

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)

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

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
(State or other jurisdiction of incorporation)

57-0799315
(IRS Employer Identification No.)

520 Gervais Street
Columbia, South Carolina
(Address of principal executive offices)

29201
(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 No

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 No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

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Class
Common Stock, \$2.50 par value

Outstanding as of October 31, 2014
24,140,272

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South State Corporation and Subsidiary

September 30, 2014 Form 10-Q

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Table of Contents**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:			

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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

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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		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
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

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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

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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
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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 subsidiaries. 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.

Table of Contents**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.

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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.

Table of Contents**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.

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- (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.

Table of Contents**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 (<i>net interest income plus noninterest income</i>)	\$ 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:

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(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

Table of Contents**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

* - 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

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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.

Table of Contents**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.

(Dollars in thousands)	Securities Held to Maturity		Securities Available for Sale	
	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:

(Dollars in thousands)	Less Than Twelve Months		Twelve Months or More	
	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		

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

Table of Contents**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

Table of Contents**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

Table of Contents**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.

(Dollars in thousands)	July 26, 2013		
	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
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:

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(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

Table of Contents**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.

Table of Contents**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

Table of Contents**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

Table of Contents**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

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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

Table of Contents**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 individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Loans collectively evaluated for impairment										
Loans collectively evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Loans:										
Loans individually evaluated for impairment										
Loans individually evaluated for impairment	\$	169	\$	\$	\$	55	\$	\$	224	
Loans collectively evaluated for impairment										
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-CB	Commercial Real Estate Development	Commercial Construction Real Estate	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

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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.

Table of Contents**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:

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- **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