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**<br>**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, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 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 Shares | Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Surplus | Retained Earnings | Accumulated Other Comprehensive 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 |

* - 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):

| | Nine Months Ended September 30, | |
|---|---|---|
| **(Dollars in thousands)** | **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 | | | | |