	**(24,063)**	(17,988)	(15,768)
	$ 51,291	$ 59,908	$ 62,195

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Note 18 Goodwill and Other Intangible Assets (Continued)

Amortization expense totaled $6.3 million and $3.8 million for the nine months ended September 30, 2014, and 2013, respectively. Other intangibles are amortized using either the straight-line method or an accelerated basis over their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

(Dollars in thousands)		
Quarters ending:		
December 31, 2014		2,052
March 31, 2015		2,016
June 30, 2015		1,963
September 30, 2015		1,962
December 31, 2015		1,948
Thereafter		41,350
	$	51,291

Note 19 Loan Servicing, Mortgage Origination, and Loans Held for Sale

The portfolio of residential mortgages serviced for others, which are not included in the accompanying balance sheets, was $2.2 billion at September 30, 2014, and $2.1 billion at December 31, 2013, and September 30, 2013. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts and disbursing payments to investors. The amount of contractually specified servicing fees earned by the Company during the three and nine months ended September 30, 2014 was $1.2 million and $3.9 million, respectively. Servicing fees are recorded in mortgage banking income in the Company s consolidated statements of income.

At September 30, 2014, December 31, 2013, and September 30, 2013, mortgage servicing rights (MSRs) were $22.1 million, $20.7 million, and $18.9 million on the Company s consolidated balance sheets, respectively. MSRs are recorded at fair value with changes in fair value recorded as a component of mortgage banking income in the Consolidated Statements of Income. The market value adjustments related to MSRs recorded in mortgage banking income for the three and nine months ended September 30, 2014 was a gain of $162,000 and a loss of $529,000, respectively. Since the merger with FFHI, the Company has used various free standing derivative instruments to mitigate the income statement effect of changes in fair value due to changes in market value adjustments and to changes in valuation inputs and assumptions related to MSRs.

The following table presents the changes in the fair value of MSRs and the offsetting hedge. The Company acquired the MSRs and the offsetting hedge in the merger with FFHI on July 26, 2013; and therefore did not have any activity related to MSRs or the offsetting hedge prior to July 26, 2013.

	Three Months Ended				Nine Months Ended			
(Dollars in thousands)	September 30, 2014		September 30, 2013		September 30, 2014		September 30, 2013	
Increase (decrease) in fair value of MSRs	**$**	**162**	$	(582)	**$**	**(529)**	$	(582)
Decay of MSRs		**(646)**		(417)		**(1,723)**		(417)
Gains (losses) related to derivatives		**183**		(670)		**2,118**		(670)
Net effect on consolidated statements of income	**$**	**(301)**	$	(1,669)	**$**	**(134)**	$	(1,669)

The following table is an analysis of the activity in the MSRs.

	Nine Months Ended	
(Dollars in thousands)	**September 30, 2014**	**September 30, 2013**
Balance at beginning of the period	**$ 20,729**	$
Additions:		
MSRs acquired in the merger with FFHI		19,156
Servicing assets that resulted from transfers of financial assets	**3,575**	751
Increase in fair value due to change in valuation inputs or assumptions	**(529)**	(582)
Decay in fair value:		
Due to increases in principal paydowns or runoff	**(1,723)**	(417)
Carrying value at end of period	**$ 22,052**	$ 18,908

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Note 19 Loan Servicing, Mortgage Origination, and Loans Held for Sale (Continued)

The fair value of MSRs is highly sensitive to changes in assumptions and fair value is determined by estimating the present value of the asset s future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSR. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

The characteristics and sensitivity analysis of the MSR are included in the following table as of September 30, 2014, December 31, 2013, and September 30, 2013.

(Dollars in thousands)	September 30, 2014	December 31, 2013	September 30, 2013
Composition of residential loans serviced for others			
Fixed-rate mortgage loans	**99.2%**	99.0%	98.9%
Adjustable-rate mortgage loans	**0.8%**	1.0%	1.1%
Total	**100.0%**	100.0%	100.0%
Weighted average life	**6.22 years**	6.91 years	6.26 years
Constant Prepayment rate (CPR)	**11.5%**	10.2%	12.0%
Weighted average discount rate	**9.5%**	10.1%	10.1%
Effect on fair value due to change in interest rates			
25 basis point increase	**$ 1,499**	$ 1,059	$ 1,244
50 basis point increase	**2,803**	1,964	2,387
25 basis point decrease	**(1,688)**	(1,248)	(1,382)
50 basis point decrease	**(3,229)**	(2,255)	(2,405)

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the changes in assumptions to fair value may not be linear. Also, in this table, the effects of an adverse variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumptions, while in reality, changes in one factor may result in changing another, which may magnify or contract the effect of the change.

Custodial escrow balances maintained in connection with the loan servicing were $18.6 million at September 30, 2014.

Mandatory cash forwards and whole loan sales were $155.2 million and $425.5 million for the three and nine months ended September 30, 2014, respectively. For the three and nine months ended September 30, 2014, $136.4 million and $338.1 million, or 87.9% and 79.4%, respectively, were sold with the servicing rights retained by the Company.

Loans held for sale have historically been comprised of residential mortgage loans awaiting sale in the secondary market, which generally settle in 15 to 45 days. Loans held for sale, which consists primarily of residential mortgage loans to be sold in the secondary market, were $56.6 million, $30.6 million, and $51.2 million at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

Note 20 Subsequent Events

Line of Credit

On October 27, 2014, the Company entered into a Credit Agreement (the Agreement) with U.S. Bank National Association (the Lender). The Agreement provides for a $20 million unsecured line of credit by the Lender to the Company. The maturity date of the Agreement is October 26, 2015, provided that the Agreement may be extended subject to the approval of the Lender. Borrowings by the Company under the Agreement will bear interest at a rate per annum equal to one-month LIBOR plus 1.75%.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations relates to the financial statements contained in this Quarterly Report beginning on page 1. For further information, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in the Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

We are a bank holding company headquartered in Columbia, South Carolina, and were incorporated under the laws of South Carolina in 1985. We provide a wide range of banking services and products to our customers through our wholly-owned bank subsidiary, South State Bank (the Bank), a South Carolina-chartered commercial bank that opened for business in 1934. The Bank also operates Minis & Co., Inc. and First Southeast 401k Fiduciaries, both wholly owned registered investment advisors; and First Southeast Investor Services, a wholly owned limited service broker dealer. The Company does not engage in any significant operations other than the ownership of our banking subsidiary.

At September 30, 2014, we had approximately $7.9 billion in assets and 2,057 full-time equivalent employees. Through the Bank, we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, manufactured housing loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

We have pursued, and continue to pursue, a growth strategy that focuses on organic growth, supplemented by acquisition of select financial institutions, or branches in certain market areas.

The following discussion describes our results of operations for the three and nine months ended September 30, 2014 as compared to September 30, 2013 and also analyzes our financial condition as of September 30, 2014 as compared to December 31, 2013 and September 30, 2013. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses (sometimes referred to as ALLL) to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion.

The following section also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

Recent Events

Preferred Stock Redemption

On March 28, 2014, the Company redeemed all 65,000 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A. The shares had a liquidation preference of $1,000 per share, and dividends were accruing at 9% per annum.

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Name Change and System Conversion

Effective June 30, 2014, the Company changed its name from First Financial Holdings, Inc. to South State Corporation. On June 30, 2014, the Bank also changed its name to South State Bank from SCBT and from the following divisions: NCBT, Community Bank & Trust (CBT), and The Savannah Bank. The name of First Federal Bank, a division of the Bank, was changed in July 2014 in conjunction with the systems conversion and integration. The Bank now operates all of its branches under the name South State Bank.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States (GAAP) in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

Allowance for Loan Losses

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank s borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See Note 6 Loans and Allowance for Loan Losses in this Form 10-Q, Provision for Loan Losses and Nonperforming Assets in this Management s Discussion and Analysis of Financial Condition and Results of Operation (MD&A) and Allowance for Loan Losses in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed in a business combination. As of September 30, 2014, December 31, 2013 and September 30, 2013, the balance of goodwill was $317.7 million. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has two reporting units.

Our stock price has historically traded above its book value. As of September 30, 2014, book value was $40.07 per share. The lowest trading price during the first nine months of 2014, as reported by the NASDAQ Global Select Market, was $54.03 per share, and the stock price closed on September 30, 2014 at $55.92 per share, which is above book value. In the event our stock was to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2014, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

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Core deposit intangibles, client list intangibles, and noncompetition (noncompete) intangibles consist of costs that resulted from the acquisition of other banks from other financial institutions. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in these transactions. Client list intangibles represent the value of long-term client relationships for the wealth and trust management business. Noncompete intangibles represent the value of key personnel relative to various competitive factors such as ability to compete, willingness or likelihood to compete, and feasibility based upon the competitive environment, and what the Bank could lose from competition. These costs are amortized over the estimated useful lives, such as deposit accounts in the case of core deposit intangible, on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets

Income taxes are provided for the tax effects of the transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return with its subsidiary.

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of September 30, 2014, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Company and its subsidiary file a consolidated United States federal income tax return, as well as income tax returns for its subsidiary in the states of South Carolina, Georgia, North Carolina, Florida, Virginia, Alabama, and Mississippi. The Company s filed income tax returns are no longer subject to examination by taxing authorities for years before 2010.

Other-Than-Temporary Impairment

We evaluate securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the anticipated outlook for changes in the general level of interest rates, (4) our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the length of time and the extent to which the fair value has been less than cost. For further discussion of the Company s evaluation of securities for other-than-temporary impairment, see Note 5 to the unaudited condensed consolidated financial statements.

Other Real Estate Owned

Other Real Estate Owned (OREO), consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans or through reclassification of former branch sites, is reported at the lower of cost or fair value, determined on the basis of current valuations obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Subsequent adjustments to this value are described below.

Subsequent declines in the fair value of OREO below the new cost basis are recorded through valuation adjustments. Significant judgments and complex estimates are required in estimating the fair value of OREO, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. In response to market conditions and other economic factors, management may utilize liquidation sales as part of its problem asset disposition strategy. As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from sales transactions could differ significantly from the current valuations used to determine the fair value of OREO. Management reviews the value of OREO periodically and adjusts the values as appropriate. Revenue and expenses from OREO operations as well as gains or losses on sales and any subsequent adjustments to the value are recorded as OREO expense and loan related expense, a component of non-interest expense, and, for covered OREO, offset with an increase in the FDIC indemnification asset.

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Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset

We account for acquisitions under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,* formerly American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, including performing loans and revolving lines of credit (consumer and commercial), are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

In accordance with FASB ASC Topic 805, the FDIC Indemnification Assets are initially recorded at fair value, and are measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal. The FDIC indemnification asset is measured at carrying value subsequent to initial measurement. Improved cash flows of the underlying covered assets will result in impairment of the FDIC indemnification asset and amortization through non-interest income over the shorter of the lives of the FDIC indemnification asset or the underlying loans. Impairment of the underlying covered assets will result in improved cash flows of the FDIC indemnification asset and a credit to the provision for loan losses for acquired loans will result.

For further discussion of the Company s loan accounting and acquisitions, see Business Combinations and Method of Accounting for Loans Acquired in our Annual Report on Form 10-K for the year ended December 31, 2013, Note 4 Mergers and Acquisitions to the unaudited condensed consolidated financial statements and Note 6 Loans and Allowance for Loan Losses to the unaudited condensed consolidated financial statements.

Results of Operations

We reported consolidated net income available to common shareholders of $19.3 million, or diluted earnings per share (EPS) of $0.80, for the third quarter of 2014 as compared to consolidated net income available to common shareholders of $11.5 million, or diluted EPS of $0.52, in the comparable period of 2013. The $7.8 million increase in consolidated net income available to common shareholders was the net result of the following items:

- Improved net interest income of $614,000 due to the increase in the investment securities portfolio by an average balance of $166.2 million which increased interest income by $701,000. Average interest-bearing liabilities increased $285.7 million, and the related interest expense decreased $59,000 with a rate of 0.30%, two basis points lower than a year ago;

- An increase in the provision for loan losses by $1.4 million over the comparable quarter;

- An increase in noninterest income totaling $9.3 million, due in large part to the July 26, 2013 acquisition of FFHI impacting the entire third quarter of 2014 compared to approximately two months of the third quarter in 2013;

- Noninterest expense declined slightly by $350,000 in the third quarter to $75.1 million compared to the same quarter in 2013. The largest increase was salaries and benefits of $5.6 million, which was offset by declines in merger and branding expenses, information services, advertising and marketing, and in other expense;

- An increase in the provision for income taxes of $1.5 million due to higher pre-tax income, however the effective rate in the third quarter of 2014 was significantly lower due to adjustment in 2014 for additional tax credits related to 2013 and tax credits related to both low income housing and South Carolina new jobs credits for 2014; and

- Diluted EPS was $0.80 compared to $0.52 in the same comparable period in 2013. The weighted average share count in third quarter of 2013 was about two million shares less than third quarter 2014 due to the timing of the closing of the acquisition of FFHI in July 2013.

Our asset quality related to non-acquired loans continues to be at manageable levels and improved from the end of 2013 and from the June 30, 2014 level. Non-acquired nonperforming assets declined from $55.7 million at December 31, 2013 to $39.8 million at September 30, 2014, a $15.9 million decline. Compared to the balance of nonperforming assets at September 30, 2013, nonperforming assets decreased $26.3 million due to a reduction in nonperforming loans of $19.1 million and a reduction in non-acquired OREO of $7.2 million. Our non-acquired OREO increased by $357,000 from the June 30, 2014 to $9.4 million at

September 30, 2014. During the third quarter of 2014, non-acquired classified assets declined by $6.7 million from June 30, 2014 to $72.0 million at September 30, 2014. Since September 30, 2013 non-acquired classified assets have declined by $39.4 million. Annualized net charge-offs for the third quarter of 2014 were 0.26%, down from the third quarter of 2013 of 0.45% and up from the second quarter of 2014 of 0.17%.

The allowance for loan losses decreased to 1.05% of total non-acquired loans at September 30, 2014, down from 1.12% at June 30, 2014 and 1.32% at September 30, 2013. The allowance provides 1.14 times coverage of non-acquired nonperforming loans at September 30, 2014, higher than 1.00 times at June 30, 2014, and 0.73 times at September 30, 2013.

During the third quarter of 2014, the Company had net charge-offs related to acquired non-credit impaired loans which totaled $438,000 or 0.12% annualized, and accordingly, recorded a provision for loan losses. Additionally, we have $5.9 million in nonperforming loans from this loan portfolio.

The Company performs ongoing assessments of the estimated cash flows of its acquired credit impaired loan portfolios. In general, increases in cash flow expectations result in a favorable adjustment to interest income over the remaining life of the related loans, and decreases in cash flow expectations result in an immediate recognition of a provision for loans losses, in both cases, net of any adjustments to the receivable from the FDIC for loss sharing for those assets that are covered. When a provision for loan losses (impairments) has been recognized in earlier periods, subsequent improvement in cash flows will result in reversals of those impairments.

These ongoing assessments of the acquired loan portfolio resulted in reduced loan interest accretion due to continued decline in loan balances. The overall credit mark for these loans continued to decline, partially from charge offs and partially from net improvement in expected cash flow. Below is a summary of the third quarter of 2014 assessment of the estimated cash flows of the acquired loan portfolio and the related impact on the indemnification asset:

- Removals from the loan pools due to repayments, charge offs, and transfers to OREO or other assets owned through foreclosures resulted in a decline in acquired loan interest income of $2.4 million from the second quarter of 2014; and compared to the third quarter of 2013, a decline of $4.1 million in loan interest income primarily from the continued decline in acquired loan balances; and

- The amortization of the indemnification asset also decreased by approximately $1.0 million compared to the second quarter of 2014, and by $2.8 million compared to the third quarter of 2013. This was primarily the result of the decline in the difference between the net carrying value of the FDIC indemnification asset and projected cash flows of the indemnification asset.

As of September 30, 2014, the Company performed the recast and made changes to the estimated cash flow assumptions and expected losses for the acquired credit impaired loans. This was the first quarter that FFHI acquired credit impaired loans were included with the end of the measurement period for purchase accounting adjustments and converting these loans onto one loan system. During the recast in the third quarter, total credit releases were $22.0 million, with approximately two-thirds coming from the FFHI recast. This release only partially effects the third quarter with majority of the impact being recorded over the life of the impacted loan pools.

Compared to the balance at June 30, 2014, our non-acquired loan portfolio has increased $130.1 million, or 16.4% annualized, to $3.3 billion, driven by increases in most categories. Consumer real estate lending increased by $70.8 million, or 31.2% annualized; consumer non real estate lending by $12.5 million, or 29.2% annualized; commercial owner occupied loans by $32.4 million, or 15.2% annualized; construction and land development by $13.6 million or 14.6% annualized; and commercial non-owner occupied by $15.5 million, or 20.5% annualized. The acquired loan portfolio decreased by $138.2 million, in the third quarter of 2014, due to continued payoffs, charge-offs, and transfers to OREO. Since September 30, 2013, the non-acquired loan portfolio has grown by $563.5 million, or 20.6%, in all categories. Consumer real estate loans have led the way and increased by $224.8 million, or 29.8%, in the past year.

Non-taxable equivalent net interest income for the quarter increased $614,000 or 0.77% compared to the third quarter of 2013. Non-taxable equivalent net interest margin decreased by 46 basis points to 4.60% from the third quarter of 2013 of 5.06% due to the decrease in yield on all interesting earning assets. Compared to the second quarter of 2014, net interest margin (taxable equivalent) decreased by 10 basis points. Interest earning assets yield decreased by 9 basis points primarily from the decrease in the yield of the acquired and non-acquired loan portfolios. The rate on interest bearing liabilities increased by 1 basis point compared to the second quarter of 2014 from a 4 basis point increase in the rates on time deposit balances.

Our quarterly efficiency ratio decreased to 71.0% compared to 71.5% in the second quarter of 2014, and decreased from 78.7% in the third quarter of 2013. The decrease in the efficiency ratio compared to the second quarter of 2014 was the result of a

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$831,000 reduction in noninterest expense in most categories, other than OREO and loan related expense which increased by $1.5 million. The decrease in the efficiency ratio compared to the third quarter of 2013 was the result of a 61.2% increase in noninterest income. Compared to the third quarter of 2013 noninterest expense was slightly down by $350,000 with a $5.6 million increase in salary and benefits, and offset by declines in merger expenses, information services, advertising and marketing, and other expense. Excluding OREO and merger and branding related expenses, the efficiency ratio was 61.3% for the third quarter of 2014, compared to 63.6% for the second quarter of 2014 and 64.3% for the third quarter of 2013.

Diluted EPS and basic EPS increased to $0.80 and $0.81 for the third quarter of 2014, from the third quarter 2013 amounts of $0.52 and $0.53, respectively. This was the result of a 68% increase in net income available to common shareholders, partially offset by an increase in weighted average basic and diluted common shares. Third quarter of 2014 has full quarter impact of additional 7.2 million shares issued from the FFHI merger compared to third quarter of 2013 which only has approximately two-thirds impact.

Selected Figures and Ratios

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Return on average assets (annualized)	**0.96%**	0.66%	**0.91%**	0.81%
Return on average common equity (annualized)	**7.99%**	5.78%	**7.52%**	7.64%
Return on average equity (annualized)	**7.99%**	5.71%	**7.50%**	7.56%
Return on average tangible common equity (annualized)*	**13.97%**	10.39%	**13.41%**	11.82%
Return on average tangible equity (annualized)*	**13.97%**	9.88%	**13.19%**	11.39%
Dividend payout ratio **	**26.22%**	39.71%	**27.25%**	30.84%
Equity to assets ratio	**12.27%**	12.08%	**12.27%**	12.08%
Average shareholders common equity (in thousands)	**$ 959,536**	$ 790,554	**$ 944,912**	$ 607,385
Average shareholders equity (in thousands)	**$ 959,536**	$ 837,185	**$ 965,388**	$ 623,099

* - Ratio is a non-GAAP financial measure. The section titled Reconciliation of Non-GAAP to GAAP below provides a table that reconciles non-GAAP measures to GAAP measures.

** - See explanation of the dividend payout ratio below.

- For the nine months ended September 30, 2014, return on average tangible equity increased compared to the same period in 2013. The increase was driven by the 53.1% increase in net income available to common shareholders excluding amortization of intangibles. Similarly, return on average assets increased to 0.91% compared to the nine months ended September 30, 2013 due to the growth in net income.

- Dividend payout ratio decreased to 27.3% for the nine months ended September 30, 2014 compared with 30.8% for the nine months ended September 30, 2013. The decrease from the comparable period in 2013 primarily reflects the higher net income for the nine months ended September 30, 2014 compared to the increase of $0.05 per share or 9.1% in the cash dividends declared per common share. The dividend payout ratio is calculated by dividing total dividends paid during the quarter by the total net income reported for the same period.

- Equity to assets ratio increased to 12.3% at September 30, 2014 compared with 12.1% at September 30, 2013. The increase in the equity to assets ratio reflects a 1.6% decline in assets compared to the 0.3% decrease in equity as a result of the redemption of $65.0 million of preferred stock partially offset by the Company s retained earnings.

- Quarterly average shareholders equity increased $122.4 million, or 14.6%, from the quarter ended September 30, 2013 driven by earnings and the impact of the issuance of $446.4 million in common and preferred equity in the FFHI acquisition on July 26, 2013.

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Reconciliation of Non-GAAP to GAAP

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Return on average tangible equity (non-GAAP)	**13.97%**	9.88%	**13.19%**	11.39%
Effect to adjust for intangible assets	**-5.98%**	-4.17%	**-5.69%**	-3.83%
Return on average equity (GAAP)	**7.99%**	5.71%	**7.50%**	7.56%
Adjusted average shareholders equity (non-GAAP)	**$ 590,076**	$ 528,455	**$ 591,835**	$ 436,471
Average intangible assets	**369,460**	308,730	**373,553**	186,628
Average shareholders equity (GAAP)	**$ 959,536**	$ 837,185	**$ 965,388**	$ 623,099
Adjusted net income (non-GAAP)	**$ 20,780**	$ 13,165	**$ 58,396**	$ 37,739
Amortization of intangibles	**(2,080)**	(1,738)	**(6,268)**	(3,794)
Tax effect	**627**	627	**2,061**	1,290
Net income (GAAP)	**$ 19,327**	$ 12,054	**$ 54,189**	$ 35,235
Return on average common tangible equity (non-GAAP)	**13.97%**	10.39%	**13.41%**	11.82%
Effect to adjust for intangible assets	**-5.98%**	-4.61%	**-5.89%**	-4.18%
Return on average common equity (GAAP)	**7.99%**	5.78%	**7.52%**	7.64%
Adjusted average common shareholders equity (non-GAAP)	**$ 590,076**	$ 481,824	**$ 571,359**	$ 420,757
Average intangible assets	**369,460**	308,730	**373,553**	186,628
Average common shareholders equity (GAAP)	**$ 959,536**	$ 790,554	**$ 944,912**	$ 607,385
Adjusted net income available to common shareholders (non-GAAP)	**$ 20,780**	$ 13,165	**$ 58,396**	$ 37,739
Amortization of intangibles	**(2,080)**	(1,738)	**(6,268)**	(3,794)
Tax effect	**627**	627	**2,061**	1,290
Net income (GAAP)	**19,327**	12,054	**54,189**	35,235
Preferred stock dividend		542	**1,073**	542
Net income available to common shareholders (GAAP)	**$ 19,327**	$ 11,512	**$ 53,116**	$ 34,693

The returns on average tangible equity and average tangible common equity are non-GAAP financial measures. They exclude the effect of the average balance of intangible assets and add back the after-tax amortization of intangibles to GAAP basis net income. Management believes that these non-GAAP measures provide additional useful information, particularly since these measures are widely used by industry analysts following companies with prior merger and acquisition activities. Non-GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the company s performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of our results of financial condition as reported under GAAP.

Net Interest Income and Margin

Summary

Our taxable equivalent (TE) net interest margin decreased by 46 basis points from the third quarter of 2013, due primarily to the 49 basis point decline in the yield on interest earning assets, partially offset by a 10.8% increase in average interest-earning assets from third quarter of 2013 due primarily to organic loan growth. The net interest margin decreased by 10 basis points from the second quarter of 2014 to 4.65%. Yields on average earning assets decreased by 9 basis points from the second quarter of 2014 while the rate on average interest bearing liabilities increased by 1 basis point. Compared to September 30, 2013, the yield on interest earning assets decreased by 49 basis points.

The Company remained in an excess liquidity position during the third quarter of 2014, and the impact represented an estimated 17 basis points reduction in the net interest margin compared to 21 basis points from the second quarter of 2014.

Net interest income increased from the third quarter of 2013 by $614,000. This increase was primarily driven by the increase in the investment securities portfolio average balance of $166.2 million. The increase in non-acquired loan yield fully

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offset the decrease in the yield on the acquired loans. Certificates of deposit average rate declined by 6 basis points from the third quarter of 2013 along with the average balance decreasing $160.8 million. Year-over-year interest expense declined slightly and the cost of funds decreased two basis points. The cost on interest bearing liabilities increased by one basis point comparing the nine months ended periods September 30, 2014 and 2013, while yield on interest earning assets decline by 18 basis points.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Non-TE net interest income	**$ 80,369**	$ 79,755	**$ 244,809**	$ 188,846
Non-TE yield on interest-earning assets	**4.83%**	5.32%	**5.01%**	5.19%
Non-TE rate on interest-bearing liabilities	**0.30%**	0.32%	**0.30%**	0.29%
Non-TE net interest margin	**4.60%**	5.06%	**4.78%**	4.97%
TE net interest margin	**4.65%**	5.11%	**4.83%**	5.03%

Non-TE net interest income increased $614,000, or 0.77%, in the third quarter of 2014 compared to the same period in 2013. Some key highlights are outlined below:

- Average interest-earning assets increased 10.8% to $6.9 billion in the third quarter of 2014 compared to the same period last year due primarily to the increase in investment securities and non-acquired loans.

- Non-TE yield on interest-earning assets for the third quarter of 2014 decreased 49 basis points from the comparable period in 2013. The decrease since the third quarter of 2013 was driven by a 64 basis point decrease in the yield on acquired loans and a 23 basis point decrease in the yield on non-acquired loans. The yield on a portion of our earning assets adjusts simultaneously, but to varying degrees of magnitude, with changes in the general level of interest rates.

- The average cost of interest-bearing liabilities for the third quarter of 2014 decreased two basis points from the same period in 2013. The decrease since the third quarter of 2013 was a reflection the decline in time deposits and the decline in the rate paid of six basis points. This decline was offset by an increase in the cost associated with trust preferred securities which were included for a full quarter in 2014 compared to two-thirds of the quarter in 2013. These trust preferred securities cost 7% fixed.

- TE net interest margin decreased by 46 basis points in the third quarter of 2014, compared to the third of 2013.

Loans

Total loans, net of deferred loan costs and fees (excluding mortgage loans held for sale), decreased by $64.9 million, or 1.1%, at September 30, 2014 as compared to the same period in 2013. Acquired covered loans decreased by $128.0 million and acquired non-covered loans decreased by $500.4 million due to principal payments, charge offs, and foreclosures. Non-acquired loans or legacy loans increased by $563.5 million, or 20.6%, from September 30, 2013 to September 30, 2014. The increase was driven by loan growth in commercial owner occupied loans of $67.1 million, consumer owner occupied loans of $203.8 million, commercial non-owner occupied loans of $35.8 million, commercial and industrial loans of $53.7 million, consumer loans of $67.1 million, construction and land development loans of $97.1 million, other income producing property loans of $14.8 million, home equity loans of $21.1 million, and other loans of $2.9 million.

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The following table presents a summary of the loan portfolio by category:

(Dollars in thousands)	September 30, 2014	% of Total	December 31, 2013	% of Total	September 30, 2013	% of Total
Acquired loans:						
Acquired covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	**$ 22,291**	**0.4%**	$ 43,396	0.8%	$ 50,582	0.9%
Commercial non-owner occupied	**36,653**	**0.6%**	53,525	0.9%	62,985	1.1%
Total commercial non-owner occupied real estate	**58,944**	**1.0%**	96,921	1.7%	113,567	2.0%
Consumer real estate:						
Consumer owner occupied	**31,757**	**0.6%**	38,946	0.7%	41,379	0.7%
Home equity loans	**35,471**	**0.6%**	35,884	0.6%	37,943	0.7%
Total consumer real estate	**67,228**	**1.2%**	74,830	1.3%	79,322	1.4%
Commercial owner occupied real estate	**54,776**	**1.0%**	88,722	1.6%	93,309	1.6%
Commercial and industrial	**10,450**	**0.2%**	14,475	0.3%	16,596	0.3%
Other income producing property	**22,445**	**0.4%**	31,739	0.6%	37,543	0.7%
Consumer non real estate	**821**	**0.0%**	1,878	0.0%	2,322	0.0%
Total acquired covered loans	**214,664**	**3.8%**	308,565	5.5%	342,659	6.0%
Acquired non-covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	**76,167**	**1.3%**	129,289	2.3%	134,342	2.3%
Commercial non-owner occupied	**192,322**	**3.4%**	226,530	4.0%	245,046	4.3%
Total commercial non-owner occupied real estate	**268,489**	**4.7%**	355,819	6.3%	379,388	6.6%
Consumer real estate:						
Consumer owner occupied	**879,302**	**15.5%**	981,834	17.2%	1,013,022	17.7%
Home equity loans	**303,615**	**5.4%**	335,241	5.9%	349,517	6.1%
Total consumer real estate	**1,182,917**	**20.9%**	1,317,075	23.1%	1,362,539	23.8%
Commercial owner occupied real estate	**188,482**	**3.3%**	211,030	3.7%	230,849	4.0%
Commercial and industrial	**62,003**	**1.1%**	98,046	1.7%	111,135	1.9%
Other income producing property	**146,819**	**2.6%**	171,544	3.0%	183,996	3.2%
Consumer non real estate	**302,493**	**5.3%**	371,112	6.5%	383,656	6.7%
Total acquired non-covered loans	**2,151,203**	**37.9%**	2,524,626	44.3%	2,651,563	46.2%
Total acquired loans	**2,365,867**	**41.7%**	2,833,191	49.8%	2,994,222	52.2%
Non-acquired loans:						
Commercial non-owner occupied real estate:						
Construction and land development	**385,318**	**6.8%**	299,951	5.3%	288,199	5.0%
Commercial non-owner occupied	**318,470**	**5.6%**	291,171	5.1%	282,678	4.9%
Total commercial non-owner occupied real estate	**703,788**	**12.4%**	591,122	10.4%	570,877	9.9%
Consumer real estate:						
Consumer owner occupied	**702,521**	**12.4%**	548,170	9.6%	498,734	8.7%
Home equity loans	**276,341**	**4.9%**	257,139	4.5%	255,291	4.5%
Total consumer real estate	**978,862**	**17.3%**	805,309	14.1%	754,025	13.2%
Commercial owner occupied real estate	**881,403**	**15.5%**	833,513	14.6%	814,259	14.2%
Commercial and industrial	**355,580**	**6.3%**	321,824	5.6%	301,845	5.3%

Other income producing property		**154,822**	**2.7%**		143,204	2.5%		140,024	2.4%
Consumer non real estate		**183,451**	**3.2%**		136,410	2.4%		116,312	2.0%
Other		**46,802**	**0.9%**		33,834	0.6%		43,900	0.8%
Total non-acquired loans		**3,304,708**	**58.3%**		2,865,216	50.2%		2,741,242	47.8%
Total loans (net of unearned income)	**$**	**5,670,575**	**100.0%**	$	5,698,407	100.0%	$	5,735,464	100.0%

Note: Loan data excludes loans held for sale.

Our loan portfolio remains our largest category of interest-earning assets. Our acquired loan portfolio, covered and non-covered, decreased by $467.3 million from December 31, 2013 and by $628.4 million from September 30, 2013. The percentage of non-acquired loans for each category is as follows:

- Non-acquired commercial non-owner occupied real estate loans represented 12.4% of total loans as of September 30, 2014, an increase from 9.9% of total loans at the end of the same period for 2013 and an increase from 10.4% of total loans at December 31, 2013.

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• At September 30, 2014, non-acquired construction and land development loans represented 6.8% of our total loan portfolio, an increase from 5.0% of our total loan portfolio at September 30, 2013. At September 30, 2014, non-acquired construction and land development loans consisted of $138.7 million in land and lot loans and $246.6 million in construction loans, which represented 4.2% and 7.5%, respectively, of our total non-acquired loan portfolio. At December 31, 2013, non-acquired construction and land development loans consisted of $206.5 million in land and lot loans and $93.4 million in construction loans, which represented 7.2% and 3.3%, respectively, of our total non-acquired loan portfolio.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Average total loans	**$ 5,662,999**	$ 5,126,163	**$ 5,642,617**	$ 4,091,398
Interest income on total loans	**78,325**	78,228	**238,857**	183,712
Non-TE yield	**5.49%**	6.05%	**5.66%**	6.00%

Interest earned on loans increased slightly in the third quarter of 2014 compared to the third quarter of 2013. Some key highlights for the quarter ended September 30, 2014 are outlined below:

• Our non-TE yield on total loans decreased 56 basis points comparing the third quarter of 2014 to 2013 and average total loans increased 10.5%, as compared to the third quarter of 2013. The increase in average total loans was primarily the result of the growth in non-acquired loans during 2014. These new loans, however, are at lower rates at the average yield was 4.15% in the third quarter of 2014 compared to 4.38% in the third quarter of 2013. The acquired loan portfolio effective yield continues to decline as these balances decline due to repayment, charge offs, and transfers to OREO. This resulted in a yield of 7.28%, compared to 7.92% one year ago.

• Acquired covered loans had a balance of $214.7 million at the end of the third quarter of 2014 compared to $342.7 million at September 30, 2013.

• Acquired non-covered loans declined by approximately $500.4 million to $2.2 billion at the end of the third quarter of 2014 compared to $2.7 billion at September 30, 2013. This decline was the result of our continued effort of working through these acquired assets since early 2010.

• Non-acquired construction and land development loans increased $97.1 million, or 33.7%, to $385.3 million from the ending balance at September 30, 2013.

• Non-acquired commercial non-owner occupied loans increased $35.8 million, or 12.7%, to $318.5 million from the ending balance at September 30, 2013.

• Non-acquired consumer real estate loans increased $224.8 million, or 29.8%, to $978.9 million from the ending balance at September 30, 2013.

• Non-acquired commercial owner occupied loans increased $67.1 million, or 8.2%, to $881.4 million from the ending balance at September 30, 2013.

• Non-acquired commercial and industrial loans increased $53.7 million, or 17.8%, to $355.6 million from the ending balance at September 30, 2013.

- Non-acquired consumer non-real estate loans increased $67.1 million, or 57.70%, to $183.5 million from the ending balance at September 30, 2013.

- Non-acquired other income producing property loans increased $14.8 million, or 10.6%, to $154.8 million from the ending balance at September 30, 2013.

The balance of mortgage loans held for sale increased $26.0 million from December 31, 2013 to $56.6 million at September 30, 2014, and $4.1 million compared to the balance of mortgage loans held for sale at September 30, 2013 of $51.2 million. In May of 2014, the Company sold the credit card loan portfolio acquired in the FFHI acquisition for $20.4 million. No gain or loss was recorded with this transaction.

Investment Securities

We use investment securities, our second largest category of earning assets, to generate interest income through the deployment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At September 30, 2014, investment securities totaled $826.0 million, compared to $812.6 million at December 31, 2013 and $652.6 million at September 30, 2013. The Company purchased $205.9 million of securities during the fourth quarter of 2013. In addition, we continue to slowly increase our investment securities portfolio as we

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identify securities that meet our strategy and objectives. During the quarter, our portfolio increased by approximately $9.4 million from the balance at June 30, 2014. This resulted in quarterly average and period-end balances increasing by 25.3% and 26.6% from September 30, 2013, respectively.

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Average investment securities	**$ 822,833**	$ 656,658	**$ 811,747**	$ 579,646
Interest income on investment securities	**5,218**	4,517	**15,323**	11,154
Non-TE yield	**2.52%**	2.73%	**2.52%**	2.57%

Interest earned on investment securities increased 15.5% in the third quarter of 2014 compared to the third quarter of 2013. The increase resulted largely from the $166.2 million increase in average investment securities for the third quarter, which was largely the result of the addition of the securities from the FFHI acquisition.

The following table provides a summary of the credit ratings for our investment portfolio (including held-to-maturity and available-for-sale securities) at the end of the third quarter of 2014:

(Dollars in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	AAA - A	BBB	BB or Lower	Not Rated
September 30, 2014							
Government-sponsored entities debt	$ 140,438	$ 137,459	$ (2,979)	$ 127,946	$	$	$ 12,492
State and municipal obligations	148,122	152,277	4,155	146,856	375		891
Mortgage-backed securities *	519,569	523,009	3,440				519,569
Corporate stocks	3,161	3,388	227				3,161
	$ 811,290	$ 816,133	$ 4,843	$ 274,802	$ 375	$	$ 536,113

* - Agency mortgage-backed securities (MBS) are guaranteed by the issuing GSE as to the timely payments of principal and interest. Except for Government National Mortgage Association (GNMA) securities, which have the full faith and credit backing of the United States Government, the GSE alone is responsible for making payments on this guaranty. While the rating agencies have not rated any of the MBS issued, senior debt securities issued by GSEs are rated consistently as Triple-A. Most market participants consider agency MBS as carrying an implied Aaa rating (S&P rating of AA+) because of the guarantees of timely payments and selection criteria of mortgages backing the securities. We do not own any private label mortgage-backed securities.

At September 30, 2014, we had 85 securities available for sale in an unrealized loss position, which totaled $5.9 million. At December 31, 2013, we had 257 securities available for sale in an unrealized loss position, which totaled $16.0 million. At September 30, 2013, we had 215 securities available for sale in an unrealized loss position, which totaled $11.9 million.

During the third quarter of 2014 as compared to the third quarter of 2013, the total number of available for sale securities with an unrealized loss position decreased by 130 securities, while the total dollar amount of the unrealized loss decreased by $6.0 million.

All securities available for sale in an unrealized loss position as of September 30, 2014 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary because we have the ability to hold these securities within the portfolio until the maturity or until the value recovers, and we believe that it is not likely that we will be required to sell these securities prior to recovery. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

Although securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While management generally holds these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

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Other Investments

Other investment securities include primarily our investments in Federal Home Loan Bank of Atlanta (FHLB) stock with no readily determinable market value. The amortized cost and fair value of all these securities are equal at September 30, 2014. As of September 30, 2014, the investment in FHLB stock represented approximately $7.5 million, or 0.1% as a percentage of total assets.

Interest-Bearing Liabilities

Interest-bearing liabilities include interest-bearing transaction accounts, savings deposits, CDs, other time deposits, federal funds purchased, and other borrowings. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Average interest-bearing liabilities	**$ 5,257,128**	$ 4,971,423	**$ 5,332,962**	$ 4,036,637
Interest expense	**3,979**	4,038	**11,833**	8,648
Average rate	**0.30%**	0.32%	**0.30%**	0.29%

The average balance of interest-bearing liabilities increased in the third quarter of 2014 compared to the third quarter of 2013 due primarily the September 30, 2014 average balance including a full quarter with the FFHI acquired balances compared to third quarter of 2013, which included two months of the late July 2013 FFHI acquisition. The increase in interest expense in the third quarter was largely driven by higher balances in all interest-bearing liabilities, with the exception of federal funds purchased and repurchase agreements. Rates continued to decline in most categories, with the exception of certificates of deposit, other time deposits and other borrowings. Overall, we experienced a 2 basis point decrease in the average rate on all interest-bearing liabilities from the three months ended September 30, 2013. Compared to the second quarter of 2014, the average rate on all interest-bearing liabilities increased by 1 basis point from 29 basis points. This slight increase came mostly from a 4 basis point increase in the rates on certificates of deposits and other time deposits. Some key highlights are outlined below:

- Average interest-bearing deposits for the nine months ended September 30, 2014 grew 35.1% from the same period in 2013.

- Interest-bearing deposits decreased 6.1% to $4.9 billion at September 30, 2014 from the period end balance at September 30, 2013 of $5.2 billion. This was the result of a $373.6 million decline in certificates of deposit which was partially offset by growth in all other categories of interest-bearing deposits of $56.2 million. The Company continues to monitor and adjust rates paid on deposit products as part of its strategy to manage its net interest margin.

- The average rate on transaction and money market account deposits for the three months ended September 30, 2014 decreased 1 basis point from the comparable period in 2013; however, due to the increase in average balances from the FFHI acquisition and core deposit growth there was an increase in interest expense of $64,000 for the three months ended September 30, 2014.

- Average certificates of deposit and other time deposits decreased 10.7%, down $160.8 million from the average balance in the third quarter of 2013. Interest expense on certificates of deposit and other time deposits decreased $391,000 as a result of the decline in average balances and a 6 basis point decrease in the average rate to 41 basis points for the three months ended September 30, 2014 as compared to the

same period in 2013.

- The average rate on other borrowings increased 66 basis points to 5.88% for the three months ended September 30, 2014 as compared to the same period in 2013. This was primarily due to the addition of $46.0 million of trust preferred securities at a 7.0% rate for the full quarter versus only two months impact for the three months ended September 30, 2013.

Noninterest-Bearing Deposits

Noninterest-bearing deposits are transaction accounts that provide our Bank with interest-free sources of funds. Average noninterest-bearing deposits increased $297.0 million, or 21.9%, to $1.7 billion in the third quarter of 2014 compared to $1.4 billion at September 30, 2013. At September 30, 2014, noninterest-bearing deposits were $1.7 billion, exceeding the September 30, 2013 balance by $176.5 million.

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Provision for Loan Losses and Nonperforming Assets

We have established an allowance for loan losses through a provision for loan losses charged to expense. The ALLL represents an amount we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. We assess the adequacy of the ALLL by using an internal risk rating system, independent credit reviews, and regulatory agency examinations all of which evaluate the quality of the loan portfolio and seek to identify problem loans. Based on this analysis, management and the board of directors consider the current allowance to be adequate. Nevertheless, our evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Actual losses may vary from our estimates, and there is a possibility that charge-offs in future periods could exceed the ALLL as estimated at any point in time.

In addition, regulatory agencies, as an integral part of the examination process, periodically review our Bank s ALLL. Such agencies may require additions to the ALLL based on their judgments about information available to them at the time of their examination.

Loans acquired in the CBT, Habersham, BankMeridian, Peoples, Savannah, and FFHI acquisitions were recorded at their acquisition date fair value, which was based on expected cash flows and included an estimation of expected future loan losses for the acquired credit-impaired loans, including principal and interest. Our estimates of credit losses on loans acquired in the FFHI acquisition continue to be adequate, and there is no evidence of additional credit deterioration that would require additional allowance for loan loss as of September 30, 2014. Under current accounting principles, information regarding our estimate of loan fair values may be adjusted for a period of up to one year as we continue to refine our estimate of expected future cash flows in the acquired portfolio. If we determine that losses arise after the acquisition date, generally the additional losses will be reflected as a provision for loan losses, and offset with an increase in the FDIC indemnification asset for those acquired loans covered by loss sharing agreements. The Peoples and Savannah acquisitions were not part of any loss share agreements with the FDIC; therefore, there is no offset for any additional losses recorded in a provision for loan losses. The FFHI acquisition included assets that are both covered and uncovered under FDIC loss share agreements. See Business Combinations and Method of Accounting for Loans Acquired in our Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion of the method of accounting for acquired loans.

During the third quarter of 2014, we decreased the valuation allowance on acquired loans by $658,000 on certain acquired loan pools due to evidence of credit improvement and expected cash flows during the quarterly review process, which resulted in $133,000 net provision for loan losses on acquired loans (net of the impact of the FDIC loss sharing agreements).

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The following tables present a summary of the changes in the ALLL for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,						
	2014				2013		
(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 35,422	$	$ 9,159	$ 44,581	$ 38,625	$ 14,461	$ 53,086
Loans charged-off	(2,713)	(879)		(3,592)	(4,294)		(4,294)
Recoveries of loans previously charged off	575	441		1,016	1,249		1,249
Net charge-offs	(2,138)	(438)		(2,576)	(3,045)		(3,045)
Provision for loan losses	1,520	438	(658)	1,300	565	(456)	109
Benefit attributable to FDIC loss share agreements			791	791		550	550
Total provision for loan losses charged to operations	1,520	438	133	2,091	565	94	659
Provision for loan losses recorded through the FDIC loss share receivable			(791)	(791)		(550)	(550)
Reductions due to loan removals			(469)	(469)		(1,745)	(1,745)
Balance at end of period	$ 34,804	$	$ 8,032	$ 42,836	$ 36,145	$ 12,260	$ 48,405
Total non-acquired loans:							
At period end	3,304,708				2,741,242		
Average	3,246,025				2,698,580		
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.26%				0.45%		
Allowance for loan losses as a percentage of period end non-acquired loans	1.05%				1.32%		
Allowance for loan losses as a percentage of period end non-performing non-acquired loans (NPLs)	114.18%				72.89%		

	Nine Months Ended September 30,						
	2014				2013		
(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 34,331	$	$ 11,618	$ 45,949	$ 44,378	$ 17,218	$ 61,596
Loans charged-off	(5,972)	(879)		(6,851)	(12,121)		(12,121)
Recoveries of loans previously charged off	2,170	441		2,611	2,870		2,870
Net charge-offs	(3,802)	(438)		(4,240)	(9,251)		(9,251)
Provision for loan losses on non-acquired loans	4,275	438	(1,792)	2,921	1,018	(991)	27
Benefit attributable to FDIC loss share agreements			2,188	2,188		1,871	1,871
Total provision for loan losses charged to operations	4,275	438	396	5,109	1,018	880	1,898
Provision for loan losses recorded through the FDIC loss share receivable			(2,188)	(2,188)		(1,871)	(1,871)
Reductions due to loan removals			(1,794)	(1,794)		(3,967)	(3,967)
Balance at end of period	$ 34,804	$	$ 8,032	$ 42,836	$ 36,145	$ 12,260	$ 48,405

Total non-acquired loans:				
At period end	$	**3,304,708**	$	2,741,242
Average		**3,073,530**		2,634,362
As a percentage of average non-acquired loans (annualized):				
Net charge-offs		**0.17%**		0.47%
Allowance for loan losses as a percentage of period end non-acquired loans		**1.05%**		1.32%
Allowance for loan losses as a percentage of period end non-performing non-acquired loans (NPLs)		**114.18%**		72.89%

The allowance for loan losses as a percent of non-acquired loans reflects the continued decline due primarily to the decline in our three-year historical charge off rate. Additionally, our classified loans, nonaccrual loans, and non-performing loans declined during the third quarter of 2014 compared to the same quarter in 2013 and to the second quarter of 2014. Our overall net charge offs for the quarter on non-acquired loans was 26 basis points annualized, or $2.1 million, compared to 45 basis points, or $3.1 million, a year ago and 17 basis points, or $1.3 million in the second quarter of 2014. The low level of net charge offs may not be sustainable given the remaining uncertainty which exists within the overall economy and markets in which we operate. Excluding acquired assets, nonperforming loans decreased by $19.1 million during the third quarter of 2014 compared to the third quarter of 2013 and decreased by $4.8 million from the second quarter of 2014. The ratio of the ALLL to cover total nonperforming non-acquired loans increased from 72.9% at September 30, 2013 to 114.2% at September 30, 2014.

We decreased the ALLL compared to the third quarter of 2013 due primarily to the improvement in asset quality metrics during the third quarter of 2014. Compared to the second quarter of 2014, the ALLL decreased due primarily to the decline in combined past due and nonaccrual loans, classified assets, and reduced bankruptcies and foreclosures during the third quarter. On a

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general basis, we consider three-year historical loss rates on all loan portfolios, except residential lot loans and lot loans held for investment purposes where two-year historical loss rates are applied. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management s assessment of loss within the loan portfolio. Overall, the general reserve decreased by $1.4 million compared to the balance at September 30, 2013 and decreased by $564,000 from June 30, 2014.

We have adjusted our qualitative factors to account for uncertainty and certain risk inherent in the portfolio that cannot be measured with historical loss rates. We currently view that the low level of net charge offs and historical loss rates may not be indicative of the losses inherent in the overall loan portfolio. Therefore, we have adjusted our qualitative factors to account for the uncertainty which exists in the economy as a whole and within the markets in which we operate.

On a specific reserve basis, the allowance for loan losses remained flat from June 30, 2014, and slightly increased by $100,000 from September 30, 2013 to $1.4 million at September 30, 2014. However, the loan balances being evaluated for specific reserves decreased from $32.7 million at June 30, 2014 to $28.1 million at September 30, 2014. Our practice, generally, is that once a specific reserve is established for a loan, a charge off occurs in the quarter subsequent to the establishment of the specific reserve.

During the third quarter of 2014, the measurement period for evaluating purchase accounting adjustments concluded and we executed our system conversion for both loans and deposits. As a result, we are now measuring and assessing nonaccrual loans and net charge-offs for loans classified as acquired non-credit impaired loans . During the quarter, we had $5.9 million in nonperforming loans in this category, and we incurred net charge offs of $438,000, or 12 basis points annualized.

During the three months ended September 30, 2014, the decline in our total nonperforming assets (NPAs) was reflective of improvement in the real estate market and economy as a whole within the markets that we serve.

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The following table summarizes our NPAs for the past five quarters.

(Dollars in thousands)	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Non-acquired:					
Nonaccrual loans	**$ 20,419**	$ 26,546	$ 29,190	$ 31,333	$ 38,631
Accruing loans past due 90 days or more	**429**	358	96	258	122
Restructured loans - nonaccrual	**9,633**	8,409	8,156	10,690	10,837
Total nonperforming loans	**30,481**	35,313	37,442	42,281	49,590
Other real estate owned (OREO) (2)	**9,360**	9,003	12,187	13,456	16,555
Other nonperforming assets (3)					
Total nonperforming assets excluding acquired assets	**39,841**	44,316	49,629	55,737	66,145
Acquired non-credit impaired:					
Nonaccrual loans	**5,359**				
Accruing loans past due 90 days or more	**501**				
Total acquired nonperforming loans (1)	**5,860**				
Covered OREO (2)	**18,961**	21,999	29,003	27,520	40,543
Acquired OREO not covered under loss share (2)	**22,929**	22,732	22,957	23,941	18,775
Other covered nonperforming assets (3)	**640**	811	1,032	943	718
Total nonperforming assets including covered assets	**$ 88,231**	$ 89,858	$ 102,621	$ 108,141	$ 126,181
Excluding Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	**1.20%**	1.39%	1.66%	1.94%	2.40%
Total NPAs as a percentage of total assets (5)	**0.50%**	0.55%	0.62%	0.70%	0.82%
Total NPLs as a percentage of total loans (4)	**0.92%**	1.11%	1.26%	1.48%	1.81%
Including Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	**1.54%**	1.57%	1.81%	1.88%	2.16%
Total NPAs as a percentage of total assets	**1.12%**	1.12%	1.28%	1.36%	1.57%
Total NPLs as a percentage of total loans (4)	**0.64%**	0.62%	0.67%	0.74%	0.86%

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(1) Excludes the acquired loans that are contractually past due 90 days or more totaling $52.5 million, $60.3 million, $73.9 million, $85.1 million, and $90.2 million as of September 30, 2014, June 30, 2014, March 31, 2014, December 31, 2013, and September 30, 2013, respectively, including the valuation discount. Acquired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For further discussion of the Company s application of the accretion method, see Business Combinations and Method of Accounting for Loans Acquired in our Annual Report on Form 10-K for the year ended December 31, 2013.

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

(3) Consists of non-real estate foreclosed assets, such as repossessed vehicles.

(4) Loan data excludes mortgage loans held for sale.

(5) For purposes of this calculation, total assets include all assets (both acquired and non-acquired).

Excluding the acquired non-credit impaired loans, total nonperforming loans, including restructured loans, were $30.5 million, or 0.92% of non-acquired loans, a decrease of $19.1 million, or 38.5%, from September 30, 2013. The decrease in nonperforming loans was driven by a decrease in commercial nonaccrual loans of $15.6 million and the decrease in consumer nonaccrual loans of $3.8 million. Both commercial and consumer nonaccrual loans were slightly offset by an increase of $300,000 in loans 90 days or more past due but still accruing.

Nonaccrual non-acquired loans and restructured loans decreased by approximately $4.8 million during the third quarter of 2014 from the level June 30, 2014. This decrease was the net result of $175,000 in charge offs, $3.4 million in transfers to OREO, $2.2 million in payments, $534,000 returning to accruing loans, and $1.5 million in additional non-accrual loans.

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At September 30, 2014, non-acquired OREO increased slightly by $357,000 from June 30, 2014. At September 30 2014, non-acquired OREO consisted of 55 properties with an average value of $170,000, which is slightly higher than the level from June 30, 2014 when we had 60 properties in non-acquired OREO. In the third quarter of 2014, we added 13 properties with an aggregate value of $3.4 million into non-acquired OREO, and we sold 18 properties with a basis of $2.2 million in the quarter. We wrote down 14 OREO properties by $765,000 during the third quarter of 2014. Our non-acquired OREO balance of $9.4 million at September 30, 2014 is comprised of 34% in the Low Country/Orangeburg region, 16% in the Coastal region (Beaufort to Myrtle Beach), 11% in the Charlotte region, 9% in the Upstate region (Greenville) and 23% primarily related to former branch locations.

Potential Problem Loans

Potential problem loans (excluding all acquired loans), totaled $6.8 million, or 0.21%, of total non-acquired loans outstanding at September 30, 2014, compared to $8.9 million, or 0.33%, of total non-acquired loans outstanding at September 30, 2013, and compared to $7.3 million, or 0.25% of total non-acquired loans outstanding at December 31, 2013. Potential problem loans related to acquired non-credit impaired loans totaled $4.0 million, or 0.29%, of total acquired non-credit impaired loans at September 30, 2014. For the periods ended December 31, 2013 and September 30, 2013, there were no acquired non-credit impaired loans that were considered potential problem loans until we completed the evaluation of acquired loans and any related purchase adjustment during the measurement period. All potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower s ability to comply with present repayment terms.

Noninterest Income

(Dollars in thousands)	Three Months Ended September 30 2014	2013	Nine Months Ended September 30 2014	2013
Service charges on deposit accounts	**$ 9,126**	$ 8,966	**$ 27,258**	$ 20,462
Bankcard services income	**7,489**	6,476	**22,314**	14,614
Mortgage banking income	**4,124**	1,342	**12,098**	6,629
Trust and investment services income	**4,490**	3,593	**13,845**	8,345
Securities gains	**(90)**		**(2)**	
Amortization of FDIC indemnification assets, net	**(4,825)**	(7,625)	**(17,718)**	(22,106)
Other	**4,139**	2,418	**11,602**	5,229
Total noninterest income	**$ 24,453**	$ 15,170	**$ 69,397**	$ 33,173

Excluding the amortization on the FDIC indemnification asset and securities gains (losses), noninterest income increased by $6.5 million, or 28.8%, in the third quarter of 2014 as compared to the same period in 2013. The quarterly increase in total noninterest income primarily resulted from the following:

- Bankcard services income increased 15.6%, or $1.0 million. Debit card income increased 14.8%, or $808,000, due to organic growth and 2013 included approximately two months of the FFHI results.

- Trust and investment services income increased 25.0%, or $897,000, driven primarily by the addition of investment services income for three full months in 2014 versus approximately two months in 2013.

- Other noninterest income increased $1.7 million, or 71.2%, driven primarily by an increase in recoveries on acquired credit impaired loans.

- Mortgage banking income increased $2.8 million, or 207.3%, driven by activity acquired through the FFHI acquisition and 2014 including three full months compared to approximately two months in 2013.

- Amortization on the FDIC indemnification asset decreased $2.8 million, or 36.7%, resulting from a smaller difference between the expected cash flows from the FDIC compared the remaining carrying value of the indemnification asset.

- Service charges on deposit accounts increased 1.8% driven by the FFHI acquisition and the continued increase in our customer base.

Excluding the amortization on the FDIC indemnification asset and securities gains (losses), noninterest income increased $31.8 million or 57.6% during the nine months ended September 30, 2014 as compared to the same period in 2013. The increase in total noninterest income primarily resulted from the following:

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- Service charges on deposit accounts increased 33.2%, driven by the FFHI acquisition which included only two months of FFHI in 2013 compared to all nine months in 2014.

- Mortgage banking income increased 82.5%, driven largely by the number of months the FFHI business was included in 2014 vs. 2013, nine months vs. two months, respectively.

- Bankcard services income increased $7.7 million, or 52.7%, driven by the FFHI acquisition which included only two months of FFHI in 2013 compared to all nine months in 2014.

- Trust and investment services income increased $5.5 million, or 65.9%, driven primarily by the FFHI acquisition which included only two months of FFHI in 2013 compared to all nine months in 2014.

- Amortization on the FDIC indemnification asset decreased $4.4 million, resulting from smaller difference between the cash that is expected to be received from the FDIC compared to the remaining carrying value of the indemnification asset.

- Other noninterest income increased $6.4 million due primarily to the inclusion of nine months of FFHI activity in 2014 versus two months of FFHI in 2013, and more recoveries on acquired credit impaired loans.

Noninterest Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Salaries and employee benefits	**$ 40,029**	$ 34,463	**$ 119,398**	$ 81,461
Merger and branding related expense	**6,846**	10,397	**19,341**	13,220
Net occupancy expense	**5,387**	5,079	**16,758**	11,696
Information services expense	**3,417**	3,905	**12,154**	10,088
Furniture and equipment expense	**3,166**	3,513	**10,171**	8,296
OREO expense and loan related	**3,374**	3,461	**9,313**	9,383
Bankcard expense	**2,141**	1,865	**6,520**	4,264
Amortization of intangibles	**2,080**	1,738	**6,268**	3,794
FDIC assessment and other regulatory charges	**1,268**	1,521	**4,111**	3,841
Professional fees	**1,068**	1,329	**3,501**	2,780
Business development and staff related	**1,482**	1,233	**4,816**	3,737
Advertising and marketing	**837**	1,313	**2,984**	2,803
Other	**3,963**	5,591	**13,027**	11,372
Total noninterest expense	**$ 75,058**	$ 75,408	**$ 228,362**	$ 166,735

Noninterest expense decreased $350,000 in the third quarter of 2014 as compared to the same period in 2013. The quarterly decrease in total noninterest expense primarily resulted from the following:

- Salary and employee benefits were $5.6 million higher than last year, due to the merger with FFHI and additional employee base. In addition, third quarter 2014 included three months of expense with the additional employees from the FFHI merger compared to approximately two months in 2013.

- Merger and branding related expenses decreased by $3.6 million driven largely by a reduction in merger-related expenses from the FFHI acquisition.

- Information services expense decreased by $488,000, driven largely by a reduction in expenses post conversion during the quarter related to certain contract terminations and renegotiations.

- Advertising and marketing decreased by $476,000, driven largely by the focus on our name change and branding cost which was charged to merger and branding-related cost, and therefore, reduced expense on an operating basis.

- Furniture and equipment expense decreased by $347,000, driven largely by the closer of eight additional branches during the quarter and costs savings executed from prior quarters.

- Amortization of intangibles was $342,000 higher compared to third quarter 2013 due to the additional month of amortization included in third quarter of 2014.

- Other noninterest expense decreased by $1.6 million primarily as a result of a large operational charge off which occurred in third quarter of 2013 of $850,000, lower loan closing and loan related of approximately $520,000 and cost savings post conversion.

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Noninterest expense increased $61.6 million, or 37.0%, for the nine months ended September 30, 2014 as compared to the same period in 2013. Note that the nine months ended September 30, 2013 included two months of FFHI activity compared to nine months as of September 30, 2014 in all categories of expense. The increase in total noninterest expense primarily resulted from the following:

- Salaries and employee benefits expense increased by $37.9 million, or 46.6%, driven by the addition of staff from the FFHI acquisition and increases in both incentive and merit pay for employees.
- Net occupancy expense increased $5.1 million, or 43.3%, driven largely by the additional branch locations from the FFHI acquisition.
- Furniture and equipment expense increased $1.9 million driven by the additional branch locations from the FFHI acquisition.
- Merger and branding related expense was up $6.1 million due to the full year of planning and executing the systems conversion, along with changing our name and the cost of branding the new name, South State.
- Amortization of intangibles increased by $2.5 million, or 65.2%, due to the additional amortization of the core deposit, noncompete, and client list intangibles from the FFHI acquisition.
- Business development and staff related expense increased $1.1 million, or 28.9%, due to an increase in recruitment and relocation costs, travel expenses, and training expenses as well as the FFHI acquisition.

Income Tax Expense

Our effective income tax rate decreased to 30.16% for the quarter ended September 30, 2014 compared to 36.08% for the quarter ended September 30, 2013. For the nine months ended September 30, 2014, our effective income tax rate decreased to 32.88% compared to 34.00% for the nine months ended September 30, 2013. The lower effective tax rate was attributable to additional tax credits (both federal and state related) which were included in the December 31, 2013 income tax returns filed in September of 2014 that were not included in the 2013 income tax provision. We also have additional tax credits for 2014 which are the result of investments in certain tax advantaged community projects and new job related credits in South Carolina.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of September 30, 2014, shareholders equity was $967.0 million, a decrease of $14.5 million, or 1.5%, from $981.5 million at December 31, 2013, and a decrease of $3.0 million, or 0.31%, from $970.0 million at September 30, 2013. The driving factor for the decrease from year-end was the redemption of $65.0 million in preferred stock and the dividend paid to both common and preferred shareholders of $15.5 million during the year. All of this has been partially offset by net income and a favorable change in accumulated comprehensive income, net of tax. The decrease from the comparable period of 2013 was primarily the result of redemption of the preferred stock and cash dividends paid to preferred and common shareholders, offset by net income and favorable change in accumulated comprehensive income. Our common equity-to-assets ratio increased to 12.27% at September 30, 2014 from 11.55% at December 31, 2013 and increased from 11.27% at the end of the comparable period of 2013.

We are subject to certain risk-based capital guidelines. Certain ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted to reflect credit risk. Under the guidelines promulgated by the Federal Reserve, which are substantially similar to those of the FDIC, Tier 1 risk-based capital must be at least 4% of risk-weighted assets, while total risk-based capital must be at least 8% of risk-weighted assets.

In conjunction with the risk-based capital ratios, the regulatory agencies have also prescribed a leverage capital ratio for assessing capital adequacy.

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The Company s capital adequacy ratios for the following periods are reflected below:

	September 30, 2014	December 31, 2013	September 30, 2013
South State Corporation:			
Tier 1 risk-based capital	**13.29%**	13.58%	13.15%
Total risk-based capital	**14.12%**	14.47%	14.40%
Tier 1 leverage	**9.16%**	9.30%	10.09%
South State Bank:			
Tier 1 risk-based capital	**13.11%**	13.37%	12.95%
Total risk-based capital	**13.94%**	14.26%	14.20%
Tier 1 leverage	**9.03%**	9.16%	9.95%

Compared to December 31, 2013, our Tier 1 risk-based capital and total risk-based capital have decreased due primarily to the decrease in capital as a result of the redemption of $65.0 million in preferred stock partially offset by a decrease in risk-weighted assets. The decrease in capital from the comparable period in 2013 was the result of the redemption of the $65.0 million in preferred stock offset by the increase in retained earnings by $47.2 million. Our Tier 1 risk-based capital and total risk-based capital have decreased from December 31, 2013 due to capital decreasing faster than the decrease in risk-weighted assets. The Tier 1 leverage ratio has decreased compared to December 31, 2013 due to the decrease in capital. Our capital ratios are currently well in excess of the minimum standards and continue to be in the well capitalized regulatory classification.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the Basel III regulatory capital reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. The approved rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% as well as a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking institutions. For the largest, most internationally active banking organizations, the rule includes a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures. In terms of quality of capital, the final rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. It also changes the methodology for calculating risk-weighted assets to enhance risk sensitivity. The phase-in period for the final rules will begin January 1, 2015, with full compliance with all of the final rule s requirements phased in over a multi-year schedule. Management believes that the Company s capital levels will remain characterized as well-capitalized under the new rules. The final rules approved by the FRB and the FDIC did not address the proposed liquidity coverage ratio test and the net stable funding ratio test called for by the Basel III liquidity framework.

Liquidity

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Our Asset/Liability Management Committee (ALCO) is charged with monitoring liquidity management policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our Bank,

- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our Bank s asset/liability management and net interest margin requirements, and

- Continually working to identify and introduce new products that will attract customers or enhance our Bank s appeal as a primary provider of financial services.

Our legacy loan portfolio increased by approximately $563.5 million, or approximately 20.6%, compared to the balance at September 30, 2013, and by $439.5 million, or 20.5% annualized, compared to the balance at December 31, 2013. Our investment securities portfolio increased $173.4 million from third quarter 2013 and by $13.4 million compared to fourth quarter 2013. Total cash and cash equivalents were $503.0 million at September 30, 2014 as compared to $479.5 million at December 31, 2013 and $645.2 million at September 30, 2013.

At September 30, 2014, December 31, 2013 and September 30, 2013, the Company had $24.7 million, $34.8 million and $42.9 million, respectively, in traditional, out-of-market brokered deposits and $84.1 million, $85.3 million, and $113.7 million, respectively, of reciprocal brokered deposits. Total deposits decreased $140.9 million, or 2.1%, from September 30, 2013, to $6.5 billion resulting primarily from decreases in certificates of deposit by $373.6 million partially offset by increases in core deposits by $232.3 million. Other borrowings were relatively flat from the balance at September 30, 2013, decreasing by $220,000. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to take in some shorter maturities of such funds. Our current approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position taking into account our current composition of earning assets, asset quality, capital position, and operating results. Our liquid earning assets include federal funds sold, balances at the Federal Reserve Bank, reverse repurchase agreements, and/or other short-term investments. Cyclical and other economic trends and conditions can disrupt our Bank s desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our Bank s federal funds sold position and any balances at the Federal Reserve Bank serve as the primary sources of immediate liquidity. At September 30, 2014, our Bank had total federal funds credit lines of $376.0 million with no outstanding advances. If additional liquidity were needed, the Bank would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. At September 30, 2014, our Bank had $164.9 million of credit available at the Federal Reserve Bank s Discount Window, but had no outstanding advances as of the end of the quarter. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At September 30, 2014, our Bank had a total FHLB credit facility of $981.6 million with total outstanding letters of credit consuming $19.7 million and $137,000 in outstanding advances. The Company had a $30.0 million unsecured line of credit with U.S. Bank National Association with no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

Our contingency funding plans incorporate several potential stages based on liquidity levels. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. The Company maintains various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, our Company would utilize these alternative sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our Company. This could increase our Company s cost of funds, impacting net interest margins and net interest spreads.

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Loss Share

The following table presents the expected losses on acquired assets covered under loss share agreements as of September 30, 2014:

(Dollars in thousands)	FDIC Threshold or ILE	Original Estimated Gross Losses	Original Estimated Covered Losses	Losses Incurred * By FFCH through July 26, 2013	Losses Incurred ** By South State through September 30, 2014	Remaining Estimated Losses for Loans	OREO Mark *** September 30, 2014	Projected Total Losses
CBT	$ 233,000	$ 340,039	$ 334,082	$	$ 312,334	$ 2,577	$ 2,227	$ 317,138
Habersham	94,000	124,363	119,978		92,293	2,676	647	95,616
BankMeridian	70,827	70,190	67,780		30,456	2,412	2,332	35,200
Cape Fear ****	131,000	12,921	8,213	76,122	6,366	1,761	86	84,335
Plantation ****	70,178	24,273	16,176	35,190	13,120	6,662	28	55,000
Total	$ 599,005	$ 571,786	$ 546,229	$ 111,312	$ 454,569	$ 16,088	$ 5,320	$ 587,289

* For Cape Fear and Plantation, claimed or claimable loan and OREO losses excluding expenses, net of revenues, from bank failure date through July 26, 2013.

** Claimed or claimable loan and OREO losses excluding expenses, net of revenues, since bank failure date under South State ownership.

*** Represents the estimated losses on OREO at period end. These losses have been recognized to record OREO at net realizable value. These losses are claimable from the FDIC upon sale or receipt of a valid appraisal.

**** For Cape Fear and Plantation, the original estimated gross losses and the original estimated covered losses represent estimated losses subsequent to July 26, 2013.

Under the Habersham and BankMeridian loss share agreements, all losses (whether or not they exceed the intrinsic loss estimate (ILE)) are reimbursable by the FDIC at 80% of the losses and reimbursable expenses paid. During the fourth quarter of 2011, the losses and reimbursable expenses claimed under the CBT loss share agreement exceeded the $233.0 million threshold and became reimbursable at 95% rather than 80%. Under the loss sharing agreement for Cape Fear, the Bank assumes $32.4 million of losses and the FDIC reimburses the Bank for 80% of the losses greater than $32.4 million up to $110.0 million. On losses exceeding $110.0 million, the FDIC will reimburse the Bank for 95% of the losses. Under the loss sharing agreement for Plantation, the Bank shares in the losses on certain commercial loans and commercial OREO in three tranches. On losses up to $55.0 million, the FDIC reimburses the Bank for 80% of all eligible losses; the Bank absorbs losses greater than $55.0 million up to $65.0 million; and the FDIC reimburses the Bank for 60% of all eligible losses in excess of $65.0 million.

Effective June 30, 2014, the Commercial Shared-Loss Agreement with the FDIC for Cape Fear expired and losses on assets covered under this agreement are no longer claimable after filing the second quarter of 2014 commercial loss share certificate. The Commercial Shared-Loss Agreement for CBT will expire March 31, 2015 and losses on assets covered under this agreement will no longer be claimable after this date.

Deposit and Loan Concentrations

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. As of September 30, 2014, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

Concentration of Credit Risk

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk-based capital, or $184.3 million at September 30, 2014. Based on this criteria, the Company had four such credit concentrations for non-acquired loans and acquired non-credit impaired loans at September 30, 2014, including $306.1 million of loans to lessors of residential buildings, $387.4 million of loans to lessors of nonresidential buildings (except mini-warehouses), $202.4 million of loans to religious organizations, and $250.6 million of loans to offices of physicians, dentists and other health practitioners.

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Cautionary Note Regarding Any Forward-Looking Statements

Statements included in Management s Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. The words may, will, anticipate, should, would, believe, contemplate, expect, estimate, continue, may, and intend, as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013, and the following:

- ***Credit risk*** *associated with an obligor s failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed;*
- ***Interest rate risk*** *involving the effect of a change in interest rates on both the Bank s earnings and the market value of the portfolio equity;*
- ***Liquidity risk*** *affecting our Bank s ability to meet its obligations when they come due;*
- ***Price risk*** *focusing on changes in market factors that may affect the value of financial instruments which are marked-to-market periodically;*
- ***Merger integration risk*** *including potential deposit attrition, higher than expected costs, customer loss and business disruption associated with the integration of FFHI, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters;*
- ***Transaction risk*** *arising from problems with service or product delivery;*
- ***Compliance risk*** *involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;*
- ***Regulatory change*** *risk resulting from new laws, rules, regulations, proscribed practices or ethical standards, including the possibility that regulatory agencies may require higher levels of capital above the current regulatory-mandated minimums, including the impact of the capital rules under Basel III and the possibility of changes in accounting principles relating to loan loss recognition;*
- ***Strategic risk*** *resulting from adverse business decisions or improper implementation of business decisions;*
- ***Reputation risk*** *that adversely affects earnings or capital arising from negative public opinion;*
- ***Terrorist activities risk*** *that result in loss of consumer confidence and economic disruptions;*
- ***Cyber security risk*** *related to our dependence on internal computer systems and the technology of outside service providers, as well as the potential impacts of third-party security breaches, subjects us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;*

- ***Noninterest income risk*** *resulting from rules that now prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions; and*

- ***Economic downturn risk*** *resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which risks could be exacerbated by potential negative economic developments resulting from the expiration of the federal tax reductions, and the implementation of federal spending cuts currently scheduled to go into effect.*

All forward-looking statements in this report are based on information available to us as of the date of this report. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2014 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered

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by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the nine months ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As of September 30, 2014 and the date of this form 10-Q, we believe that we are not a party to, nor is any of our property the subject of, any pending material legal proceeding other than those that may occur in the ordinary course of our business, except for those described below.

Rational Lawsuit. On October 11, 2012, a purported shareholder of Savannah filed a lawsuit in the Supreme Court of the State of New York captioned *Rational Strategies Fund* v. *Robert H. Demere, Jr. et al.*, No. 653566/2012 (the Rational Lawsuit), naming Savannah, members of Savannah s board of directors and South State as defendants. This lawsuit is purportedly brought on behalf of a putative class of Savannah s common shareholders and seeks a declaration that it is properly maintainable as a class action with the Plaintiff as the proper class representative. The Rational Lawsuit alleges that Savannah, Savannah s directors and South State breached duties and/or aided and abetted such breaches by failing to disclose certain material information about the proposed merger between Savannah and South State. Among other relief, the Complaint seeks to enjoin the merger. The Company believes that the claims asserted in the Complaint are without merit and that the proceeding will not have any material adverse effect on the financial condition or operations of South State.

On November 23, 2012, South State, Savannah and the other named defendants entered into a memorandum of understanding (the Rational MOU) with the Plaintiff regarding a settlement of the Rational Lawsuit. Pursuant to the Rational MOU, Savannah made available additional information concerning the Savannah merger to Savannah shareholders in a Current Report on Form 8-K.

On March 20, 2014, the parties entered into and filed with the court a stipulation of settlement. On August 4, 2014, the court issued an Order and Final Judgment approving the settlement and dismissing the action with prejudice.

FFHI Litigation. On March 5, 2013, a purported shareholder of First Financial filed a lawsuit in the Court of Chancery of the State of Delaware captioned *Arthur Walter* v. *R. Wayne Hall et al.*, No. 8386-VCN. On March 25, 2013, another purported shareholder of FFHI filed a lawsuit in the same court captioned *Emmy Moore* v. *R. Wayne Hall et al.*, No. 8434-VCN. Each complaint named FFHI, members of FFHI s board of directors and South State as defendants. The complaints were purportedly brought on behalf of a putative class of FFHI s common shareholders and sought a declaration that the lawsuits are properly maintainable as a class action with the named plaintiffs as the proper class representatives. Each complaint alleged that FFHI s board of directors breached their fiduciary duties to FFHI shareholders by attempting to sell FFHI to South State by means of an unfair process and for an unfair price and that South State aided and abetted these alleged breaches of fiduciary duty. Among other relief, each complaint sought declaratory and injunctive relief to prevent the proposed merger between FFHI and South State. On April 18, 2013, the Court of Chancery issued an order consolidating the two lawsuits into one action captioned *In re First Financial Holdings, Inc. Shareholder Litigation*, No. 8386-VCN, and requiring the plaintiffs to file a single consolidated amended complaint as soon as practicable. On May 7, 2013, the plaintiffs filed a consolidated amended complaint, which generally alleges that FFHI s board of directors breached their fiduciary duties to FFHI shareholders by attempting to sell FFHI to South State by means of an unfair process and for an unfair price and by failing to disclose certain material information about the proposed merger.

On July 16, 2013, South State, FFHI and the director defendants entered into a memorandum of understanding (the FFHI MOU) with plaintiffs regarding the settlement of the action, subject to the approval of the court. Pursuant to the terms of the FFHI MOU, South State and FFHI agreed to make available additional information to FFHI shareholders regarding the FFHI merger. In

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return, the plaintiffs agreed to the dismissal of the lawsuit with prejudice and not to seek any interim relief in favor of the alleged class of FFHI stockholders. On October 30, 2013, the parties entered into and filed with the Delaware court a stipulation of settlement. On January 24, 2014, the court issued an Order and Final Judgment approving the settlement and dismissing the action with prejudice.

On May 3, 2013, a purported shareholder of South State filed a lawsuit in the Supreme Court of the State of New York in the County of New York captioned *Rational Strategies Fund* v. *Robert R. Hill Jr. et al.*, No. 651625/2013, naming South State and members of its board of directors as defendants. This lawsuit is purportedly brought on behalf of a putative class of South State s common shareholders and seeks a declaration that it is properly maintainable as a class action with the Plaintiff as the proper class representative. The lawsuit alleges that South State and members of its board of directors breached duties by failing to disclose certain material information about the proposed merger between FFHI and South State. Among other relief, the Complaint seeks to enjoin the merger.

On July 18, 2013, the court granted a temporary injunction enjoining South State from certifying the vote of its shareholders at its special meeting on July 24, 2013 to consider and vote upon the FFHI merger, pending a hearing scheduled for the same date on the defendants motion to vacate that temporary injunction. On July 19, 2013, South State entered into a memorandum of understanding (the Rational/FFHI MOU) with plaintiff regarding the settlement of the action. Pursuant to the Rational/FFHI MOU, South State agreed to make available additional information to South State shareholders regarding the FFHI merger, and the plaintiff agreed to jointly request with South State that the temporary injunction be lifted so that the results of the special meeting could be certified without any delay or impediment. Under the terms of the Rational/FFHI MOU, South State, the South State director defendants and the plaintiff have agreed to settle the lawsuit and release the defendants from all claims made by the plaintiff relating to the FFHI merger.

On February 20, 2014, the parties entered into a stipulation of settlement that was later filed with the court. On June 3, 2014, the court issued an Order and Final Judgment approving the settlement and dismissing the action with prejudice.

Item 1A. RISK FACTORS

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as well as cautionary statements contained in this Form 10-Q, including those under the caption Cautionary Note Regarding Any Forward-Looking Statements set forth in Part I, Item 2 of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

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

(a) Not applicable

(b) Not applicable

(c) Issuer Purchases of Registered Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 147,872 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the second quarter of 2014:

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Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31		$		147,872
August 1 - August 31				147,872
September 1 - September 30	(1,805)*	60.39		147,872
Total	(1,805)			147,872

* These shares were repurchased under arrangements, authorized by our stock-based compensation plans and Board of Directors, whereby officers or directors may sell previously owned shares to the Company in order to pay for the exercises of stock options or for income taxes owed on vesting shares of restricted stock. These shares are not purchased under the plan to repurchase 250,000 shares announced in February 2004.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS

The exhibits required to be filed as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index attached hereto and are incorporated by reference.

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

	SOUTH STATE CORPORATION (Registrant)
Date: November 10, 2014	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. Chief Executive Officer (Principal Executive Officer)
Date November 10, 2014	/s/ John C. Pollok John C. Pollok Senior Executive Vice President, Chief Financial Officer, and Chief Operating Officer (Principal Financial Officer)
Date: November 10, 2014	/s/ Keith S. Rainwater Keith S. Rainwater Executive Vice President and Principal Accounting Officer

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Exhibit Index

Exhibit No.	**Description**
Exhibit 3.1	Amended and Restated Articles of Incorporation of South State Corporation, filed October 24, 2014 (incorporated by reference as Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on October 28, 2014)
Exhibit 3.2	Amended and Restated Bylaws of South State Corporation, dated October 23, 2014 (incorporated by reference as Exhibit 3.2 to the Registrant s Current Report on Form 8-K filed on October 28, 2014)
Exhibit 10.1	Amendment No. 1, dated as of October 27, 2014, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on October 30, 2014)
Exhibit 31.1	Rule 13a-14(a) Certification of Principal Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Principal Financial Officer
Exhibit 32	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer
Exhibit 101	The following financial statements from the Quarterly Report on Form 10-Q of South State Corporation for the quarter ended September 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.