SOUTH STATE Corp
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	57-0799315
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

520 Gervais Street	
Columbia, South Carolina	29201
(Address of principal executive offices)	(Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

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

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

Class	Outstanding as of October 31, 2015
Common Stock, $2.50 par value	24,218,062

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South State Corporation and Subsidiary

September 30, 2015 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, 2015 (Unaudited)	December 31, 2014 (Note 1)	September 30, 2014 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$ 641,502	$ 229,901	$ 269,480
Interest-bearing deposits with banks	7,333	7,456	7,382
Federal funds sold and securities purchased under agreements to resell	240,545	180,512	226,166
Total cash and cash equivalents	889,380	417,869	503,028
Investment securities:			
Securities held to maturity (fair value of $9,758, $10,233 and $11,019, respectively)	9,314	9,659	10,389
Securities available for sale, at fair value	885,798	806,766	805,114
Other investments	9,031	10,518	10,518
Total investment securities	904,143	826,943	826,021
Loans held for sale	48,985	61,934	57,683
Loans:			
Acquired credit impaired (covered of $103,329, $182,464, and $197,944, respectively; non-covered of $665,277,$736,938, and $782,548, respectively), net of allowance for loan losses	768,606	919,402	980,492
Acquired non-credit impaired (covered of $7,990, $9,376, and $9,459, respectively; non-covered of $1,099,450, $1,318,623, and $1,367,884, respectively)	1,107,440	1,327,999	1,377,343
Non-acquired	3,994,716	3,467,826	3,304,708
Less allowance for non-acquired loan losses	(35,116)	(34,539)	(34,804)
Loans, net	5,835,646	5,680,688	5,627,739
FDIC indemnification asset	7,942	22,161	30,983
Other real estate owned (covered of $5,465, $16,227, and $18,961, respectively; non-covered of $25,913, $26,499, and $32,289, respectively)	31,378	42,726	51,250
Premises and equipment, net	174,662	171,772	173,425
Bank owned life insurance	100,967	99,140	98,505

Deferred tax assets	40,090	42,692	60,322
Mortgage servicing rights	24,665	21,601	22,052
Core deposit and other intangibles	49,982	49,239	51,291
Goodwill	338,342	317,688	317,688
Other assets	53,694	71,774	60,101
Total assets	$ 8,499,876	$ 7,826,227	$ 7,880,088
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	$ 1,927,309	$ 1,639,953	$ 1,654,308
Interest-bearing	5,150,700	4,821,092	4,863,920
Total deposits	7,078,009	6,461,045	6,518,228
Federal funds purchased and securities sold under agreements to repurchase	260,521	221,541	231,229
Other borrowings	55,107	101,210	101,127
Other liabilities	57,927	57,511	62,509
Total liabilities	7,451,564	6,841,307	6,913,093
Shareholders' equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding	—	—	—
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,211,793, 24,150,702 and 24,135,220 shares issued and outstanding, respectively	60,529	60,377	60,338
Surplus	706,227	701,764	700,579
Retained earnings	279,681	223,156	207,219
Accumulated other comprehensive income (loss)	1,875	(377)	(1,141)
Total shareholders' equity	1,048,312	984,920	966,995
Total liabilities and shareholders' equity	$ 8,499,876	$ 7,826,227	$ 7,880,088

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

South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	$ 79,857	$ 78,700	$ 238,111	$ 239,988
Investment securities:				
Taxable	4,106	3,982	11,590	11,860
Tax-exempt	1,112	1,236	3,262	3,463
Federal funds sold and securities purchased under agreements to resell	487	430	1,362	1,331
Total interest income	85,562	84,348	254,325	256,642
Interest expense:				
Deposits	1,811	2,395	5,550	7,056
Federal funds purchased and securities sold under agreements to repurchase	95	87	296	277
Other borrowings	641	1,497	2,138	4,500
Total interest expense	2,547	3,979	7,984	11,833
Net interest income	83,015	80,369	246,341	244,809
Provision for loan losses	1,075	2,091	5,038	5,109
Net interest income after provision for loan losses	81,940	78,278	241,303	239,700
Noninterest income:				
Fees on deposit accounts	19,212	17,637	53,403	52,079
Trust and investment services income	5,489	4,490	15,474	13,845
Mortgage banking income	4,817	4,124	18,532	12,098
Securities losses, net	—	(90)	—	(2)
Amortization of FDIC indemnification asset, net	(1,871)	(4,825)	(7,120)	(17,718)
Other	2,124	3,117	6,069	9,096
Total noninterest income	29,771	24,453	86,358	69,398
Noninterest expense:				
Salaries and employee benefits	40,013	40,029	120,754	119,398
Net occupancy expense	5,395	5,387	15,678	16,758
Information services expense	4,736	3,417	13,076	12,154
Branch acquisition and consolidation expense	3,091	—	5,328	—
OREO expense and loan related	2,717	3,374	7,750	9,313
Furniture and equipment expense	2,554	3,166	8,461	10,171
Bankcard expense	2,448	2,141	6,713	6,520
Amortization of intangibles	2,078	2,080	6,058	6,268
Professional fees	1,383	1,068	4,377	3,501
Supplies, printing and postage expense	1,377	1,681	4,391	4,863
FDIC assessment and other regulatory charges	1,248	1,268	3,685	4,111

Advertising and marketing	1,054	837	2,918	2,679
Merger expense	—	6,846	—	19,341
Other	5,100	3,764	16,019	13,286
Total noninterest expense	73,194	75,058	215,208	228,363
Earnings:				
Income before provision for income taxes	38,517	27,673	112,453	80,735
Provision for income taxes	13,377	8,346	38,515	26,546
Net income	25,140	19,327	73,938	54,189
Preferred stock dividends	—	—	—	1,073
Net income available to common shareholders	$ 25,140	$ 19,327	$ 73,938	$ 53,116
Earnings per common share:				
Basic	$ 1.05	$ 0.81	$ 3.09	$ 2.22
Diluted	$ 1.04	$ 0.80	$ 3.05	$ 2.20
Dividends per common share	$ 0.25	$ 0.21	$ 0.72	$ 0.60
Weighted average common shares outstanding:				
Basic	23,984	23,899	23,956	23,890
Diluted	24,285	24,160	24,235	24,139

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,	
	2015	2014	2015	2014
Net income	$ 25,140	$ 19,327	$ 73,938	$ 54,189
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	5,991	(2,877)	2,981	13,287
Tax effect	(2,284)	1,097	(1,137)	(5,066)
Reclassification adjustment for losses included in net income	—	90	—	2
Tax effect	—	(34)	—	(1)
Net of tax amount	3,707	(1,724)	1,844	8,222
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	(154)	41	(245)	(144)
Tax effect	59	(16)	93	55
Reclassification adjustment for losses included in interest expense	89	78	230	232
Tax effect	(34)	(30)	(88)	(88)
Net of tax amount	(40)	73	(10)	55
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	225	165	674	495
Tax effect	(86)	(63)	(256)	(190)
Net of tax amount	139	102	418	305
Other comprehensive income (loss), net of tax	3,806	(1,549)	2,252	8,582
Comprehensive income	$ 28,946	$ 17,778	$ 76,190	$ 62,771

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, 2015 and 2014

(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock			Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Shares	Amount	Surplus	Earnings	(Loss)	Total
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,	—	$ —	24,135,220	$ 60,338	$ 700,579	$ 207,219	$ (1,141)	$ 966,995

2014								
Balance, December 31, 2014	—	$ —	24,150,702	$ 60,377	$ 701,764	$ 223,156	$ (377)	$ 984,920
Comprehensive income	—	—	—	—	—	73,938	2,252	76,190
Cash dividends declared on common stock at $0.72 per share	—	—	—	—	—	(17,413)	—	(17,413)
Employee stock purchases	—	—	6,971	17	427	—	—	444
Stock options exercised	—	—	30,560	77	881	—	—	958
Restricted stock awards	—	—	41,105	102	(102)	—	—	—
Common stock repurchased	—	—	(17,545)	(44)	(1,057)	—	—	(1,101)
Share-based compensation expense	—	—	—	—	4,314	—	—	4,314
Balance, September 30, 2015	—	$ —	24,211,793	$ 60,529	$ 706,227	$ 279,681	$ 1,875	$ 1,048,312

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,	
	2015	2014
Cash flows from operating activities:		
Net income	$ 73,938	$ 54,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,704	15,846
Provision for loan losses	5,038	5,109
Deferred income taxes	1,213	7,301
Loss on sale of securities	—	2
Share-based compensation expense	4,314	3,022
Amortization on FDIC indemnification asset	7,120	17,718
Accretion of discount related to performing acquired loans	(4,777)	(7,580)
Loss on disposals of premises and equipment	432	1,402
Gain on sale of OREO	(1,492)	(6,826)
Net amortization of premiums on investment securities	3,293	3,057
OREO write downs	7,673	8,673
Fair value adjustment for loans held for sale	(104)	—
Originations and purchases of mortgage loans for sale	(725,597)	(560,000)
Proceeds from mortgage loans sales	738,558	533,982
Net change in:		
Accrued interest receivable	(248)	(4,129)
Prepaid assets	187	4,845
FDIC indemnification asset	7,098	37,567
Accrued interest payable	(2,009)	(1,154)
Accrued income taxes	15,435	(5,813)
Miscellaneous assets and liabilities	4,109	(12,542)
Net cash provided by operating activities	149,885	94,669
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	—	9,315
Proceeds from maturities and calls of investment securities held to maturity	345	1,535
Proceeds from maturities and calls of investment securities available for sale	175,875	114,441
Proceeds from sales of investment securities held to maturity	—	411
Proceeds from calls of other investment securities	1,392	—
Proceeds from sales of other investment securities	95	2,868
Purchases of investment securities available for sale	(255,218)	(131,823)
Purchases of other investment securities	—	(6,186)
Net increase in loans	(175,094)	(21,877)
Net cash received from branch acquisitions	403,548	—
Purchases of premises and equipment	(11,677)	(13,258)

Proceeds from sale of credit card loans	—	20,350
Proceeds from sale of OREO	28,189	48,102
Proceeds from sale of premises and equipment	25	3,914
Net cash provided by investing activities	167,480	27,792
Cash flows from financing activities:		
Net increase (decrease) in deposits	178,675	(37,269)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	38,980	19,828
Repayment of other borrowings	(46,397)	(1,186)
Common stock issuance	444	413
Preferred stock repurchase	—	(65,000)
Common stock repurchase	(1,101)	(404)
Dividends paid on preferred stock	—	(1,073)
Dividends paid on common stock	(17,413)	(14,474)
Stock options exercised	958	271
Net cash provided by (used in) financing activities	154,146	(98,894)
Net increase in cash and cash equivalents	471,511	23,567
Cash and cash equivalents at beginning of period	417,869	479,461
Cash and cash equivalents at end of period	$ 889,380	$ 503,028
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	$ 9,993	$ 12,988
Income taxes	$ 21,946	$ 22,239
Schedule of Noncash Investing Transactions:		
Real estate acquired in full or in partial settlement of loans (covered of $6,832 and $13,393, respectively; and non-covered of $16,190 and $22,888, respectively)	$ 23,022	$ 36,281

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

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 three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The condensed consolidated balance sheet at December 31, 2014 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, 2014, as filed with the Securities and Exchange Commission (the "SEC") on February 27, 2015, should be referenced when reading these unaudited condensed consolidated financial statements. Unless otherwise mentioned or unless the context requires otherwise, references herein to "South State," the "Company" "we," "us," "our" or similar references mean South State Corporation and its consolidated subsidiaries. References to the "Bank" means South State Corporation's wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

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 September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments (ASU 2015-16). The update simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2015, and is to be applied prospectively. Early adoption is permitted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, the FASB issued ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, expanding the guidance provided in ASU 2015-03 by permitting the presentation of costs associated with securing a revolving line of credit as an asset, regardless of whether or not the line of credit is funded. For public companies, both updates will be effective for interim and annual periods beginning after December 15, 2015, and are to be applied retrospectively. Early adoption is permitted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

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In February 2015, the FASB issued Accounting Standards Update ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. 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 November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, a consensus of the FASB Emerging Issues Task Force ("ASU 2014-16"). This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. ASU 2014-16 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2014-16 is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB issued 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 became effective for the Company on January 1, 2015 and did not have an 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.

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 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company's financial statements. See Note 21 – Repurchase Agreements for the disclosure required under the provisions of ASU 2014-11.

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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. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, 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 provisions of ASU 2014-09 to determine the potential impact the new standard will have to the Company’s financial statements.

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 became effective for the Company on January 1, 2015 and although additional disclosures regarding residential real estate foreclosures and properties in process of foreclosure were required, did not have a significant 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 2014-02 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company’s financial statements (see Note 20).

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
- First Financial Holdings, Inc. (“FFHI”) – July 26, 2013 – Whole bank acquisition which resulted in the assumption of FDIC purchase and assumption agreements with respect to Cape Fear Bank (“Cape Fear”) – April 10, 2009 and Plantation Federal Bank (“Plantation”) – April 27, 2012
- Bank of America, N.A. (“BOA”) – August 21, 2015 – Branch acquisition which resulted in the purchase of 12 South Carolina branch locations and one Georgia branch location from BOA

“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. A “branch acquisition” means that the Company purchased specific branches, including certain deposits and loans associated with such branches, from the seller at an agreed upon price.

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Branch Acquisition

On August 21, 2015, the Bank completed its acquisition of from BOA of 12 South Carolina branches located in Florence, Greenwood, Orangeburg, Sumter, Newberry, Batesburg-Leesville, Abbeville and Hartsville, South Carolina, and one Georgia branch located in Hartwell, Georgia. Under the terms of the Purchase and Assumption Agreement dated April 22, 2015, the Bank paid a deposit premium of $25.0 million, equal to 5.5% of the average daily deposits for the 30- day period immediately prior to the acquisition date. In addition, the Bank acquired approximately $3.1 million in loans and $4.1 million in premises and equipment. This transaction was fully taxable and there were no deferred tax assets or liabilities recorded as a result of this transaction.

The branch acquisition 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. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition.

The following table presents the assets acquired and liabilities assumed as of August 21, 2015 and their initial fair value estimates:

(Dollars in thousands)	As Recorded by BOA	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 428,567	$ —		$ 428,567
Loans	3,445	(297)	(a)	3,148
Premises and equipment	6,267	(2,138)	(b)	4,129
Intangible assets	—	6,800	(c)	6,800
Other assets	66	—		66
Total assets	$ 438,345	$ 4,365		$ 442,710
Liabilities				
Deposits:				
Noninterest-bearing	$ 97,440	$ —		$ 97,440
Interest-bearing	340,849	—		340,849
Total deposits	438,289	—		438,289
Other liabilities	56	—		56
Total liabilities	438,345	—		438,345
Net identifiable assets acquired over (under) liabilities assumed	—	4,365		4,365

Goodwill	—	20,654	20,654
Net assets acquired over (under) liabilities assumed	$ —	$ 25,019	$ 25,019

Consideration:	
Cash paid as deposit premium	$ 25,019
Fair value of total consideration transferred	$ 25,019

Explanation of fair value adjustments

(a)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.

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

(c)— Adjustment reflects the recording of the core deposit intangible on the acquired core deposit accounts.

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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, 2015:				
State and municipal obligations	$ 9,314	$ 444	$ —	$ 9,758
December 31, 2014:				
State and municipal obligations	$ 9,659	$ 574	$ —	$ 10,233
September 30, 2014:				
State and municipal obligations	$ 10,389	$ 630	$ —	$ 11,019

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, 2015:				
Government-sponsored entities debt*	$ 123,926	$ 188	$ (320)	$ 123,794
State and municipal obligations	130,553	3,946	(161)	134,338
Mortgage-backed securities**	616,341	9,170	(438)	625,073
Corporate stocks	3,161	411	(979)	2,593
	$ 873,981	$ 13,715	$ (1,898)	$ 885,798
December 31, 2014:				
Government-sponsored entities debt*	$ 149,720	$ 191	$ (1,714)	$ 148,197
State and municipal obligations	133,635	4,141	(195)	137,581
Mortgage-backed securities**	511,414	7,572	(1,040)	517,946
Corporate stocks	3,161	573	(692)	3,042
	$ 797,930	$ 12,477	$ (3,641)	$ 806,766
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

* - 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.

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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, 2015:				
Federal Home Loan Bank stock	$ 7,389	$ —	$ —	$ 7,389
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 9,031	$ —	$ —	$ 9,031
December 31, 2014:				
Federal Home Loan Bank stock	$ 7,484	$ —	$ —	$ 7,484
Investment in unconsolidated subsidiaries	3,034	—	—	3,034
	$ 10,518	$ —	$ —	$ 10,518
September 30, 2014:				
Federal Home Loan Bank stock	$ 7,484	$ —	$ —	$ 7,484
Investment in unconsolidated subsidiaries	3,034	—	—	3,034
	$ 10,518	$ —	$ —	$ 10,518

The amortized cost and fair value of debt securities at September 30, 2015 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	$ 640	$ 650	$ 5,910	$ 5,973
Due after one year through five years	1,074	1,154	70,967	71,520
Due after five years through ten years	7,600	7,954	205,310	209,356
Due after ten years	—	—	591,794	598,949
	$ 9,314	$ 9,758	$ 873,981	$ 885,798

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Information pertaining to the Company's securities with gross unrealized losses at September 30, 2015, December 31, 2014 and September 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

(Dollars in thousands)	Less Than Twelve Months Gross Unrealized Losses	Less Than Twelve Months Fair Value	Twelve Months or More Gross Unrealized Losses	Twelve Months or More Fair Value
September 30, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	$ 77	$ 14,915	$ 243	$ 32,732
State and municipal obligations	12	5,074	149	4,221
Mortgage-backed securities	179	32,579	259	24,555
Corporate stocks	—	—	979	1,251
	$ 268	$ 52,568	$ 1,630	$ 62,759
December 31, 2014:				
Securities Available for Sale				
Government-sponsored entities debt	$ 98	$ 22,896	$ 1,616	$ 82,798
State and municipal obligations	3	1,444	192	8,269
Mortgage-backed securities	266	61,508	774	55,960
Corporate stocks	—	—	692	1,538
	$ 367	$ 85,848	$ 3,274	$ 148,565
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

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 debt securities available for sale in an unrealized loss position as of September 30, 2015 continue to perform as scheduled. All equity securities available for sale in an unrealized loss position as of September 30, 2015 continue to pay dividends. 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, 2015. 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.

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Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 372,077	$ 364,221	$ 385,318
Commercial non-owner occupied	406,489	333,590	318,470
Total commercial non-owner occupied real estate	778,566	697,811	703,788
Consumer real estate:			
Consumer owner occupied	987,863	786,778	702,521
Home equity loans	308,563	283,934	276,341
Total consumer real estate	1,296,426	1,070,712	978,862
Commercial owner occupied real estate	1,012,428	907,913	881,403
Commercial and industrial	462,588	405,923	355,580
Other income producing property	169,997	150,928	154,822
Consumer	223,210	189,317	183,451
Other loans	51,501	45,222	46,802
Total non-acquired loans	3,994,716	3,467,826	3,304,708
Less allowance for loan losses	(35,116)	(34,539)	(34,804)
Non-acquired loans, net	$ 3,959,600	$ 3,433,287	$ 3,269,904

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, 2015	December 31, 2014	September 30, 2014
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 16,482	$ 24,099	$ 27,705
Commercial non-owner occupied	42,172	49,476	50,307
Total commercial non-owner occupied real estate	58,654	73,575	78,012
Consumer real estate:			
Consumer owner occupied	542,278	646,375	673,099
Home equity loans	203,025	234,949	242,720
Total consumer real estate	745,303	881,324	915,819

Commercial owner occupied real estate	42,524	62,065	65,420
Commercial and industrial	27,459	41,130	35,072
Other income producing property	56,092	65,139	68,557
Consumer	177,408	204,766	214,463
Total FASB ASC Topic 310-20 acquired loans	$ 1,107,440	$ 1,327,999	$ 1,377,343

The unamortized discounted related to the acquired non-credit impaired loans totaled $18.7 million, $23.5 million, and $25.5 million at September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

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

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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, 2015	December 31, 2014	September 30, 2014
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	$ 12,963	$ 15,813	$ 17,097
Commercial real estate	266,465	325,109	354,715
Commercial real estate—construction and development	55,168	65,262	73,322
Residential real estate	330,754	390,244	406,276
Consumer	73,632	85,449	90,038
Commercial and industrial	34,074	44,804	46,988
Single pay	24	86	88
Total FASB ASC Topic 310-30 acquired loans	773,080	926,767	988,524
Less allowance for loan losses	(4,474)	(7,365)	(8,032)
FASB ASC Topic 310-30 acquired loans, net	$ 768,606	$ 919,402	$ 980,492

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, 2015, December 31, 2014 and September 30, 2014 are as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Contractual principal and interest	$ 1,025,557	$ 1,337,703	$ 1,416,207
Non-accretable difference	(52,463)	(104,110)	(161,465)
Cash flows expected to be collected	973,094	1,233,593	1,254,742
Accretable yield	(200,014)	(306,826)	(266,218)
Carrying value	$ 773,080	$ 926,767	$ 988,524
Allowance for acquired loan losses	$ (4,474)	$ (7,365)	$ (8,032)

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:

	Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014
Balance at beginning of period	$ 919,402	$ 1,220,638
Net reductions for payments, foreclosures, and accretion	(153,687)	(243,732)
Change in the allowance for loan losses on acquired loans	2,891	3,586
Balance at end of period, net of allowance for loan losses on acquired loans	$ 768,606	$ 980,492

The table below reflects refined accretable yield balance for acquired credit impaired loans:

	Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014
Balance at beginning of period	$ 306,826	$ 301,516
Accretion	(76,168)	(79,579)
Reclass of nonaccretable difference due to improvement in expected cash flows	39,030	46,960
Other changes, net	(69,674)	(2,679)
Balance at end of period	$ 200,014	$ 266,218

In the third quarter of 2015, the accretable yield balance declined by $24.9 million as loan accretion (income) was recognized. This was partially offset by improved expected cash flows of $23.6 million.

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During the recast in the first quarter of 2015, the accretable yield balance declined significantly by $64.1 million. This decline was primarily the result of an increase in the assumed prepayment speed of certain acquired loan pools from the FFHI acquisition. The actual cash flows were faster than what had been previously expected (assumed) and required an adjustment in the assumed prepayment speed used to forecast expected cash flows. The result was a decrease in the accretable yield balance, however, there was no impairment since this changed the timing and amount of the receipt of future cash on these pools of loans (the Company anticipates receiving the cash sooner than previously expected).

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's 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, 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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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 yield 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, 2015:				
Balance at beginning of period	$ 34,782	$ —	$ 4,688	$ 39,470
Loans charged-off	(1,530)	(141)	—	(1,671)
Recoveries of loans previously charged off	655	273	—	928
Net charge-offs	(875)	132	—	(743)
Provision (benefit)	1,209	(132)	(2)	1,075
Benefit attributable to FDIC loss share agreements	—	—	—	—
Total provision for loan losses charged to operations	1,209	(132)	(2)	1,075
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(212)	(212)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590
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 (benefit)	1,520	438	(658)	1,300
Benefit attributable to FDIC loss share agreements	—	—	791	791
	1,520	438	133	2,091

Total provision for loan losses charged to operations				
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

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(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Nine Months Ended September 30, 2015:				
Balance at beginning of period	$ 34,539	$ —	$ 7,365	$ 41,904
Loans charged-off	(4,206)	(2,510)	—	(6,716)
Recoveries of loans previously charged off	2,253	323	—	2,576
Net charge-offs	(1,953)	(2,187)	—	(4,140)
Provision (benefit)	2,530	2,187	300	5,017
Benefit attributable to FDIC loss share agreements	—	—	21	21
Total provision for loan losses charged to operations	2,530	2,187	321	5,038
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(21)	(21)
Reduction due to loan removals	—	—	(3,191)	(3,191)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590
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 (benefit)	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

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

ands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans
ded 15 an									
2015	$ 4,998	$ 3,038	$ 8,684	$ 7,125	$ 2,868	$ 3,983	$ 2,019	$ 1,608	$ 459
	(85)	(5)	(23)	(230)	(74)	(102)	—	(1,011)	—
	122	23	7	89	91	79	11	233	—

t)	(826)	268	376	471	26	16	(3)	886	(5)
per	$ 4,209	$ 3,324	$ 9,044	$ 7,455	$ 2,911	$ 3,976	$ 2,027	$ 1,716	$ 454
y	$ 585	$ 26	$ 248	$ 121	$ 3	$ 21	$ 430	$ 3	$ 19
y	$ 3,624	$ 3,298	$ 8,796	$ 7,334	$ 2,908	$ 3,955	$ 1,597	$ 1,713	$ 435
y	$ 5,727	$ 2,569	$ 11,445	$ 7,818	$ 293	$ 1,045	$ 4,788	$ 101	$ 693
y	366,350	403,920	1,000,983	980,045	308,270	461,543	165,209	223,109	50,808
ed	$ 372,077	$ 406,489	$ 1,012,428	$ 987,863	$ 308,563	$ 462,588	$ 169,997	$ 223,210	$ 51,501
ded 014 an ,	$ 6,652	$ 3,398	$ 7,958	$ 6,537	$ 2,975	$ 3,640	$ 2,588	$ 1,270	$ 404
	(825)	—	(3)	—	(501)	(4)	(83)	(1,297)	—
	120	5	68	20	18	93	13	238	—
t)	464	(307)	123	(83)	346	(187)	70	1,120	(26)
per	$ 6,411	$ 3,096	$ 8,146	$ 6,474	$ 2,838	$ 3,542	$ 2,588	$ 1,331	$ 378
y	$ 402	$ 30	$ 100	$ 121	$ —	$ 12	$ 711	$ 1	$ —
y	$ 6,009	$ 3,066	$ 8,046	$ 6,353	$ 2,838	$ 3,530	$ 1,877	$ 1,330	$ 378
y	$ 4,876	$ 3,784	$ 9,436	$ 2,427	$ —	$ 1,110	$ 6,380	$ 50	$ —
y	380,442	314,686	871,967	700,094	276,341	354,470	148,442	183,401	46,802
ed	$ 385,318	$ 318,470	$ 881,403	$ 702,521	$ 276,341	$ 355,580	$ 154,822	$ 183,451	$ 46,802

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

rs 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
Months Ended mber 30, 2015										
ance for loan :										
ce, December 014	$ 5,666	$ 3,154	$ 8,415	$ 6,866	$ 2,829	$ 3,561	$ 2,232	$ 1,367	$ 449	$ 34,
e-offs	(185)	(88)	(575)	(274)	(282)	(357)	(13)	(2,432)	—	(4,2
eries	256	52	23	134	201	745	77	765	—	2,2
sion (benefit)	(1,528)	206	1,181	729	163	27	(269)	2,016	5	2,5
ce, September 015	$ 4,209	$ 3,324	$ 9,044	$ 7,455	$ 2,911	$ 3,976	$ 2,027	$ 1,716	$ 454	$ 35,
Months Ended mber 30, 2014										
ance for loan :										
ce, December 014	$ 6,789	$ 3,677	$ 7,767	$ 6,069	$ 2,782	$ 3,592	$ 2,509	$ 937	$ 209	$ 34,
e-offs	5	(236)	(531)	(299)	(917)	(1,024)	(251)	(2,719)	—	(5,9
eries	362	352	85	262	58	221	172	658	—	2,1
sion (benefit)	(745)	(697)	825	442	915	753	158	2,455	169	4,2
ce, September 015	$ 6,411	$ 3,096	$ 8,146	$ 6,474	$ 2,838	$ 3,542	$ 2,588	$ 1,331	$ 378	$ 34,

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

rs 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
Months Ended nber 30, 2015									
ance for loan									
e, June 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	—	—	—	8	(79)	(7)	—	(63)	(141)
eries	1	—	—	95	161	2	3	11	273

on (benefit)	(1)	—	—	(103)	(82)	5	(3)	52	(132)
e, September 15	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	16,482	42,172	42,524	542,278	203,025	27,459	56,092	177,408	1,107
acquired edit impaired									
	$ 16,482	$ 42,172	$ 42,524	$ 542,278	$ 203,025	$ 27,459	$ 56,092	$ 177,408	$ 1,107
Months Ended nber 30, 2014 ance for loan									
e , June 30,	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	(60)	—	—	(22)	(363)	(273)	(14)	(147)	(879)
eries	—	—	—	1	79	347	—	14	441
on (benefit)	60	—	—	21	284	(74)	14	133	438
e, September 14	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	27,705	50,307	65,420	673,099	242,720	35,072	68,557	214,463	1,377
acquired edit impaired									
	$ 27,705	$ 50,307	$ 65,420	$ 673,099	$ 242,720	$ 35,072	$ 68,557	$ 214,463	$ 1,377

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(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, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	(360)	(1,459)	(120)	(3)	(568)	(2,510)
Recoveries	3	—	—	100	178	17	4	21	323
Provision (benefit)	(3)	—	—	260	1,281	103	(1)	547	2,187
Balance, September 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nine Months Ended September 30, 2014									
Allowance for loan losses:									
Balance, December 31, 2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	(60)	—	—	(22)	(363)	(273)	(14)	(147)	(879)
Recoveries	—	—	—	1	79	347	—	14	441
Provision (benefit)	60	—	—	21	284	(74)	14	133	438
Balance, September 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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, 2015								
Allowance for loan losses:								
Balance, June 30, 2015	$ (66)	$ 532	$ 344	$ 3,183	$ 449	$ 197	$ 49	$ 4,688
Provision for loan losses before benefit attributable to FDIC loss share agreements	7	—	433	(160)	(249)	15	(48)	(2)

Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision for loan losses charged to operations	7	—	433	(160)	(249)	15	(48)	(2)
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	59	(7)	(49)	(160)	(44)	(12)	1	(212)
Balance, September 30, 2015	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	12,963	266,465	55,168	330,754	73,632	34,074	24	773,080
Total acquired credit impaired loans	$ 12,963	$ 266,465	$ 55,168	$ 330,754	$ 73,632	$ 34,074	$ 24	$ 773,080
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)
	—	—	(405)	(32)	(16)	(16)	—	(469)

Reduction due to loan removals								
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 credit impaired loans	$ 17,097	$ 354,715	$ 73,322	$ 406,276	$ 90,038	$ 46,988	$ 88	$ 988,524

*—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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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, 2015								
Allowance for loan losses:								
Balance, December 31, 2014	$ 135	$ 1,444	$ 336	$ 4,387	$ 275	$ 718	$ 70	$ 7,365
Provision for loan losses before benefit attributable to FDIC loss share agreements	7	3	443	(138)	141	(107)	(49)	300
Benefit attributable to FDIC loss share agreements	—	—	—	—	(107)	127	1	21
Total provision for loan losses charged to operations	7	3	443	(138)	34	20	(48)	321
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	107	(127)	(1)	(21)
Reduction due to loan removals	(142)	(922)	(51)	(1,386)	(260)	(411)	(19)	(3,191)
Balance, September 30, 2015	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474
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	53	36	172	133	(3)	6	(1)	396

operations								
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

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.

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		
n thousands)	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	Se 30 20
	$ 349,808	$ 337,641	$ 358,474	$ 388,303	$ 307,450	$ 292,231	$ 970,090	$ 858,220	$

ention	15,629	15,466	16,433	14,888	20,596	20,412	28,799	34,737	
rd	6,640	11,114	10,411	3,298	5,544	5,827	13,539	14,956	
	—	—	—	—	—	—	—	—	
	$ 372,077	$ 364,221	$ 385,318	$ 406,489	$ 333,590	$ 318,470	$ 1,012,428	$ 907,913	$

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	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	Septem 30, 2014
	$ 456,912	$ 397,555	$ 346,394	$ 157,233	$ 135,400	$ 139,946	$ 2,322,346	$ 2,036,266	$ 1,964
l n	4,321	6,718	7,786	8,808	10,333	8,078	72,445	87,850	91,97
ndard	1,355	1,650	1,400	3,956	5,195	6,798	28,788	38,459	39,25
ful	—	—	—	—	—	—	—	—	—
	$ 462,588	$ 405,923	$ 355,580	$ 169,997	$ 150,928	$ 154,822	$ 2,423,579	$ 2,162,575	$ 2,095

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

	Consumer Owner Occupied			Home Equity			Consumer		
in thousands)	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	Sep 30, 201
	$ 953,523	$ 746,847	$ 660,578	$ 294,712	$ 269,844	$ 262,080	$ 221,515	$ 188,049	$ 1
nention	17,198	22,129	24,144	7,987	8,047	9,097	897	764	6
ard	17,142	17,802	16,899	5,842	6,021	5,142	798	504	3
	—	—	900	22	22	22	—	—	-
	$ 987,863	$ 786,778	$ 702,521	$ 308,563	$ 283,934	$ 276,341	$ 223,210	$ 189,317	$ 1

	Other			Consumer Total		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 51,501	$ 45,222	$ 46,802	$ 1,521,251	$ 1,249,962	$ 1,151,949
Special mention	—	—	—	26,082	30,940	33,877
Substandard	—	—	—	23,782	24,327	22,367
Doubtful	—	—	—	22	22	922
	$ 51,501	$ 45,222	$ 46,802	$ 1,571,137	$ 1,305,251	$ 1,209,115

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, 2015	December 31, 2014	September 30, 2014
Pass	$ 3,843,597	$ 3,286,228	$ 3,116,316
Special mention	98,527	118,790	125,847
Substandard	52,570	62,786	61,623
Doubtful	22	22	922
	$ 3,994,716	$ 3,467,826	$ 3,304,708

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, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 15,196	$ 22,456	$ 25,855	$ 35,562	$ 42,572	$ 42,087	$ 42,189	$ 61,040	$ 64,283
Special mention	113	816	805	399	6,039	7,982	291	265	363
Substandard	1,173	827	1,045	6,211	865	238	44	760	774
Doubtful	—	—	—	—	—	—	—	—	—
	$ 16,482	$ 24,099	$ 27,705	$ 42,172	$ 49,476	$ 50,307	$ 42,524	$ 62,065	$ 65,420

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 26,473	$ 39,780	$ 33,163	$ 54,684	$ 63,090	$ 66,202	$ 174,104	$ 228,938	$ 231,590
Special mention	213	448	869	435	896	899	1,451	8,464	10,918
Substandard	773	902	1,040	973	1,153	1,456	9,174	4,507	4,553
Doubtful	—	—	—	—	—	—	—	—	—
	$ 27,459	$ 41,130	$ 35,072	$ 56,092	$ 65,139	$ 68,557	$ 184,729	$ 241,909	$ 247,061

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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		
llars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	Septemb 30, 2014
s	$ 537,884	$ 639,555	$ 666,517	$ 190,648	$ 222,653	$ 229,377	$ 174,465	$ 201,636	$ 211,70
cial mention	2,009	1,241	2,200	5,198	4,491	5,490	630	619	600
standard	2,385	5,579	4,382	7,179	7,805	7,853	2,313	2,511	2,154
btful	—	—	—	—	—	—	—	—	—
	$ 542,278	$ 646,375	$ 673,099	$ 203,025	$ 234,949	$ 242,720	$ 177,408	$ 204,766	$ 214,46

	Consumer Total		
	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 902,997	$ 1,063,844	$ 1,107,603
Special mention	7,837	6,351	8,290
Substandard	11,877	15,895	14,389
Doubtful	—	—	—
	$ 922,711	$ 1,086,090	$ 1,130,282

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

	Total Acquired Non-credit Impaired Loans		
(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 1,077,101	$ 1,292,782	$ 1,339,193
Special mention	9,288	14,815	19,208
Substandard	21,051	20,402	18,942
Doubtful	—	—	—
	$ 1,107,440	$ 1,327,999	$ 1,377,343

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 18):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate—Construction and Development		
ars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	Septe 30, 2014
	$ 11,027	$ 11,248	$ 12,431	$ 179,481	$ 208,269	$ 218,900	$ 25,784	$ 26,855	$ 28,
al mention	1,045	1,030	1,041	37,674	35,896	41,711	12,875	9,539	10,
tandard	891	3,535	3,625	49,310	80,944	94,104	16,509	28,868	34,
tful	—	—	—	—	—	—	—	—	—
	$ 12,963	$ 15,813	$ 17,097	$ 266,465	$ 325,109	$ 354,715	$ 55,168	$ 65,262	$ 73,

	Residential Real Estate			Consumer			Commercial & Industrial		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 166,106	$ 190,931	$ 185,636	$ 11,156	$ 7,493	$ 8,150	$ 23,003	$ 25,530	$ 27,211
Special mention	69,998	73,699	78,683	24,248	29,087	30,616	2,092	5,317	2,853
Substandard	94,650	125,614	141,957	38,228	48,869	51,272	8,979	13,957	16,924
Doubtful	—	—	—	—	—	—	—	—	—
	$ 330,754	$ 390,244	$ 406,276	$ 73,632	$ 85,449	$ 90,038	$ 34,074	$ 44,804	$ 46,988

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	Single Pay			Total Acquired Credit Impaired Loans		
	September 30, 2015	December 31, 2014	September 30, 2014	September 30, 2015	December 31, 2014	September 30, 2014
Pass	$ 10	$ 58	$ 60	$ 416,567	$ 470,384	$ 480,523
Special mention	—	—	—	147,932	154,568	165,250
Substandard	14	28	28	208,581	301,815	342,751
Doubtful	—	—	—	—	—	—
	$ 24	$ 86	$ 88	$ 773,080	$ 926,767	$ 988,524

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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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, 2015						
Commercial real estate:						
Construction and land development	$ 752	$ 209	$ 1,113	$ 2,074	$ 370,003	$ 372,077
Commercial non-owner occupied	1,218	—	1,597	2,815	403,674	406,489
Commercial owner occupied	2,418	108	5,350	7,876	1,004,552	1,012,428
Consumer real estate:						
Consumer owner occupied	1,886	1,180	3,044	6,110	981,753	987,863
Home equity loans	661	275	584	1,520	307,043	308,563
Commercial and industrial	404	90	160	654	461,934	462,588
Other income producing property	246	194	450	890	169,107	169,997
Consumer	656	114	314	1,084	222,126	223,210
Other loans	—	—	—	—	51,501	51,501
	$ 8,241	$ 2,170	$ 12,612	$ 23,023	$ 3,971,693	$ 3,994,716
December 31, 2014						
Commercial real estate:						
Construction and land development	$ 318	$ 439	$ 1,354	$ 2,111	$ 362,110	$ 364,221
Commercial non-owner occupied	1,197	—	1,432	2,629	330,961	333,590
Commercial owner occupied	1,106	95	5,403	6,604	901,309	907,913
Consumer real estate:						
Consumer owner occupied	1,946	501	2,746	5,193	781,585	786,778
Home equity loans	679	443	519	1,641	282,293	283,934
Commercial and industrial	760	123	107	990	404,933	405,923
Other income producing property	570	114	1,319	2,003	148,925	150,928
Consumer	512	243	120	875	188,442	189,317
Other loans	65	46	62	173	45,049	45,222
	$ 7,153	$ 2,004	$ 13,062	$ 22,219	$ 3,445,607	$ 3,467,826
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

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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, 2015						
Commercial real estate:						
Construction and land development	$ —	$ —	$ 39	$ 39	$ 16,443	$ 16,482
Commercial non-owner occupied	32	—	—	32	42,140	42,172
Commercial owner occupied	245	4	39	288	42,236	42,524
Consumer real estate:						
Consumer owner occupied	116	150	516	782	541,496	542,278
Home equity loans	658	92	537	1,287	201,738	203,025
Commercial and industrial	—	2	238	240	27,219	27,459
Other income producing property	97	7	5	109	55,983	56,092
Consumer	598	244	722	1,564	175,844	177,408
	$ 1,746	$ 499	$ 2,096	$ 4,341	$ 1,103,099	$ 1,107,440
December 31, 2014						
Commercial real estate:						
Construction and land development	$ 17	$ —	$ 40	$ 57	$ 24,042	$ 24,099
Commercial non-owner occupied	—	—	—	—	49,476	49,476
Commercial owner occupied	414	—	38	452	61,613	62,065
Consumer real estate:						
Consumer owner occupied	443	241	1,566	2,250	644,125	646,375
Home equity loans	1,451	866	972	3,289	231,660	234,949
Commercial and industrial	14	250	117	381	40,749	41,130
Other income producing property	97	—	88	185	64,954	65,139
Consumer	885	341	843	2,069	202,697	204,766
	$ 3,321	$ 1,698	$ 3,664	$ 8,683	$ 1,319,316	$ 1,327,999
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

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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, 2015						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 12,963	$ 12,963
Commercial real estate	1,902	1,145	5,190	8,237	258,228	266,465
Commercial real estate—construction and development	960	983	2,575	4,518	50,650	55,168
Residential real estate	3,735	1,913	8,805	14,453	316,301	330,754
Consumer	1,660	630	2,305	4,595	69,037	73,632
Commercial and industrial	458	153	2,776	3,387	30,687	34,074
Single pay	—	—	—	—	24	24
	$ 8,715	$ 4,824	$ 21,651	$ 35,190	$ 737,890	$ 773,080
December 31, 2014						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ 2,896	$ 2,896	$ 12,917	$ 15,813
Commercial real estate	4,350	723	15,866	20,939	304,170	325,109
Commercial real estate—construction and development	1,750	452	8,204	10,406	54,856	65,262
Residential real estate	7,194	2,856	15,471	25,521	364,723	390,244
Consumer	2,241	1,106	2,614	5,961	79,488	85,449
Commercial and industrial	451	196	3,413	4,060	40,744	44,804
Single pay	—	—	—	—	86	86
	$ 15,986	$ 5,333	$ 48,464	$ 69,783	$ 856,984	$ 926,767
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

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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, 2015					
Commercial real estate:					
Construction and land development	$ 8,321	$ 1,128	$ 4,599	$ 5,727	$ 585
Commercial non-owner occupied	3,935	1,644	925	2,569	26
Commercial owner occupied	16,195	7,325	4,120	11,445	248
Consumer real estate:					
Consumer owner occupied	8,969	3,928	3,890	7,818	121
Home equity loans	390	185	108	293	3
Commercial and industrial	1,939	295	750	1,045	21
Other income producing property	5,601	117	4,671	4,788	430
Consumer	151	—	101	101	3
Other loans	887	—	693	693	19
Total	$ 46,388	$ 14,622	$ 19,857	$ 34,479	$ 1,456
December 31, 2014					
Commercial real estate:					
Construction and land development	$ 7,414	$ 1,528	$ 3,324	$ 4,852	$ 475
Commercial non-owner occupied	4,920	2,539	1,071	3,610	77
Commercial owner occupied	12,508	5,546	3,614	9,160	172
Consumer real estate:					
Consumer owner occupied	3,393	—	2,966	2,966	144
Home equity loans	131	—	31	31	1
Commercial and industrial	1,625	336	572	908	41
Other income producing property	6,280	360	5,138	5,498	646
Consumer	95	—	60	60	2
Total	$ 36,366	$ 10,309	$ 16,776	$ 27,085	$ 1,558
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

Total	$ 36,895	$ 12,112	$ 15,951	$ 28,063	$ 1,377

Acquired credit impaired loans are accounted for in pools as shown on page 12 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

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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,			
	2015		2014	
(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	$ 5,418	$ 116	$ 5,277	$ 23
Commercial non-owner occupied	2,590	13	4,966	8
Commercial owner occupied	11,208	89	10,294	27
Consumer real estate:				
Consumer owner occupied	7,070	80	2,480	30
Home equity loans	263	4	—	—
Commercial and industrial	1,028	29	929	2
Other income producing property	4,788	95	6,377	52
Consumer	85	1	68	1
Other loans	347	4	—	—
Total Impaired Loans	$ 32,797	$ 431	$ 30,391	$ 143

	Nine Months Ended September 30,			
	2015		2014	
(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	$ 5,290	$ 170	$ 5,308	$ 58
Commercial non-owner occupied	3,090	38	3,469	36
Commercial owner occupied	10,303	255	10,242	103
Consumer real estate:				
Consumer owner occupied	5,392	133	2,720	63
Home equity loans	162	7	—	—
Commercial and industrial	976	47	757	15
Other income producing property	5,143	174	4,515	112
Consumer	80	2	25	4
Other loans	347	4	—	—
Total Impaired Loans	$ 30,783	$ 830	$ 27,036	$ 391

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

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Commercial non-owner occupied real estate:			
Construction and land development	$ 1,291	$ 2,920	$ 2,851
Commercial non-owner occupied	1,117	2,325	2,483
Total commercial non-owner occupied real estate	2,408	5,245	5,334
Consumer real estate:			
Consumer owner occupied	8,043	6,015	1,481
Home equity loans	1,533	1,412	4,034
Total consumer real estate	9,576	7,427	5,515
Commercial owner occupied real estate	4,353	3,605	6,532
Commercial and industrial	466	600	648
Other income producing property	740	1,348	2,235
Consumer	556	344	155
Other loans	—	—	—
Restructured loans	5,616	9,425	9,633
Total loans on nonaccrual status	$ 23,715	$ 27,994	$ 30,052

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, 2015	December 31, 2014	September 30, 2014
Commercial non-owner occupied real estate:			
Construction and land development	$ 39	$ 41	$ —
Commercial non-owner occupied	95	645	14
Total commercial non-owner occupied real estate	134	686	14
Consumer real estate:			
Consumer owner occupied	1,048	3,685	2,733
Home equity loans	1,115	1,507	1,228
Total consumer real estate	2,163	5,192	3,961
Commercial owner occupied real estate	40	38	38
Commercial and industrial	243	120	165
Other income producing property	382	309	318
Consumer	1,168	1,193	863
Total loans on nonaccrual status	$ 4,130	$ 7,538	$ 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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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). For the three and nine months ended September 30, 2015 and 2014, the Company's TDR's were not material.

Note 7—FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014
Balance at beginning of period	$ 22,161	$ 86,447
Decrease in expected losses on loans	(21)	(2,188)
Additional recoveries on OREO	(4,164)	(3,710)
Reimbursable expenses	701	1,947
Amortization of discounts and premiums, net	(7,120)	(17,718)
Reimbursements from FDIC	(3,615)	(33,795)
Balance at end of period	$ 7,942	$ 30,983

The FDIC indemnification asset is measured separately from the related covered assets. At September 30, 2015, the projected cash flows related to the FDIC indemnification asset for losses on assets acquired were approximately $9.7 million less than the current carrying value. This amount is being recognized as amortization (in non-interest income) over the shorter of the underlying asset's remaining life or remaining term of the loss share agreements.

Included in the FDIC indemnification asset is an expected "true up" with the FDIC related to both the BankMeridian and Plantation acquisitions. This amount is determined each reporting period and at September 30, 2015, as well as September 30, 2014, was estimated to be approximately $4.1 million related to the BankMeridian acquisition at the end of the loss share agreement (July 2021) and $3.4 million for September 31, 2015 and $3.1 million for September 31, 2014, related to the Plantation acquisition at the end of the loss share agreement (April 2017). The actual payment to the FDIC will be determined at the end of the loss sharing agreement term for each of the five FDIC-assisted acquisitions and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. There was no true up expected from the CBT, Cape Fear, or Habersham FDIC-assisted transactions as of September 30, 2015.

Effective March 31, 2015, the Commercial Shared-Loss Agreement with the FDIC for CBT expired and losses on assets covered under this agreement are no longer claimable after filing the first quarter of 2015 commercial loss share certificate. The carrying value of commercial loans and OREO no longer covered under the CBT loss share agreement as of April 1, 2015 totaled $49.0 million and $2.2 million, respectively. These assets were transferred from the balance of loans and OREO classified as covered to non-covered. The Commercial Shared-Loss Agreement for Cape Fear expired June 30, 2014 and losses on assets covered under this agreement are no longer claimable. On March 31, 2016, the Commercial Shared-Loss Agreement with the FDIC for Habersham will expire and losses on assets covered under this agreement are no longer claimable after March 31, 2016.

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Note 8—Other Real Estate Owned

The following is a summary of information pertaining to OREO:

	Nine Months Ended September 30,					
	2015			2014		
(Dollars in thousands)	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$ 26,499	$ 16,227	$ 42,726	$ 37,398	$ 27,520	$ 64,918
Additions	16,190	6,832	23,022	22,888	13,393	36,281
Transfers	2,245	(2,245)	—	—	—	—
Writedowns	(2,763)	(4,910)	(7,673)	(4,375)	(4,298)	(8,673)
Sold	(16,258)	(10,439)	(26,697)	(23,622)	(17,654)	(41,276)
Ending Balance	$ 25,913	$ 5,465	$ 31,378	$ 32,289	$ 18,961	$ 51,250

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At September 30, 2015, there were 157 properties included in OREO, with 123 uncovered and 34 covered by loss share agreements with the FDIC. At September 30, 2014, there were 336 properties included in OREO, with 174 uncovered and 162 covered by loss share agreements with the FDIC. At September 30, 2015, the Company had $3.9 million in residential real estate included in OREO and $9.4 million in residential real estate consumer mortgage loans in the process of foreclosure.

Note 9 — Deposits

The Company's total deposits are comprised of the following:

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Certificates of deposit	$ 1,159,285	$ 1,237,140	$ 1,300,580
Interest-bearing demand deposits	3,260,482	2,927,820	2,900,140
Non-interest bearing demand deposits	1,927,309	1,639,953	1,654,308
Savings deposits	726,373	655,132	658,903
Other time deposits	4,560	1,000	4,297
Total deposits	$ 7,078,009	$ 6,461,045	$ 6,518,228

At September 30, 2015, December 31, 2014, and September 30, 2014, the Company had $119.0 million, $128.5 million, and $136.8 million in certificates of deposits greater than $250,000, respectively. At September 30, 2015, December 31, 2014, and September 30, 2014, the Company had $19.1 million, $23.4 million and $24.7 million, in traditional, out-of-market brokered deposits, respectively. On August 21, 2015, the Company acquired $438.3 million of deposits through the BOA branch acquisition. See Note 4—Mergers and Acquisitions for additional information.

Note 10 — Retirement Plans

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

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of September 30, 2015.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Interest cost	$ (254)	$ (277)	$ (762)	$ (833)
Expected return on plan assets	517	487	1,551	1,463
Recognized net actuarial loss	(225)	(165)	(674)	(495)
Net periodic pension benefit (expense)	$ 38	$ 45	$ 115	$ 135

The Company did not contribute to the pension plan for the three and nine months ended September 30, 2015, and does not expect to make any additional contributions during the remainder of 2015. The plan's assets currently exceed the projected benefit obligation of the plan, and no additional contributions are required for 2015.

Electing employees are eligible to participate in the employees' savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of their salary. Effective January 1, 2015, employees are eligible for an additional 1% discretionary matching contribution contingent upon achievement of the Company's 2015 financial goals and payable the first quarter of 2016. The Company expensed $1.8 million and $1.2 million for the 401(k) plan during the three months ended September 30, 2015 and 2014, respectively. The Company expensed $4.3 million and $3.6 million for the 401(k) plan during the nine months ended September 30, 2015 and 2014, respectively.

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

Note 11 — Earnings Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands)	2015	2014	2015	2014
Basic earnings per common share:				
Net income available to common shareholders	$ 25,140	$ 19,327	$ 73,938	$ 53,116
Weighted-average basic common shares	23,984	23,899	23,956	23,890
Basic earnings per common share	$ 1.05	$ 0.81	$ 3.09	$ 2.22
Diluted earnings per share:				
Net income available to common shareholders	$ 25,140	$ 19,327	$ 73,938	$ 53,116
Weighted-average basic common shares	23,984	23,899	23,956	23,890
Effect of dilutive securities	301	261	279	249
Weighted-average dilutive shares	24,285	24,160	24,235	24,139
Diluted earnings per common share	$ 1.04	$ 0.80	$ 3.05	$ 2.20

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Number of shares	46,798	22,497	47,865	22,497
Range of exercise prices	\$ 61.42 to \$ 66.32	\$ 61.49 to \$ 66.32	\$ 61.42 to \$ 66.32	\$ 61.49 to \$ 66.32

Note 12 — Share-Based Compensation

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

Stock Options

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

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value(000's)
Outstanding at January 1, 2015	294,342	$ 35.91		
Granted	26,430	61.74		
Exercised	(30,560)	31.31		
Outstanding at September 30, 2015	290,212	38.74	4.58	$ 11,064
Exercisable at September 30, 2015	231,931	34.45	3.63	$ 9,840
Weighted-average fair value of options granted during the year	$ 25.08			

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

	Nine months ended September 30,	
	2015	2014
Dividend yield	1.40 %	1.27%
Expected life	8.5 years	6.3 years
Expected volatility	40.9%	43.8% - 44.7 %
Risk-free interest rate	1.79%	2.10%

As of September 30, 2015, there was $1.0 million of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.32 years as of September 30, 2015. The total fair value of shares vested during the nine months ended September 30, 2015 was $386,000.

Restricted Stock

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

Nonvested restricted stock for the nine months ended September 30, 2015 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1 2015	228,907	$ 37.44
Granted	42,605	70.56
Vested	(44,444)	36.49
Forfeited	(1,500)	49.46
Nonvested at September 30, 2015	225,568	43.80

As of September 30, 2015, there was $5.3 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.19 years as of September 30, 2015. The total fair value of shares vested during the nine months ended September 30, 2015 was $1.7 million.

Restricted Stock Units

The Company from time-to-time also grants performance RSUs to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Performance RSU grants contain a three year performance period. The Company communicates threshold, target, and maximum performance RSU awards and performance targets to the applicable key employees at the beginning of a performance period. Dividends are not paid in respect to the awards during the performance period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over three years based upon the probable performance target that will be met. For the nine months ended September 30, 2015, the Company accrued for 94% of the RSUs granted, based on Management's expectations of performance.

Nonvested RSUs for the nine months ended September 30, 2015 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2015	79,308	$ 55.92
Granted	38,456	68.10
Vested	(2,315)	54.00
Nonvested at September 30, 2015	115,449	60.02

As of September 30, 2015, there was $3.2 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 1.26 years as of September 30, 2015. The total fair value of RSUs vested during the nine months ended September 30, 2015 was $125,000.

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Note 13 — Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2015, commitments to extend credit and standby letters of credit totaled $1.5 billion. The Company does not anticipate any material losses as a result of these transactions.

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

Note 14 — Fair Value

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

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

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

Level 1 Observable inputs such as quoted prices in active markets;
Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

Investment Securities

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

Mortgage Loans Held for Sale

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

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Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2015, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral; require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (“OREO”)

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

Derivative Financial Instruments

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

Mortgage servicing rights ("MSRs")

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

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015:				
Assets				
Derivative financial instruments	$ 2,379	$ —	$ 2,379	$ —
Loans held for sale	48,985	—	48,985	—
Securities available for sale:				
Government-sponsored entities debt	$ 123,794	$ —	$ 123,794	$ —
State and municipal obligations	134,338	—	134,338	—
Mortgage-backed securities	625,073	—	625,073	—
Corporate stocks	2,593	2,368	225	—
Total securities available for sale	885,798	2,368	883,430	—
Mortgage servicing rights	24,665	—	—	24,665
	$ 961,827	$ 2,368	$ 934,794	$ 24,665
Liabilities				
Derivative financial instruments	$ 1,904	$ —	$ 1,904	$ —
December 31, 2014:				
Assets				
Derivative financial instruments	$ 2,148	$ —	$ 2,148	$ —
Loans held for sale	61,934	—	61,934	—
Securities available for sale:				
Government-sponsored entities debt	$ 148,197	$ —	$ 148,197	$ —
State and municipal obligations	137,581	—	137,581	—
Mortgage-backed securities	517,946	—	517,946	—
Corporate stocks	3,667	3,442	225	—
Total securities available for sale	806,766	2,817	803,949	—
Mortgage servicing rights	21,601	—	—	21,601
	$ 892,449	$ 2,817	$ 868,031	$ 21,601
Liabilities				
Derivative financial instruments	$ 1,341	$ —	$ 1,341	$ —
September 30, 2014:				
Assets				
Derivative financial instruments	$ 1,101	$ —	$ 1,101	$ —
Loans held for sale	57,683	—	57,683	—
Securities available for sale:				
Government-sponsored entities debt	$ 137,459	$ —	$ 137,459	$ —

State and municipal obligations	141,258	—	141,258	—
Mortgage-backed securities	523,009	—	523,009	—
Corporate stocks	3,388	3,163	225	—
Total securities available for sale	805,114	3,163	801,951	—
Mortgage servicing rights	22,052	—	—	22,052
	$ 885,950	$ 3,163	$ 860,735	$ 22,052
Liabilities				
Derivative financial instruments	$ 986	$ —	$ 986	$ —

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Changes in Level 1, 2 and 3 Fair Value Measurements

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

There were no changes in hierarchy classifications of Level 3 assets or liabilities for the nine months ended September 30, 2015. A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the nine months ended September 30, 2015 and 2014 is as follows:

(Dollars in thousands)	Assets	Liabilities
Fair value, January 1, 2015	$ 21,601	$ —
Servicing assets that resulted from transfers of financial assets	5,770	—
Changes in fair value due to valuation inputs or assumptions	(92)	—
Changes in fair value due to increased principal paydowns	(2,614)	—
Fair value , September 30, 2015	$ 24,665	$ —
Fair value, January 1, 2014	$ 20,729	$ —
Servicing assets that resulted from transfers of financial assets	3,575	—
Changes in fair value due to valuation inputs or assumptions	(529)	—
Changes in fair value due to increased principal paydowns	(1,723)	—
Fair value, September 30, 2014	$ 22,052	$ —

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at September 30, 2015 or 2014.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

Quoted Prices

(Dollars in thousands)	Fair Value	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015:				
OREO	$ 31,378	$ —	$ —	$ 31,378
Non-acquired impaired loans	12,123	—	—	12,123
December 31, 2014:				
OREO	$ 42,726	$ —	$ —	$ 42,726
Non-acquired impaired loans	12,612	—	—	12,612
September 30, 2014:				
OREO	$ 51,250	$ —	$ —	$ 51,250
Non-acquired impaired loans	10,655	—	—	10,655

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Quantitative Information about Level 3 Fair Value Measurement

	Valuation Technique	Unobservable Input	September 30, 2015		December 31, 2014		September 30, 2014	
Nonrecurring measurements:								
Impaired loans	Discounted appraisals	Collateral discounts	4.42	%	5.80	%	4.91	%
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	19.49	%	21.89	%	27.46	%

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2015, December 31, 2014 and September 30, 2014. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

Investment Securities — Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of FHLB stock approximates fair value based on the redemption provisions. The carrying value of the Company's investment in unconsolidated subsidiaries approximates fair value. See Note 5—Investment Securities for additional information, as well as page 37 regarding fair value.

Loans held for sale — The fair values disclosed for loans held for sale are based on commitments from investors for loans with similar characteristics.

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

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

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

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

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

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

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

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

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

(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2015					
Financial assets:					
Cash and cash equivalents	$ 889,380	$ 889,380	$ 889,380	$ —	$ —
Investment securities	904,143	904,587	11,399	893,188	—
Loans held for sale	48,985	48,985	—	48,985	—
Loans, net of allowance for loan losses	5,835,646	5,939,570	—	—	5,939,570
FDIC receivable for loss share agreements	7,942	205	—	—	205
Accrued interest receivable	16,614	16,614	—	3,709	12,905
Mortgage servicing rights	24,665	24,665	—	—	24,665
Interest rate swap - non-designated hedge	170	170	—	170	—
Other derivative financial instruments (mortgage banking related)	2,209	2,209	—	2,209	—
Financial liabilities:					
Deposits	7,078,009	6,836,437	—	6,836,437	—
Federal funds purchased and securities sold under agreements to repurchase	260,521	260,521	—	260,521	—
Other borrowings	55,107	49,362	—	49,362	—
Accrued interest payable	2,302	2,302	—	2,302	—
Interest rate swap - cash flow hedge	871	871	—	871	—
Interest rate swap - non-designated hedge	170	170	—	170	—
Other derivative financial instruments (mortgage banking related)	863	863	—	863	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	24,676	—	24,676	—
Standby letters of credit and financial guarantees	—	—	—	—	—
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$ 417,869	$ 417,869	$ 417,869	$ —	$ —
Investment securities	826,943	827,517	13,560	813,957	—
Loans held for sale	61,934	61,934	—	61,934	—
Loans, net of allowance for loan losses	5,680,688	5,743,111	—	—	5,743,111
FDIC receivable for loss share agreements	22,161	7,150	—	—	7,150
Accrued interest receivable	16,366	16,366	—	3,443	12,923

Mortgage servicing rights	21,601	21,601	—	—	21,601
Interest rate swap - non-designated hedge	172	172	—	172	—
Other derivative financial instruments (mortgage banking related)	1,976	1,976	—	1,976	—
Financial liabilities:					
Deposits	6,461,045	6,193,580	—	6,193,580	—
Federal funds purchased and securities sold under agreements to repurchase	221,541	221,541	—	221,541	—
Other borrowings	101,210	98,534	—	98,534	—
Accrued interest payable	4,311	4,311	—	4,311	—
Interest rate swap - cash flow hedge	856	856	—	856	—
Interest rate swap - non-designated hedge	172	172	—	172	—
Other derivative financial instruments (mortgage banking related)	313	313	—	313	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	14,759	—	14,759	—
Standby letters of credit and financial guarantees	—	—	—	—	—
September 30, 2014					
Financial assets:					
Cash and cash equivalents	$ 503,028	$ 503,028	$ 503,028	$ —	$ —
Investment securities	826,021	826,651	13,681	812,970	—
Loans held for sale	57,683	57,683	—	57,683	—
Loans, net of allowance for loan losses	5,627,739	5,680,164	—	—	5,680,164
FDIC receivable for loss share agreements	30,983	13,873	—	—	13,873
Accrued interest receivable	17,134	17,134	—	3,708	13,426
Mortgage servicing rights	22,052	22,052	—	—	22,052
Interest rate swap - non-designated hedge	162	162	—	162	—
Other derivative financial instruments (mortgage banking related)	939	939	—	939	—
Financial liabilities:					
Deposits	6,518,228	6,224,652	—	6,224,652	—
Federal funds purchased and securities sold under agreements to repurchase	231,229	231,652	—	231,652	—
Other borrowings	101,127	101,627	—	101,627	—
Accrued interest payable	4,234	4,234	—	4,234	—
Interest rate swap - cash flow hedge	824	824	—	824	—
Interest rate swap - non-designated hedge	162	162	—	162	—
Other derivative financial instruments (mortgage banking related)	—	—	—	—	—
Off balance sheet financial instruments:					

Commitments to extend credit	—	12,007	—	12,007	—
Standby letters of credit and financial guarantees	—	—	—	—	—

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Note 15 — Accumulated Other Comprehensive Income (Loss)

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

(Dollars in thousands)	Benefit Plans	Unrealized Gains and Losses on Securities Available for Sale	Gains and Losses on Cash Flow Hedges	Total
Three Months Ended September 30, 2015				
Balance at June 30, 2015	$ (5,036)	$ 3,604	$ (499)	$ (1,931)
Other comprehensive income (loss) before reclassifications	—	3,707	(95)	3,612
Amounts reclassified from accumulated other comprehensive income (loss)	139	—	55	194
Net comprehensive income (loss)	139	3,707	(40)	3,806
Balance at September 30, 2015	$ (4,897)	$ 7,311	$ (539)	$ 1,875
Three Months Ended September 30, 2014				
Balance at June 30, 2014	$ (3,382)	$ 4,373	$ (583)	$ 408
Other comprehensive income (loss) before reclassifications	—	(1,780)	25	(1,755)
Amounts reclassified from accumulated other comprehensive income (loss)	102	56	48	206
Net comprehensive income (loss)	102	(1,724)	73	(1,549)
Balance at September 30, 2014	$ (3,280)	$ 2,649	$ (510)	$ (1,141)
Nine Months Ended September 30, 2015				
Balance at December 31, 2014	$ (5,315)	$ 5,467	$ (529)	$ (377)
Other comprehensive income (loss) before reclassifications	—	1,844	(152)	1,692
Amounts reclassified from accumulated other comprehensive income (loss)	418	—	142	560
Net comprehensive income (loss)	418	1,844	(10)	2,252
Balance at September 30, 2015	$ (4,897)	$ 7,311	$ (539)	$ 1,875
Nine Months Ended September 30, 2014				
Balance at December 31, 2013	$ (3,585)	$ (5,573)	$ (565)	$ (9,723)
Other comprehensive income (loss) before reclassifications	—	8,221	(89)	8,132
Amounts reclassified from accumulated other comprehensive income (loss)	305	1	144	450
Net comprehensive income (loss)	305	8,222	55	8,582
Balance at September 30, 2014	$ (3,280)	$ 2,649	$ (510)	$ (1,141)

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

Accumulated Other Comprehensive Income (Loss) Component	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014	Income Statement Line Item Affected
(Gains) losses on cash flow hedges:					
Interest rate contracts	$ 89	$ 78	$ 230	$ 232	Interest expense
	(34)	(30)	(88)	(88)	Provision for income taxes
	55	48	142	144	Net income
(Gains) losses on sales of available for sale securities:					
	$ —	$ 90	$ —	$ 2	Other noninterest income
	—	(34)	—	(1)	Provision for income taxes
	—	56	—	1	Net income
Amortization of defined benefit pension items:					
Actuarial (gains) losses	$ 225	$ 165	$ 674	$ 495	Salaries and employee benefits
	(86)	(63)	(256)	(190)	Provision for income taxes
	139	102	418	305	Net income
Total reclassifications for the period	$ 194	$ 206	$ 560	$ 450	

Note 16 — Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

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

The Company recognized an after-tax unrealized loss on its cash flow hedge in other comprehensive income of $40,000 and $10,000 for the three and nine months ended September 30, 2015, respectively, compared to an after-tax unrealized gain on its cash flow hedge in other comprehensive income of $73,000 and $55,000 for the three and nine months ended September 30, 2014, respectively. The Company recognized an $870,000 cash flow hedge liability in other liabilities on the balance sheet at September 30, 2015, compared to a $824,000 liability recognized at September 30, 2014. There was no ineffectiveness in the cash flow hedge during the three and nine months ended September 30, 2015 and 2014.

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivatives dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivatives dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty's exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of September 30, 2015 and 2014, the Company provided $950,000 and $950,000 of collateral, respectively, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. Also, the Company has a netting agreement with the counterparty.

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Non-designated Hedges of Interest Rate Risk

Customer Swap

As of September 30, 2015, the Company has two interest rate swap contracts that were classified as non-designated hedges that were acquired through the merger transaction with Savannah. These derivatives are not designated as hedges and are not speculative in nature. One of the derivatives is an interest rate swap that was executed with a commercial borrower to facilitate a respective risk management strategy and allow the customer to pay a fixed rate of interest to the Company. This interest rate swap was simultaneously hedged by executing an offsetting interest rate swap that was entered into with a derivatives dealer to minimize the net risk exposure to the Company resulting from the transactions and allow the Company to receive a variable rate of interest.

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

As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2015, the interest rate swaps had an aggregate notional amount of approximately $3.8 million and the fair value of these two interest rate swap derivatives are recorded in other assets and in other liabilities for $170,000. The net effect of recording the derivatives at fair value through earnings was immaterial to the Company's financial condition and results of operations during 2015. In October of 2015, the customer elected to refinance their loan and terminate the related interest rate swap. As a result, the Company terminated its swap and the Company received the collateral referenced in the following paragraph. There was no gain or loss recognized as a result of the termination.

The Company also has an agreement with the derivatives dealer in this transaction that contains a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on this derivatives obligation. As of September 30, 2015, the fair value of the interest rate swap derivative with the derivatives dealer was in a net liability position of $170,000, which excludes any adjustment for nonperformance risk, related to these agreements. As of September 30, 2015, the Company provided $355,000 of collateral, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. If the Company had breached any of these provisions at September 30, 2015, it would have been required to settle its obligations under the agreement at the termination value, $175,000.

Mortgage Banking

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

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Mortgage Servicing Rights

Derivatives contracts related to mortgage servicing rights are used to help offset changes in fair value and are written in amounts referred to as notional amounts. Notional amounts provide a basis for calculating payments between counterparties but do not represent amounts to be exchanged between the parties, and are not a measure of financial risk. On September 30, 2015, the Company had derivative financial instruments outstanding with notional amounts totaling $90.0 million related to mortgage servicing rights. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as a gain of $863,000 at September 30, 2015.

Mortgage Pipeline

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

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Mortgage loan pipeline	$ 106,460	$ 67,201	$ 55,759
Expected closures	79,845	50,760	41,842
Fair Value of mortgage loan pipeline commitments	2,003	1,335	1,061
Forward commitments	86,000	81,000	59,455
Fair value of forward commitments	(658)	(313)	475

Note 17 — Capital Ratios

The Company is subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision ("Basel III"), among other changes required by the

Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

As applied to the Company and the Bank, the new rules include a new minimum ratio of common equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5%. The new rules also raise the minimum required ratio of Tier 1 capital to risk-weighted assets from 4% to 6%. The minimum required leverage ratio under the new rules is 4%. The minimum required total capital to risk-weighted assets ratio remains at 8% under the new rules.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of common equity Tier 1, and the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

The Bank is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

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The following table presents actual and required capital ratios as of September 30, 2015 for the Company and the Bank under the Basel III capital rules. The minimum required capital amounts presented include the minimum required capital levels as of September 30, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel IIII Phase-In Schedule		Minimum Capital Required - Basel IIII Fully Phased In		Required to be Considered Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
September 30, 2015								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 693,121	11.82 %	$ 263,907	4.50 %	$ 410,523	7.00 %	$ 381,200	6.50 %
South State Bank (the Bank)	720,522	12.29 %	263,769	4.50 %	410,307	7.00 %	380,999	6.50 %
Tier 1 capital to risk-weighted assets:								
Consolidated	743,805	12.68 %	351,877	6.00 %	498,492	8.50 %	469,169	8.00 %
South State Bank (the Bank)	720,522	12.29 %	351,692	6.00 %	498,230	8.50 %	468,922	8.00 %
Total capital to risk-weighted assets:								
Consolidated	783,605	13.36 %	469,169	8.00 %	615,784	10.50 %	586,461	10.00 %
South State Bank (the Bank)	760,322	12.97 %	468,922	8.00 %	615,460	10.50 %	586,153	10.00 %
Tier 1 capital to average assets (leverage ratio):								
Consolidated	743,805	9.32 %	319,149	4.00 %	319,149	4.00 %	398,937	5.00 %
South State Bank (the Bank)	720,522	9.04 %	318,835	4.00 %	318,835	4.00 %	398,544	5.00 %

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The following table presents actual and required capital ratios as of December 31, 2014 and September 30, 2014 under the regulatory capital rules then in effect.

(Dollars in thousands)	Actual Amount	Ratio	Minimum Capital Requirement Amount	Ratio	Required to be Consolidated Well Capitalized Amount	Ratio
December 31, 2014:						
Tier 1 capital to risk-weighted assets:						
Consolidated	$ 713,371	13.62 %	$ 209,491	4.00 %	n/a	n/a
South State Bank (the Bank)	700,280	13.37 %	209,438	4.00 %	314,158	6.00 %
Total capital to risk-weighted assets:						
Consolidated	755,484	14.43 %	418,982	8.00 %	n/a	n/a
South State Bank (the Bank)	742,393	14.18 %	418,877	8.00 %	523,596	10.00 %
Tier 1 capital to average assets (leverage ratio):						
Consolidated	713,371	9.47 %	301,363	4.00 %	n/a	n/a
South State Bank (the Bank)	700,280	9.30 %	301,162	4.00 %	376,452	5.00 %
September 30, 2014:						
Tier 1 capital to risk-weighted assets:						
Consolidated	$ 694,095	13.29 %	$ 208,900	8.00 %	n/a	n/a
South State Bank (the Bank	684,033	13.09 %	208,971	8.00 %	313,456	6.00 %
Total capital to risk-weighted assets:						
Consolidated	737,243	14.12 %	417,800	4.00 %	n/a	n/a
South State Bank (the Bank)	727,079	13.92 %	417,941	4.00 %	522,426	10.00 %
Tier 1 capital to average assets (leverage ratio):						
Consolidated	694,095	9.16 %	303,233	4.00 %	n/a	n/a
South State Bank (the Bank)	684,033	9.03 %	303,066	4.00 %	378,833	5.00 %

As of September 30, 2015, December 31, 2014, and September 30, 2014, the capital ratios of the Company and the Bank were well in excess of the minimum regulatory requirements and exceeded the thresholds for the “well capitalized” regulatory classification.

Note 18—Goodwill and Other Intangible Assets

The carrying amount of goodwill was $338.3 million at September 30, 2015. The Company’s other intangible assets, consisting of core deposit intangibles, noncompete intangibles, and client list intangibles are included on the face of the balance sheet. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2014
Gross carrying amount	$ 82,221	$ 75,354	$ 75,354
Accumulated amortization	(32,239)	(26,115)	(24,063)
	$ 49,982	$ 49,239	$ 51,291

Amortization expense totaled $2.1 million and $6.1 million for the three and nine months ended September 30, 2015, respectively. Other intangibles are amortized using either the straight-line method or an accelerated basis over

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their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

Quarter ending:	
December 31, 2015	$ 2,266
March 31, 2016	1,904
June 30, 2016	1,892
September 30, 2016	1,891
December 31, 2016	1,890
Thereafter	40,139
	$ 49,982

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

As of September 30, 2015, December 31, 2014, and September 30, 2014, the portfolio of residential mortgages serviced for others, which is not included in the accompanying balance sheets, was $2.5 billion, $2.3 billion, and $2.2 billion, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts and disbursing payments to investors. The amount of contractually specified servicing fees earned by the Company during the three and nine months ended September 30, 2015 and September 30, 2014 was $1.6 million and $4.7 million, and $1.2 million and $3.9 million, respectively. Servicing fees are recorded in mortgage banking income in the Company's consolidated statements of income.

At September 30, 2015, December 31, 2014, and September 30, 2014, mortgage servicing rights ("MSRs") were $24.7 million, $21.6 million, and $22.1 million on the Company's consolidated balance sheets, respectively. MSRs are recorded at fair value with changes in fair value recorded as a component of mortgage banking income in the consolidated statements of income. The market value adjustments related to MSRs recorded in mortgage banking income for the three and nine months ended September 30, 2015 were losses of $1.6 million and $92,000, respectively, compared to a gain of $162,000 and a loss of $529,000 for the three and nine months ended September 30, 2014, respectively. Since the merger with FFHI, the Company has used various free standing derivative instruments to mitigate the income statement effect of changes in fair value due to changes in market value adjustments and to changes in valuation inputs and assumptions related to MSRs.

See Note 14 — Fair Value page 40 for the changes in fair value of MSRs. The following table presents the changes in the fair value of the offsetting hedge.

(Dollars in thousands)	Three Months Ended September 30, 2015	September 30, 2014	Nine Months Ended September 30, 2015	September 30, 2014
Gains (losses) related to derivatives	$ 1,720	$ 183	$ 2,150	$ 2,118

The fair value of MSRs is highly sensitive to changes in assumptions and fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSR. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time. See Note 14 — Fair Value for additional information regarding fair value.

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The characteristics and sensitivity analysis of the MSR are included in the following table.

(Dollars in thousands)	September 30, 2015		December 31, 2014		September 30, 2014	
Composition of residential loans serviced for others						
Fixed-rate mortgage loans	99.4	%	99.2	%	99.2	%
Adjustable-rate mortgage loans	0.6	%	0.8	%	0.8	%
Total	100.0	%	100.0	%	100.0	%
Weighted average life	6.79	years	6.30	years	6.22	years
Constant Prepayment rate (CPR)	10.2	%	11.4	%	11.5	%
Weighted average discount rate	9.8	%	9.7	%	9.5	%
Effect on fair value due to change in interest rates						
25 basis point increase	$ 1,555		$ 1,365		$ 1,499	
50 basis point increase	2,945		2,555		2,803	
25 basis point decrease	(1,883)		(1,562)		(1,688)	
50 basis point decrease	(3,964)		(3,221)		(3,229)	

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

Custodial escrow balances maintained in connection with the loan servicing were $21.4 million and $18.6 million at September 30, 2015 and September 30, 2014.

Mandatory cash forwards and whole loan sales were $230.8 million and $685.8 million for the three and nine months ended September 30, 2015, respectively, compared to $155.2 million and $425.5 million for the three and nine months ended September 30, 2014, respectively. For the three and nine months ended September 30, 2015, $166.7 million and $517.8 million, or 72.2% and 75.5%, respectively, were sold with the servicing rights retained by the company compared to $136.4 million and $338.1 million, or 87.9% and 79.4%, for the three and nine months ended September 30, 2014, respectively.

Loans held for sale have historically been comprised of residential mortgage loans awaiting sale in the secondary market, which generally settle in 15 to 45 days. Loans held for sale, which consists primarily of residential mortgage loans to be sold in the secondary market, were $49.0 million, $61.9 million, and $56.6 million at September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

Note 20 – Investments in Qualified Affordable Housing Projects

The Company has investments in qualified affordable housing projects ("QAHPs") that provide low income housing tax credits and operating loss benefits over an extended period. The tax credits and the operating loss tax benefits that are generated by each of the properties are expected to exceed the total value of the investment made by the Company. For the nine months ended September 30, 2015, tax credits and other tax benefits of $1.4 million and amortization of $1.0 million were recorded. For the nine months ended September 30, 2014, the Company recorded tax credits and other tax benefits of $1.1 million and amortization of $455,000. At September 30, 2015 and 2014, the Company's carrying value of QAHPs was $12.4 million and $14.3 million, respectively, with an original investment of $22.1 million. The Company has $1.5 million and $7.1 million in remaining funding obligations related to these QAHPs recorded in liabilities at September 30, 2015 and 2014, respectively. None of the original investment will be repaid. The investment in QAHPs is being accounted for using the equity method.

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Note 21 – Repurchase Agreements

Securities sold under agreements to repurchase ("repurchase agreements") represent funds received from customers, generally on an overnight or continuous basis, which are collateralized by investment securities owned or, at times, borrowed and re-hypothecated by the Company. Repurchase agreements are subject to terms and conditions of the master repurchase agreements between the Company and the client and are accounted for as secured borrowings. Repurchase agreements are included in federal funds purchased and securities sold under agreements to repurchase on the condensed consolidated balance sheets.

At September 30, 2015, December 31, 2014 and September 30, 2014, the Company's repurchase agreement totaled $213.5 million, $160.9 million, and $173.2 million, respectively. All of the Company's repurchase agreements were overnight or continuous (until-further-notice) agreements at September 30, 2015, December 31, 2014, and September 30, 2014. These borrowings were collateralized with government, government-sponsored enterprise, or state and political subdivision-issued securities with a carrying value of $213.5 million, $160.9 million and $173.2 million at September 30, 2015, December 31, 2014 and September 30, 2014, respectively. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Note 22 – Subsequent Events

On October 1, 2015, the state of South Carolina was under a state of emergency and, on October 5, 2015, selected areas were deemed a federal disaster as a result of the severe storms and flooding which began on October 1 and continued through October 7, 2015. The Bank has offices in 11 of the 16 counties which were deemed federal disaster areas. The Company has completed an initial assessment of the impact, and currently does not expect to incur material losses. In addition, the Company has rolled out certain favorable loan programs to assist those affected.

Branch Initiatives

During the third quarter of 2015, the Company consolidated three additional branch locations as previously announced. The Company also sold two branches in October of 2015 and received a 3.5% deposit premium on the 30-day average closing deposit balance of approximately $900,000. The premium will be reduced by the unamortized core deposit intangible associated with the two branches.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the financial statements contained in this Quarterly Report beginning on page 1. For further information, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Annual Report on Form 10-K for the year ended December 31, 2014. Results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or any future period.

Overview

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

At September 30, 2015, we had approximately $8.5 billion in assets and 2,083 full-time equivalent employees. Through the Bank, we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, manufactured housing loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

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

The following discussion describes our results of operations for the three and nine months ended September 30, 2015 as compared to the three and nine months ended September 30, 2014 and also analyzes our financial condition as of September 30, 2015 as compared to December 31, 2014 and September 30, 2014. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

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

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

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

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Recent Events

On October 1, 2015, the state of South Carolina was under a state of emergency and, on October 5, 2015, selected areas were deemed a federal disaster as a result of the severe storms and flooding which began on October 1 and continued through October 7, 2015. The Bank has offices in 11 of the 16 counties which were deemed federal disaster areas. The Company has completed an initial assessment of the impact, and currently does not expect to incur material losses. In addition, the Company has rolled out certain favorable loan programs to assist those affected.

Branch Initiatives

On August 21, 2015, the Bank completed the execution of the Purchase Agreement to acquire 12 South Carolina branch locations and one Georgia branch location from Bank of America, N.A. The branches are located in Florence, Greenwood, Orangeburg, Sumter, Newberry, Batesburg-Leesville, Abbeville and Hartsville, South Carolina, as well as Hartwell, Georgia. As a result of the transaction, the Bank will enter into six new markets and three markets which overlap. The Company paid a 5.5% deposit premium on the 30-day average closing balance of deposits prior to closing, which totaled $25.0 million.

During the third quarter of 2015, the Company consolidated three additional branch locations as previously announced. The Company also sold two branches in October of 2015 and received a 3.5% deposit premium on the 30-day average closing deposit balance of approximately $900,000. The premium will be reduced by the unamortized core deposit intangible associated with the two branches.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States (“GAAP”) in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

Allowance for Loan Losses

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank's borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See "Note 6 — Loans and Allowance for Loan Losses" in this Form 10-Q, "Provision for Loan Losses and Nonperforming Assets" in this Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") and "Allowance for Loan Losses" in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed in a business combination. As of September 30, 2015, December 31, 2014 and September 30, 2014, the balance of goodwill was $338.3 million, $317.7 million, and $317.7 million, respectively. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

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

Our stock price has historically traded above its book value. As of September 30, 2015, book value was $43.30 per common share. The lowest trading price during the first nine months of 2015, as reported by the NASDAQ Global Select Market, was $58.84 per share, and the stock price closed on September 30, 2015 at $76.87 per share, which is above book value. In the event our stock was to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2015, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

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

Income Taxes and Deferred Tax Assets

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

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of September 30, 2015, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Company and its subsidiary file a consolidated United States federal income tax return, as well as income tax returns for its subsidiary in the states of South Carolina, Georgia, North Carolina, Florida, Virginia, Alabama, and Mississippi. The Company's filed income tax returns are no longer subject to examination by taxing authorities for years before 2010.

Other Real Estate Owned

Other real estate owned ("OREO"), consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans or through reclassification of former branch sites, is reported at the lower of cost or fair value, determined on the basis of current valuations obtained principally from independent sources, adjusted

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for estimated selling costs. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Subsequent adjustments to this value are described below.

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

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

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

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

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

For further discussion of the Company’s loan accounting and acquisitions, see “Business Combinations and Method of Accounting for Loans Acquired” in our Annual Report on Form 10-K for the year ended December 31, 2014, Note 4—Mergers and Acquisitions to the unaudited condensed consolidated financial statements and Note 6—Loans and Allowance for Loan Losses to the unaudited condensed consolidated financial statements.

Results of Operations

We reported consolidated net income available to common shareholders of $25.1 million, or diluted earnings per share (“EPS”) of $1.04, for the third quarter of 2015 as compared to consolidated net income available to common

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shareholders of $19.3 million, or diluted EPS of $0.80, in the comparable period of 2014. The $5.8 million increase in consolidated net income available to common shareholders was the net result of the following items:

- An increase in interest income of $1.2 million from $4.8 million higher non-acquired loan interest income partially offset by $3.8 million in lower acquired loan interest income;
- Lower interest expense of $1.4 million from the redemption of trust preferred debt in January 2015, and lower interest paid on deposits as rates have remained at historic lows;
- Lower provision for loan losses by $1.0 million as asset quality continues to improve in the non-acquired and acquired loan portfolios;
- Higher noninterest income of $5.3 million, with $3.0 million less in amortization of the FDIC indemnification asset, $1.6 million improvement in fees on deposit accounts, $1.0 million increase in trust and investment services income, and $693,000 more in mortgage banking income; partially offset by lower recoveries of acquired loans of $717,000;
- Noninterest expense declined by $1.9 million in the third quarter to $73.2 million compared to the same quarter in 2014 of $75.1 million. The largest decrease was in one-time costs (branch consolidation expenses for 2015 and merger and conversion related expenses in 2014) of $3.8 million, and partially offset by higher expense in information services expense, business development and staff related expense and professional fees;
- An increase in the provision for income taxes of $5.0 million due to higher pre-tax income and higher effective rate; and
- Diluted EPS was $1.04 compared to $0.80 in the comparable period in 2014 due to the 30.1% increase in net income available to common shareholders.

Our asset quality related to non-acquired loans continues to improve from the end of 2014 and from the end of the second quarter of 2015. Non-acquired nonperforming assets declined from $30.5 million at June 30, 2015 to $29.9 million at September 30, 2015, a $672,000 decline. Compared to the balance of nonperforming assets at September 30, 2014, nonperforming assets decreased $10.0 million due to a reduction in nonperforming loans of $6.6 million and a reduction in non-acquired OREO of $3.4 million. Our non-acquired OREO increased by $94,000 from June 30, 2015 to $6.0 million at September 30, 2015. Annualized net charge-offs for the third quarter of 2015 were 0.09%, or $875,000, down from net charge-offs in the third quarter of 2014 of 0.26%, or $2.1 million and down from net charge offs in the second quarter of 2015 of 0.12%, or $1.1 million.

The allowance for loan losses decreased to 0.88% of total non-acquired loans at September 30, 2015, down from 0.92% at June 30, 2015 and 1.05% at September 30, 2014. The allowance provides 1.47 times coverage of non-acquired nonperforming loans at September 30, 2015, higher than 1.41 times at June 30, 2015, and 1.14 times at September 30, 2014.

During the third quarter of 2015, the Company had net charge-offs (recoveries) related to "acquired non-credit impaired loans" which totaled ($132,000), or (0.05%) annualized, and accordingly, recorded a provision for loan losses equal to the net charge off (recovery) for the same amount. Additionally, we have $4.1 million in nonperforming loans from this loan portfolio, down from $5.3 million at June 30, 2015.

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

These ongoing assessments of the acquired loan portfolio resulted in reduced loan interest accretion due to continued decline in loan balances of both the acquired credit impaired and the acquired non-credit impaired portfolio. The overall credit mark for these loans continued to decline, partially from charge offs and partially from net improvement in expected cash flow. Below is a summary of the third quarter of 2015 assessment of the impact acquired loan portfolio and the related impact on the indemnification asset:

· Removals from the loan pools due to repayments, charge offs, and transfers to OREO or other assets owned through foreclosures resulted in a decline in acquired loan interest income of $1.3 million from the second quarter of 2015, and a decline of $3.8 million compared to the third quarter of 2014, as the acquired loan balances decreased even though the yield improved; and

· The amortization of the indemnification asset also decreased by approximately $171,000 compared to the second quarter of 2015, and by $3.0 million compared to the third quarter of 2014. The year over year decline was primarily the result of the expiration of the commercial loss share agreement from the CBT FDIC transaction (which began in January of 2010) that occurred at March 31, 2015. We anticipate a continued decline in the amortization of the indemnification asset in subsequent periods, however, the decline is not expected to be as significant.

The table below provides an analysis of the total loan portfolio yield which includes both non-acquired and acquired loans (credit impaired and non-credit impaired loan portfolios). The acquired loan yield continues to increase due to the continued improvement in overall credit quality of this portfolio. In addition, certain acquired credit impaired loans are being renewed and the cash flow from these assets is being extended out and increasing the weighted average life of the loan pools within all acquired loan portfolios. The result is expected lower yields in the acquired loan portfolio in the fourth quarter of 2015 and in 2016.

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Average balances:				
Acquired loans, net of allowance for loan losses	$ 1,925,218	$ 2,416,974	$ 2,056,531	$ 2,569,087
Non-acquired loans	3,880,993	3,246,025	3,685,906	3,073,530
Total loans, excluding held for sale	$ 5,806,211	$ 5,662,999	$ 5,742,437	$ 5,642,617
Interest income:				
Noncash interest income on acquired loans	$ 1,550	$ 2,397	$ 4,708	$ 7,580
Acquired loan interest income	39,034	41,972	120,693	134,570
Total acquired loans	40,584	44,369	125,401	142,150
Non-acquired loans	38,713	33,956	111,114	96,707
Total loans, excluding held for sale	$ 79,297	$ 78,325	$ 236,515	$ 238,857
Non-taxable equivalent yield:				
Acquired loans	8.36 %	7.28 %	8.15 %	7.40 %
Non-acquired loans	3.96 %	4.15 %	4.03 %	4.21 %
Total loans, excluding held for sale	5.42 %	5.49 %	5.51 %	5.66 %

Compared to the balance at June 30, 2015, our non-acquired loan portfolio has increased $206.3 million, or 21.6% annualized, to $4.0 billion, driven by increases in most categories. Consumer real estate lending increased by $89.4 million, or 29.4% annualized; consumer non real estate lending by $13.7 million, or 25.9% annualized; commercial owner occupied loans by $36.7 million, or 14.9% annualized; commercial and industrial by $14.3 million, or 12.7% annualized; and commercial non-owner occupied increased $55.0 million, or 62.0% annualized. The acquired loan portfolio decreased by $119.8 million in the third quarter of 2015 due to continued payoffs, charge-offs, and transfers to OREO. Since September 30, 2014, the non-acquired loan portfolio has grown by $690.0 million, or 20.9%, driven by increases in every loan category. Consumer real estate loans have led the way and have increased by $317.6 million, or 32.4%, in the past year.

Non-taxable equivalent net interest income for the quarter increased $2.6 million, or 3.3%, compared to the third quarter of 2014. Non-taxable equivalent net interest margin was down to 4.47% from the third quarter of 2014 of 4.60% due to the increase in cash and federal funds sold from the BOA branch acquisition. The rate on interest bearing liabilities partially offset the decrease in yield on interesting earning assets. Compared to the second quarter of 2015, net interest margin (taxable equivalent) decreased by 23 basis points. The yield on interest earning assets decreased by 24 basis points due to the increase in federal funds sold and the decline in rate received from 46 basis points to 30 basis points, and from the decline in yield on loans from 5.53% at June 30, 2015 to 5.42% at September 30, 2015. The rate on interest bearing liabilities remained flat at 19 basis points compared to the second quarter of 2015. During the third quarter of 2015, $20.6 million of trust preferred debt repriced from a fixed rate of 5.92% to three month LIBOR plus 159 basis points. This change should reduce our interest expense in other borrowings by approximately $200,000 during the fourth quarter of 2015.

Our quarterly efficiency ratio increased to 64.4% compared to 63.2% in the second quarter of 2015 and decreased from 71.0% in the third quarter of 2014. The increase in the efficiency ratio compared to the second quarter

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of 2015 was the result of an increase in noninterest expense of $1.7 million while noninterest revenue remained flat. The increase in noninterest expense was driven by increases in operating expenses from the branches acquired from BOA in the third quarter and from an increase in nonrecurring charges related to the branch consolidations and acquisitions. The decrease in the efficiency ratio compared to the third quarter of 2014 was the result of a 21.8% increase in noninterest income and a 2.5% decrease in noninterest expense. Compared to the third quarter of 2014, noninterest expense was down by $1.9 million with a $3.8 million decrease in nonrecurring expenses. Excluding nonrecurring expenses, the efficiency ratio was 61.7% for the third quarter of 2015, compared to 61.2% for the second quarter of 2015 and 64.5% for the third quarter of 2014.

Diluted EPS and basic EPS increased to $1.04 and $1.05, respectively for the third quarter of 2015, from the third quarter 2014 amounts of $0.80 and $0.81, respectively. This was the result of a 30.1% increase in net income available to common shareholders.

Selected Figures and Ratios

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in thousands)	2015		2014		2015		2014	
Return on average assets (annualized)	1.20	%	0.96	%	1.22	%	0.91	%
Return on average common equity (annualized)	9.61	%	7.99	%	9.71	%	7.52	%
Return on average equity (annualized)	9.61	%	7.99	%	9.71	%	7.50	%
Return on average tangible common equity (annualized)*	15.72	%	13.97	%	15.97	%	13.41	%
Return on average tangible equity (annualized)*	15.72	%	13.97	%	15.97	%	13.19	%
Dividend payout ratio **	24.07	%	26.22	%	23.55	%	27.25	%
Equity to assets ratio	12.33	%	12.27	%	12.33	%	12.27	%
Average shareholders' common equity (in thousands)	$ 1,037,453		$ 959,536		$ 1,018,537		$ 944,912	
Average shareholders' equity (in thousands)	$ 1,037,453		$ 959,536		$ 1,018,537		$ 965,388	

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

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

· For the three months ended September 30, 2015, return on average tangible equity increased to 15.72% compared to the same period in 2014. The increase was driven by the 27.5% increase in net income available to common shareholders excluding amortization of intangibles. Similarly, return on average assets increased to 1.20%, compared to 0.96% for the three months ended September 30, 2014, due to the growth in net income.

- Dividend payout ratio decreased to 24.1% for the three months ended September 30, 2015, compared with 26.2% for the three months ended September 30, 2014. The decrease from the comparable period in 2014 primarily reflects the higher net income for the three months ended September 30, 2015, compared to the increase of $0.04 per share, or 19.0%, in the cash dividends declared per common share. The dividend payout ratio is calculated by dividing total dividends paid during the quarter by the total net income reported for the same period.
- Equity to assets ratio increased to 12.33% at September 30, 2015, compared with 12.27% at September 30, 2014. The increase in the equity to assets ratio reflects a 4.7% increase in total average assets compared to a 8.1% increase in average equity as a result of the Company’s retained earnings.

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Reconciliation of Non-GAAP to GAAP

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Return on average tangible equity (non-GAAP)	15.72 %	13.97 %	15.97 %	13.19 %
Effect to adjust for intangible assets	(6.11) %	(5.98) %	(6.26) %	(5.69) %
Return on average equity (GAAP)	9.61 %	7.99 %	9.71 %	7.50 %
Adjusted average shareholders’ equity (non-GAAP)	$ 668,768	$ 590,076	$ 652,362	$ 591,835
Average intangible assets	368,685	369,460	366,175	373,553
Average shareholders’ equity (GAAP)	$ 1,037,453	$ 959,536	$ 1,018,537	$ 965,388
Adjusted net income (non-GAAP)	$ 26,496	$ 20,780	$ 77,921	$ 58,396
Amortization of intangibles	(2,078)	(2,080)	(6,058)	(6,268)
Tax effect	722	627	2,075	2,061
Net income (GAAP)	$ 25,140	$ 19,327	$ 73,938	$ 54,189
Return on average common tangible equity (non-GAAP)	15.72 %	13.97 %	15.97 %	13.41 %
Effect to adjust for intangible assets	(6.11) %	(5.98) %	(6.26) %	(5.89) %
Return on average common equity (GAAP)	9.61 %	7.99 %	9.71 %	7.52 %
Adjusted average common shareholders’ equity (non-GAAP)	$ 668,768	$ 590,076	$ 652,362	$ 571,359
Average intangible assets	368,685	369,460	366,175	373,553
Average common shareholders’ equity (GAAP)	$ 1,037,453	$ 959,536	$ 1,018,537	$ 944,912
Adjusted net income available to common shareholders (non-GAAP)	$ 26,496	$ 20,780	$ 77,921	$ 57,323
Amortization of intangibles	(2,078)	(2,080)	(6,058)	(6,268)
Tax effect	722	627	2,075	2,061
Net income available to common shareholders (GAAP)	$ 25,140	$ 19,327	$ 73,938	$ 53,116

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

Net Interest Income and Margin

Summary

Our taxable equivalent ("TE") net interest margin decreased by 13 basis points from the third quarter of 2014, due to the following: (1) the yield on interest earning assets declined by 22 basis points due to the additional cash from the branches acquired from BOA, and (2) offset by an 11 basis point decline in the rate on interest bearing liabilities in all categories of funding. The net interest margin decreased by 23 basis points from the second quarter of 2015 to 4.52%.

Net interest income increased from the third quarter of 2014 by $2.6 million. This increase was driven by the $635.0 million increase in the average balance of the non-acquired loan portfolio, partially offset by a $491.8 million decrease in the average balance of the acquired loan portfolio. In addition, interest expense declined from the

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redemption of $46.3 million in trust preferred debt, and the continued low interest rate environment. Certificates of deposit average rate declined by six basis points from the third quarter of 2014 along with the average balance decreasing $194.9 million. Year-over-year interest expense declined $1.4 million, and the cost of funds decreased 11 basis points.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Non-TE net interest income	$ 83,015	$ 80,369	$ 246,341	$ 244,809
Non-TE yield on interest-earning assets	4.61 %	4.83 %	4.78 %	5.01 %
Non-TE rate on interest-bearing liabilities	0.19 %	0.30 %	0.20 %	0.30 %
Non-TE net interest margin	4.47 %	4.60 %	4.63 %	4.78 %
TE net interest margin	4.52 %	4.65 %	4.68 %	4.82 %

Non-TE net interest income increased $2.6 million, or 3.3%, in the third quarter of 2015 compared to the same period in 2014. Some key highlights are outlined below:

· Average interest-earning assets increased 6.3% to $7.4 billion in the third quarter of 2015 compared to the same period last year due to the increase in non-acquired loans and federal funds sold and reverse repurchase agreements.
· Non-TE yield on interest-earning assets for the third quarter of 2015 decreased 22 basis points from the comparable period in 2014. The decrease since the third quarter of 2014 was driven by a 19 basis point decrease in the yield on non-acquired loans, a nine basis point decrease in the yield on taxable investment securities portfolio, and a 13 basis point decline in the yield on federal funds sold and reverse repurchase agreements. These decreases were partially offset by a 108 basis point increase in the yield of acquired loans. The loan portfolio continues to remix with 68% of the portfolio being comprised of non-acquired loans and 32% being acquired loans. This compares to 58% and 42% one year ago.
· The average cost of interest-bearing liabilities for the third quarter of 2015 decreased 11 basis points from the same period in 2014. The decrease since the third quarter of 2014 was primarily the result of a decline in other borrowings from the redemption of trust preferred debt of $46.3 million in the first quarter of 2015. The average cost decreased from 5.88% in the third quarter of 2014 to 4.62% in the third quarter of 2015. The expected cost of funds on our remaining other borrowings (trust preferred debt), assuming the rate environment remains low, should be approximately 3.25% in the fourth quarter of 2015. This will result from $20.6 million in trust preferred debt converting from a fixed rate of 5.92% to a floating rate of three-month LIBOR plus 159 basis points on September 15, 2015.
· TE net interest margin decreased by 13 basis points in the third quarter of 2015 compared to the third quarter of 2014.

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Loans

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

(Dollars in thousands)	September 30, 2015	% of Total	December 31, 2014	% of Total	September 30, 2014	% of Total
Acquired loans:						
Acquired covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	$ 13,181	0.2 %	$ 20,275	0.4 %	$ 22,291	0.4 %
Commercial non-owner occupied	12,544	0.2 %	35,035	0.6 %	36,653	0.6 %
Total commercial non-owner occupied real estate	25,725	0.4 %	55,310	1.0 %	58,944	1.0 %
Consumer real estate:						
Consumer owner occupied	24,627	0.4 %	30,304	0.5 %	31,757	0.6 %
Home equity loans	31,058	0.5 %	35,509	0.6 %	35,471	0.6 %
Total consumer real estate	55,685	0.9 %	65,813	1.1 %	67,228	1.2 %
Commercial owner occupied real estate	18,895	0.3 %	45,986	0.8 %	54,776	1.0 %
Commercial and industrial	3,005	0.1 %	9,887	0.2 %	10,450	0.2 %
Other income producing property	10,189	0.2 %	20,820	0.4 %	22,445	0.4 %
Consumer non real estate	61	0.0 %	675	0.0 %	821	0.0 %
Total acquired covered loans	113,560	1.9 %	198,491	3.5 %	214,664	3.8 %
Acquired non-covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	54,138	0.9 %	65,959	1.2 %	76,167	1.3 %
Commercial non-owner occupied	165,647	2.8 %	181,652	3.2 %	192,322	3.4 %
Total commercial non-owner occupied real estate	219,785	3.7 %	247,611	4.4 %	268,489	4.7 %
Consumer real estate:						
Consumer owner occupied	712,959	12.1 %	842,995	14.7 %	879,302	15.5 %
Home equity loans	257,941	4.4 %	294,589	5.1 %	303,615	5.4 %
Total consumer real estate	970,900	16.5 %	1,137,584	19.8 %	1,182,917	20.9 %
Commercial owner occupied real estate	147,940	2.5 %	176,268	3.1 %	188,482	3.3 %
Commercial and industrial	52,352	0.9 %	67,028	1.2 %	62,003	1.1 %
Other income producing property	125,977	2.1 %	139,496	2.4 %	146,819	2.6 %
Consumer non real estate	250,006	4.3 %	288,288	5.0 %	302,493	5.3 %
Total acquired non-covered loans	1,766,960	30.0 %	2,056,275	35.9 %	2,151,203	37.9 %
Total acquired loans	1,880,520	31.9 %	2,254,766	39.4 %	2,365,867	41.7 %
Non-acquired loans:						

Commercial non-owner occupied real estate:						
Construction and land development	372,077	6.3 %	364,221	6.4 %	385,318	6.8 %
Commercial non-owner occupied	406,489	6.9 %	333,590	5.8 %	318,470	5.6 %
Total commercial non-owner occupied real estate	778,566	13.2 %	697,811	12.2 %	703,788	12.4 %
Consumer real estate:						
Consumer owner occupied	987,863	16.8 %	786,778	13.7 %	702,521	12.4 %
Home equity loans	308,563	5.3 %	283,934	5.0 %	276,341	4.9 %
Total consumer real estate	1,296,426	22.1 %	1,070,712	18.7 %	978,862	17.3 %
Commercial owner occupied real estate	1,012,428	17.2 %	907,913	15.9 %	881,403	15.5 %
Commercial and industrial	462,588	7.9 %	405,923	7.1 %	355,580	6.3 %
Other income producing property	169,997	2.9 %	150,928	2.6 %	154,822	2.7 %
Consumer non real estate	223,210	3.8 %	189,317	3.3 %	183,451	3.2 %
Other	51,501	1.0 %	45,222	0.8 %	46,802	0.9 %
Total non-acquired loans	3,994,716	68.1 %	3,467,826	60.6 %	3,304,708	58.3 %
Total loans (net of unearned income)	$ 5,875,236	100.0 %	$ 5,722,592	100.0 %	$ 5,670,575	100.0 %

Note: Loan data excludes loans held for sale.

Total loans, net of deferred loan costs and fees (excluding mortgage loans held for sale), increased by $204.7 million, or 3.6%, at September 30, 2015 as compared to the same period in 2014. Acquired covered loans decreased by $101.1 million and acquired non-covered loans decreased by $384.2 million due to principal payments, charge offs, and foreclosures. In addition to the reductions for principal payments, charge offs, and foreclosures, the acquired covered loans decreased by $49.3 million in the second quarter of 2015 due to the expiration of the CBT commercial loss share agreement with the FDIC on June 30, 2015. These loans were transferred from the covered loan portfolio to the non-covered loan portfolio. Non-acquired loans or legacy loans increased by $690.0 million, or 20.9%, from September 30,

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2014 to September 30, 2015. Non-acquired loans have grown to 68.1% of the total loan portfolio compared to 58.3% at September 30, 2014. The increase was driven by loan growth in all categories of non-acquired loans.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Average total loans	$ 5,806,211	$ 5,662,999	$ 5,742,437	$ 5,642,617
Interest income on total loans	79,297	78,325	236,515	238,857
Non-TE yield	5.42 %	5.49 %	5.51 %	5.66 %

Interest earned on loans increased in the third quarter of 2015 compared to the third quarter of 2014. Some key highlights for the quarter ended September 30, 2015 are outlined below:

· Our non-TE yield on total loans decreased seven basis points comparing the third quarter of 2015 to 2014 and average total loans increased 2.5%, as compared to the third quarter of 2014. The increase in average total loans was the result of the growth in non-acquired loans during 2015. These new loans, however, are at lower rates and the average yield was 3.96% in the third quarter of 2015 compared to 4.15% in the third quarter of 2014. The acquired loan portfolio effective yield increased to 8.36%, compared to 7.28% in the third quarter of 2014, as a result of improved credit of all acquired loan portfolios.

The balance of mortgage loans held for sale decreased $24.1 million from June 30, 2015 to $49.0 million at September 30, 2015, and $8.7 million compared to the balance of mortgage loans held for sale at September 30, 2014 of $57.7 million.

Investment Securities

We use investment securities, our second largest category of earning assets, to generate interest income through the deployment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At September 30, 2015, investment securities totaled $904.1 million, compared to $826.9 million at December 31, 2014 and $826.0 million at September 30, 2014. We continue to slowly increase our investment securities portfolio as we identify securities that meet our strategy and objectives. During the third quarter of 2015, our portfolio increased $77.2 million from the balance at December 31, 2014, primarily as a result of purchases of mortgage-backed securities and government-sponsored debt securities.

	Three Months Ended	Nine Months Ended

(Dollars in thousands)	September 30, 2015	2014	September 30, 2015	2014
Average investment securities	$ 862,866	$ 822,833	$ 835,372	$ 811,747
Interest income on investment securities	5,218	5,218	14,852	15,323
Non-TE yield	2.40 %	2.52 %	2.38 %	2.52 %

Interest earned on investment securities was flat in the third quarter of 2015 compared to the third quarter of 2014.

The following table provides a summary of the credit ratings for our investment portfolio (including held-to-maturity and available-for-sale securities) at the end of the third quarter of 2015:

(Dollars in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	AAA - A	BBB	BB or Lower	Not Rated
September 30, 2015							
Government-sponsored entities debt	$ 123,926	$ 123,794	$ (132)	$ 123,926	$ —	$ —	$ —
State and municipal obligations	139,867	144,096	4,229	139,234	—	—	633
Mortgage-backed securities *	616,341	625,073	8,732	—	—	—	616,341
Corporate stocks	3,161	2,593	(568)	—	—	—	3,161
	$ 883,295	$ 895,556	$ 12,261	$ 263,160	$ —	$ —	$ 620,135

* - Agency mortgage-backed securities ("MBS") are guaranteed by the issuing GSE as to the timely payments of principal and interest. Except for Government National Mortgage Association ("GNMA") securities, which have the full faith and credit backing of the United States Government, the GSE alone is responsible for making payments on this guaranty. While the rating agencies have not rated any of the MBS issued, senior debt securities issued by GSEs are

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rated consistently as “Triple-A.” Most market participants consider agency MBS as carrying an implied Aaa rating (S&P rating of AA+) because of the guarantees of timely payments and selection criteria of mortgages backing the securities. We do not own any private label mortgage-backed securities.

At September 30, 2015, we had 42 securities available for sale in an unrealized loss position, which totaled $1.9 million. At December 31, 2014, we had 66 securities available for sale in an unrealized loss position, which totaled $3.6 million. At September 30, 2014, we had 85 securities available for sale in an unrealized loss position, which totaled $5.9 million.

During the third quarter of 2015 as compared to the third quarter of 2014, the total number of available for sale securities with an unrealized loss position decreased by 43 securities, while the total dollar amount of the unrealized loss decreased by $4.0 million.

All securities available for sale in an unrealized loss position as of September 30, 2015 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary because we have the ability to hold these securities within the portfolio until the maturity or until the value recovers, and we believe that it is not likely that we will be required to sell these securities prior to recovery. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

As securities are purchased, they are designated as held to maturity or available for sale based upon our intent, which incorporates liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements. We do not currently hold, nor have we ever held, any securities that are designated as trading securities. Although securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While management generally holds these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

Other Investments

Other investment securities include primarily our investments in Federal Home Loan Bank of Atlanta (“FHLB”) stock with no readily determinable market value. The amortized cost and fair value of all these securities are equal at September 30, 2015. As of September 30, 2015, the investment in FHLB stock represented approximately $7.4 million, or 0.1% as a percentage of total assets.

Interest-Bearing Liabilities

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Average interest-bearing liabilities	$ 5,323,327	$ 5,257,128	$ 5,221,734	$ 5,332,415
Interest expense	2,547	3,979	7,984	11,833
Average rate	0.19 %	0.30 %	0.20 %	0.30 %

The average balance of interest-bearing liabilities increased in the third quarter of 2015 compared to the third quarter of 2014 due primarily to the increase in transaction and money market accounts, saving deposits and federal funds purchased and repurchase agreements. The increase in interest-bearing accounts and savings accounts was primarily from the branches acquired from BOA during the third quarter of 2015. The decrease in interest expense in the third quarter was driven by the redemption of $46.3 million in trust preferred debt in January of 2015, and the continued impact of the low interest rate environment on all deposit type accounts. Overall, this resulted in an 11 basis point decrease in the average rate on all interest-bearing liabilities from the three months ended September 30, 2014. Some key highlights are outlined below:

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- Average interest-bearing deposits for the three months ended September 30, 2015 increased 1.5% from the same period in 2014.
- Interest-bearing deposits increased 5.9% to $5.2 billion at September 30, 2015 from the period end balance at September 30, 2014 of $4.9 billion. This was mainly the result of a $427.8 million increase in interest-bearing transaction accounts, which was partially offset by a decline in certificates of deposit of $141.3 million. The Company continues to monitor and adjust rates paid on deposit products as part of its strategy to manage its net interest margin.
- The average rate on transaction and money market account deposits for the three months ended September 30, 2015 decreased three basis points from the comparable period in 2014.
- Average certificates of deposit and other time deposits decreased 14.5%, down $194.9 million from the average balance in the third quarter of 2014. Interest expense on certificates of deposit and other time deposits decreased $357,000 as a result of the decline in average balances and a six basis point decrease in the average rate to 35 basis points for the three months ended September 30, 2015 as compared to the same period in 2014.
- The average rate on other borrowings experienced a 126 basis point decline to 4.62% for the three months ended September 30, 2015 as compared to the same period in 2014. This was the result of redeeming $46.3 million in trust preferred debt at 7% in January of 2015.

Noninterest-Bearing Deposits

Noninterest-bearing deposits are transaction accounts that provide our Bank with “interest-free” sources of funds. Average noninterest-bearing deposits increased $251.2 million, or 15.2%, to $1.9 billion in the third quarter of 2015 compared to $1.7 billion at September 30, 2014. At September 30, 2015, noninterest-bearing deposits had a balance of $1.9 billion, exceeding the September 30, 2014 balance by $273.0 million.

Provision for Loan Losses and Nonperforming Assets

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. 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 a specific reserve is evaluated on impaired loans, 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 business combination, the Company segregated the FFHI acquired loan portfolio into performing loans ("non-credit impaired") and credit impaired loans. The acquired non-credit impaired loans and acquired revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. Acquired credit impaired loans are recorded net of any acquisition accounting discounts and have no allowance for loan losses associated with them at acquisition date. The related discount, if applicable, is accreted into

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interest income over the remaining contractual life of the loan using the level yield method. Subsequent deterioration in the credit quality of these loans is recognized by recording a provision for loan losses through the income statement, increasing the non-acquired and acquired non-credit impaired allowance for loan losses. The acquired credit impaired loans are accounted for in the manner described in the next paragraph.

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 recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past-due and nonaccrual levels and migration in the pools to lower loan grades. Offsetting the impact of the provision established for the loan, 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 (For further discussion of the Company’s allowance for loan losses on acquired loans, see Note 6—Loans and Allowance for Loan Losses).

During the third quarter of 2015, we decreased the valuation allowance on acquired credit impaired loans by $214,000, which resulted in a negative net provision for loan losses of $2,000 on acquired credit impaired loans (net of the impact of the FDIC loss sharing agreements).

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The following table presents a summary of the changes in the ALLL for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,							
	2015				2014			
(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 34,782	$ —	$ 4,688	$ 39,470	$ 35,422	$ —	$ 9,159	$ 44,581
Loans charged-off	(1,530)	(141)	—	(1,671)	(2,713)	(879)	—	(3,592)
Recoveries of loans previously charged off	655	273	—	928	575	441	—	1,016
Net charge-offs	(875)	132	—	(743)	(2,138)	(438)	—	(2,576)
Provision for loan losses	1,209	(132)	(2)	1,075	1,520	438	(658)	1,300
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	791	791
Total provision for loan losses charged to operations	1,209	(132)	(2)	1,075	1,520	438	133	2,091
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	(791)	(791)
Reductions due to loan removals	—	—	(212)	(212)	—	—	(469)	(469)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590	$ 34,804	$ —	$ 8,032	$ 42,836
Total non-acquired loans:								
At period end	3,994,716				3,304,708			
Average	3,880,993				3,246,025			
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.09 %				0.26 %			
Allowance for loan losses as a percentage of period end non-acquired loans	0.88 %				1.05 %			
Allowance for loan losses as a percentage of period	147.11 %				114.18 %			

end non-performing
non-acquired loans
(“NPLs”)

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	Nine Months Ended September 30, 2015				2014			
	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 34,539	$ —	$ 7,365	$ 41,904	$ 34,331	$ —	$ 11,618	$ 45,949
Loans charged-off	(4,206)	(2,510)	—	(6,716)	(5,972)	(879)	—	(6,851)
Recoveries of loans previously charged off	2,253	323	—	2,576	2,170	441	—	2,611
Net charge-offs	(1,953)	(2,187)	—	(4,140)	(3,802)	(438)	—	(4,240)
Provision for loan losses on non-acquired loans	2,530	2,187	300	5,017	4,275	438	(1,792)	2,921
Benefit attributable to FDIC loss share agreements	—	—	21	21	—	—	2,188	2,188
Total provision for loan losses charged to operations	2,530	2,187	321	5,038	4,275	438	396	5,109
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(21)	(21)	—	—	(2,188)	(2,188)
Reductions due to loan removals	—	—	(3,191)	(3,191)	—	—	(1,794)	(1,794)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590	$ 34,804	$ —	$ 8,032	$ 42,836
Total non-acquired loans:								
At period end	$ 3,994,716				$ 3,304,708			
Average	3,685,906				3,073,530			
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.07 %				0.17 %			
	0.88 %				1.05 %			

Allowance for loan losses as a percentage of period end non-acquired loans		
Allowance for loan losses as a percentage of period end non-performing non-acquired loans ("NPLs")	147.11 %	114.18 %

The allowance for loan losses as a percent of non-acquired loans reflects the continued decline due primarily to the continued decline in our three-year historical charge off rate. Additionally, our classified loans, nonaccrual loans, and non-performing loans declined during the third quarter of 2015 compared to the same quarter in 2014 and to the second quarter of 2015. Our overall net charge offs for the quarter on non-acquired loans was 9 basis points annualized, or $875,000, compared to 26 basis points, or $2.1 million, a year ago, and 12 basis points, or $1.1 million in the second quarter of 2015. Excluding acquired assets, nonperforming assets decreased by $10.0 million during the third quarter of 2015 compared to the third quarter of 2014 and decreased by $672,000 from the second quarter of 2015. The ratio of the ALLL to cover total nonperforming non-acquired loans increased from 114.2% at September 30, 2014 to 147.1% at September 30, 2015.

We increased the ALLL compared to the third quarter of 2014, as well as compared to the second quarter of 2015, due primarily to larger loans and increases in certain loan types during the third quarter. During the third quarter of 2015, we continued to experience a decline in combined past due and nonaccrual loans, classified assets, and reduced

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bankruptcies and foreclosures. From a general perspective, we consider three-year historical loss rates on all loan portfolios, except residential lot loans and lot loans held for sale where two-year historical loss rates are applied. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio. Overall, the general reserve increased by $233,000 compared to the balance at September 30, 2014 and increased by $190,000 from June 30, 2015.

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

On a specific reserve basis, the allowance for loan losses increased $144,000 from June 30, 2015, with loan balances being evaluated for specific reserves increasing from $31.1 million at June 30, 2015 to $34.5 million at September 30, 2015. Specific reserves also increased $78,000, to $1.5 million, from September 30, 2014 to September 30, 2015. Loan balances being evaluated for specific reserves increased from $28.1 million at September 30, 2014. Our practice, generally, is that once a specific reserve is established for a loan, a charge off occurs in the quarter subsequent to the establishment of the specific reserve.

During the three months ended September 30, 2015, the decline in our total nonperforming assets ("NPAs") was reflective of improvement in the real estate market and economy as a whole within the markets that we serve. We continue to work these loans out through collections and transfers to OREO. We also continue to see improvement with loans being returned to accrual status based upon performance.

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

(Dollars in thousands)	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Non-acquired:					
Nonaccrual loans	$ 18,099	$ 15,894	$ 17,491	$ 18,569	$ 20,419
Accruing loans past due 90 days or more	156	574	204	522	429
Restructured loans - nonaccrual	5,616	8,193	9,879	9,425	9,633
Total nonperforming loans	23,871	24,661	27,574	28,516	30,481
Other real estate owned (“OREO”) (2)	5,956	5,862	6,435	7,947	9,360
Other nonperforming assets (3)	24	—	65	—	—
Total non-acquired nonperforming assets	29,851	30,523	34,074	36,463	39,841
Acquired non-credit impaired:					
Nonaccrual loans	4,130	5,173	7,280	7,538	5,359
Accruing loans past due 90 days or more	—	101	100	108	501
Total acquired nonperforming loans (1)	4,130	5,274	7,380	7,646	5,860
Acquired OREO and other nonperforming assets:					
Covered OREO (2)	5,465	8,172	12,026	16,227	18,961
Acquired OREO not covered under loss share (2)	19,957	21,008	17,635	18,552	22,929
Other covered nonperforming assets (3)	557	540	608	694	640
Total acquired OREO and other nonperforming assets	25,979	29,720	30,269	35,473	42,530
Total nonperforming assets	$ 59,960	$ 65,517	$ 71,723	$ 79,582	$ 88,231
Excluding Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	0.75 %	0.80 %	0.95 %	1.05 %	1.20 %
Total NPAs as a percentage of total assets (5)	0.35 %	0.38 %	0.42 %	0.47 %	0.51 %
Total NPLs as a percentage of total loans (4)	0.60 %	0.65 %	0.77 %	0.82 %	0.92 %
Including Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	1.02 %	1.12 %	1.25 %	1.38 %	1.54 %
Total NPAs as a percentage of total assets	0.71 %	0.81 %	0.89 %	1.02 %	1.12 %
Total NPLs as a percentage of total loans (4)	0.48 %	0.52 %	0.61 %	0.63 %	0.64 %

(1) Excludes the acquired loans that are contractually past due 90 days or more totaling $21.7 million, $38.2 million, $44.8 million, $48.5 million, and $52.5 million as of September 30,2015, June 30, 2015, March 31, 2015, December 31, 2014, and September 30, 2014, respectively, including the valuation discount. Acquired credit

impaired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For further discussion of the Company's application of the accretion method, see Business Combinations and Method of Accounting for Loans Acquired" in our Annual Report on Form 10-K for the year ended December 31, 2014.

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use of $7.4 million, $8.6 million, $8.9 million, $10.0 million, and $11.6 million as of September 30, 2015, June 30, 2015, March 31, 2015, December 31, 2014, and September 30, 2014, respectively.

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

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

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

Excluding the acquired non-credit impaired loans, total nonperforming loans, including restructured loans, were $23.9 million, or 0.60% of non-acquired loans, a decrease of $6.6 million, or 21.7%, from September 30, 2014. The decrease in nonperforming loans was driven primarily by a decrease in commercial nonaccrual loans of $6.9 million and

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restructured nonaccrual loans of $4.0 million, partially offset by an increase in consumer nonaccrual loans of $4.5 million.

Nonperforming non-acquired loans, including restructured loans decreased by $790,000 during the third quarter of 2015 from the level at June 30, 2015. This decrease was primarily driven by a decrease in restructured nonaccrual loans of $2.6 million, partially offset by an increase in consumer loans of $2.0 million.

At September 30, 2015, non-acquired OREO increased by $94,000 from June 30, 2015. At September 30, 2015, non-acquired OREO consisted of 42 properties with an average value of $142,000, which is approximately the same as the level from June 30, 2015 when we had 41 properties in non-acquired OREO. In the third quarter of 2015, we added 12 properties with an aggregate value of $830,000 into non-acquired OREO, and we sold 11 properties with a basis of $556,000. OREO properties were written down by a total of $181,000 during the third quarter of 2015. Our non-acquired OREO balance of $6.0 million at September 30, 2015 is comprised of 42% in the Low Country/Orangeburg region, 42% in the Coastal region (Beaufort to Myrtle Beach), 8% in the Charlotte region and 8% in the Upstate region (Greenville).

Potential Problem Loans

Potential problem loans (excluding all acquired loans), totaled $8.1 million, or 0.20% of total non-acquired loans outstanding, at September 30, 2015, compared to $6.8 million, or 0.21% of total non-acquired loans outstanding, at September 30, 2014, and compared to $7.6 million, or 0.22% of total non-acquired loans outstanding, at December 31, 2014. Potential problem loans related to acquired non-credit impaired loans totaled $7.7 million, or 0.69% of total acquired non-credit impaired loans, at September 30, 2015, compared to $10.4 million, or 0.79% of total acquired non-credit impaired loans outstanding, at December 31, 2014, and compared to $4.0 million, or 0.29% of total acquired non-credit impaired loans outstanding, at September 30, 2014. All potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower’s ability to comply with present repayment terms.

Noninterest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Fees on deposit accounts	$ 19,212	$ 17,637	$ 53,403	$ 52,079
Trust and investment services income	5,489	4,490	15,474	13,845
Mortgage banking income	4,817	4,124	18,532	12,098
Securities gains (losses), net	—	(90)	—	(2)
Amortization of FDIC indemnification asset	(1,871)	(4,825)	(7,120)	(17,718)

Other	2,124	3,117	6,069	9,096
Total noninterest income	$ 29,771	$ 24,453	$ 86,358	$ 69,398

Noninterest income increased by $5.3 million, or 21.8%, during the third quarter of 2015 compared to the same period in 2014. The quarterly increase in total noninterest income primarily resulted from the following:

· Amortization of the FDIC indemnification asset improved (declined) by $3.0 million;
· Mortgage banking income increased $693,000, or 16.8%, driven primarily from a favorable rate environment and higher volume of loans and an increase in our mortgage servicing rights; and
· Trust and investment services income increased 22.3%, or $1.0 million driven primarily by additional trust asset management income; partially offset by
· A decline in loan recoveries of acquired credit impaired loans included in other income of $717,000.

Noninterest income increased by $17.0 million, or 24.4%, during the nine months ended September 30, 2015 as compared to the same period in 2014. The increase in total noninterest income resulted from the following:

· Mortgage banking income increased $6.4 million, or 53.2%, resulting from the favorable rate environment, an increase in the volume of loans, and an increase in our mortgage servicing asset ;
· Trust and investment services income increased 11.8%, or $1.6 million, driven primarily by additional trust asset management income; and

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- The amortization of the FDIC indemnification asset improved (declined) by $10.6 million; partially offset by
- A decline in loan recoveries of acquired credit impaired loans included in other income of $2.4 million.

Note that “Fees on deposit accounts” include service charges on deposit accounts and bankcard income.

Noninterest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Salaries and employee benefits	$ 40,013	$ 40,029	$ 120,754	$ 119,398
Net occupancy expense	5,395	5,387	15,678	16,758
Information services expense	4,736	3,417	13,076	12,154
Branch acquisition and consolidation expense	3,091	—	5,328	—
OREO expense and loan related	2,717	3,374	7,750	9,313
Furniture and equipment expense	2,554	3,166	8,461	10,171
Bankcard expense	2,448	2,141	6,713	6,520
Amortization of intangibles	2,078	2,080	6,058	6,268
Business development and staff related expense	1,797	1,482	5,927	5,122
Professional fees	1,383	1,068	4,377	3,501
Supplies, printing and postage expense	1,377	1,681	4,391	4,863
FDIC assessment and other regulatory charges	1,248	1,268	3,685	4,111
Advertising and marketing	1,054	837	2,918	2,679
Merger expense	—	6,846	—	19,341
Other	3,303	2,282	10,092	8,164
Total noninterest expense	$ 73,194	$ 75,058	$ 215,208	$ 228,363

Noninterest expense decreased $1.9 million in the third quarter of 2015 as compared to the same period in 2014. The quarterly decrease in total noninterest expense primarily resulted from the following:

- One-time branch consolidation/ acquisition expenses in 2015 compared to merger and branding expenses in 2014 declined $3.8 million;
- Furniture and equipment expense which decreased by $612,000, driven largely by less depreciation expense and equipment service contracts ;
- Lower OREO expense and loan related cost with fewer assets (53.3% fewer assets than last year) and less cost to carry by $657,000; partially offset by
- Increases in information services expense, bankcard expense, business development & staff related, professional fees and other expense.

Noninterest expense decreased by $13.2 million during the nine months ended September 30, 2015 as compared to the same period in 2014. The decrease in total noninterest expense resulted from the following:

- One-time expenses of branch consolidation expense in 2015 compared to merge and branding expense in 2014 decreased $14.0 million;
- Furniture and equipment expense decreased by $1.7 million driven largely by reduced depreciation expense and lower equipment service contract cost;
- Net occupancy expense decreased by $1.1 million due to a decline in depreciation expense, maintenance & repairs, property insurance, and janitorial and landscape expenses; and
- OREO and loan related expenses are down $1.6 million, due primarily to the overall reduction in OREO from prior year with less cost to carry and less write downs from appraised values; partially offset by
- Increases in compensation expense, business development and staff related, professional fees and other expense.

Income Tax Expense

Our effective income tax rate was 34.73% for the third quarter of 2015 and for the nine months ended September 30, 2015, was 34.25%. This compares to 30.16% for the third quarter of 2014 and 32.88% for the nine months ended September 30, 2014. The increase in the rate was from higher pretax income of $10.8 million, or 30.1%,

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for the quarter and $31.7 million, or 39.2%, on a year-to-date basis. In addition, in the third quarter of 2014, there were additional tax credits that were included in the December 31, 2013 income tax returns filed in September of 2014 that were not included in the 2013 income tax provision. This resulted in a much lower effective tax rate in 2014.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of September 30, 2015, shareholders' equity was $1.0 billion, an increase of $63.4 million, or 6.4%, from $984.9 million at December 31, 2014, and an increase of $81.3 million, or 8.4%, from $967.0 million at September 30, 2014. The driving factor for the increase from year-end was net income of $73.9 million, which was offset by the common dividend paid of $17.4 million. Accumulated other comprehensive loss changed to a comprehensive income, during the third quarter 2015, with the decreased unrealized loss in the AFS securities portfolio during the quarter of $3.7 million, net of tax. The increase from the comparable period of 2014 was primarily the result of net income of $95.2 million and partially offset by dividends paid to common shareholders. Our common equity-to-assets ratio was 12.33% at September 30, 2015, down from 12.58% at December 31, 2014 and relatively flat compared to 12.27% at the end of the comparable period of 2014.

We are subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, in July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision ("Basel III"), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

The new capital rules framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. As applied to the Company and the Bank, the new rules include a new minimum ratio of common equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5%. The new rules also raise our minimum required ratio of Tier 1 capital to risk-weighted assets from 4% to 6%. Our minimum required leverage ratio under the new rules is 4% (the new rules eliminated an exemption that permitted a minimum leverage ratio of 3% for certain institutions). Our minimum required total capital to risk-weighted assets ratio remains at 8% under the new rules.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of common equity Tier 1, and the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

In terms of quality of capital, the final rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. It also changes the methodology for calculating risk-weighted assets to enhance risk sensitivity.

Under the Basel III rules, accumulated other comprehensive income (“AOCI”) is presumptively included in common equity Tier 1 capital and can operate to reduce this category of capital. The final rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI, which election the Bank and the Company have made. As a result, the Company and the Bank will retain the pre-existing treatment for AOCI.

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The Bank is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

The Company's and the Bank's regulatory capital ratios for the following periods are reflected below:

	September 30, 2015		December 31, 2014		September 30, 2014	
South State Corporation:						
Common equity Tier 1 risk-based capital	11.82	%	n/a		n/a	
Tier 1 risk-based capital	12.68	%	13.62	%	13.29	%
Total risk-based capital	13.36	%	14.43	%	14.12	%
Tier 1 leverage	9.32	%	9.47	%	9.16	%
South State Bank:						
Common equity Tier 1 risk-based capital	12.29	%	n/a		n/a	
Tier 1 risk-based capital	12.29	%	13.37	%	13.11	%
Total risk-based capital	12.97	%	14.18	%	13.94	%
Tier 1 leverage	9.04	%	9.30	%	9.03	%

Due to the adoption of the new Basel III capital rules in the first quarter of 2015, the September 30, 2015 risk-based capital ratios are not comparable to the December 31, 2014 and September 30, 2014 risk-based capital ratios. The Tier 1 leverage ratio decreased compared to December 31, 2014 due to the increase in our asset size outpacing the increase in capital. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

Liquidity

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

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

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

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our Bank;
- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our Bank's asset/liability management and net interest margin requirements; and
- Continually working to identify and introduce new products that will attract customers or enhance our Bank's appeal as a primary provider of financial services.

Our legacy loan portfolio increased by approximately $690.0 million, or approximately 20.9%, compared to the balance at September 30, 2014, and by $526.9 million, or 15.2% annualized, compared to the balance at December 31, 2014. Our investment securities portfolio increased $78.1 million from third quarter 2014 and by $77.2 million compared to fourth quarter 2014. During the third quarter, the Company continued the process of increasing the

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investment portfolio as a percentage to total assets and expects this to continue throughout the remainder of 2015. Total cash and cash equivalents were $889.4 million at September 30, 2015 as compared to $417.9 million at December 31, 2014 and $503.0 million at September 30, 2014.

At September 30, 2015, December 31, 2014 and September 30, 2014, the Company had $19.1 million, $23.4 million and $24.7 million, respectively, in traditional, out-of-market brokered deposits and $69.1 million, $67.5 million, and $84.1 million, respectively, of reciprocal brokered deposits. Total deposits were $7.1 billion, up $559.8 million or 8.6% from September 30, 2014, resulting primarily from addition of $438.3 million of deposits in the branch acquisition in August of 2015. Other borrowings decreased $46.0 million from the balance at September 30, 2014, due to the redemption of $46.3 million of trust preferred securities in the first quarter of 2015. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to take in some shorter maturities of such funds. Our current approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position taking into account our current composition of earning assets, asset quality, capital position, and operating results. Our liquid earning assets include federal funds sold, balances at the Federal Reserve Bank, reverse repurchase agreements, and/or other short-term investments. Cyclical and other economic trends and conditions can disrupt our Bank's desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our Bank's federal funds sold position and any balances at the Federal Reserve Bank serve as the primary sources of immediate liquidity. At September 30, 2015, our Bank had total federal funds credit lines of $376.0 million with no outstanding advances. If additional liquidity were needed, the Bank would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. At September 30, 2015, our Bank had $154.2 million of credit available at the Federal Reserve Bank's Discount Window, but had no outstanding advances as of the end of the quarter. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At September 30, 2015, our Bank had a total FHLB credit facility of $995.7 million with total outstanding letters of credit consuming $19.7 million, $131,000 in outstanding advances and $172,000 in credit enhancements from participation in the FHLB's Mortgage Partnership Finance Program. The Company had a $20.0 million unsecured line of credit with U.S. Bank National Association with no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

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

Loss Share

The following table presents the expected losses on acquired assets covered under loss share agreements as of September 30, 2015:

(Dollars in thousands)	FDIC Threshold or ILE	Original Estimated Gross Losses	Original Estimated Covered Losses	Losses Incurred* By FFCH Through July 26, 2013	Losses Incurred** By South State Through September 30, 2015	Remaining Estimated Losses for Loans	OREO Mark*** September 30, 2015	Projected Total Losses
CBT	$ 233,000	$ 340,039	$ 334,082	$ —	$ 313,050	$ 1,063	$ 273	$ 314,386
Habersham	94,000	124,363	119,978	—	91,670	1,072	101	92,843
BankMeridian	70,827	70,190	67,780	—	31,655	1,164	965	33,784
Cape Fear****	110,000	12,921	8,213	76,122	3,745	284	—	80,151
Plantation****	70,178	24,273	16,176	35,190	12,591	2,106	267	50,154
Total	$ 578,005	$ 571,786	$ 546,229	$ 111,312	$ 452,711	$ 5,689	$ 1,606	$ 571,318

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

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

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

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

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

On March 31, 2016, the Commercial Shared-Loss Agreement with the FDIC for Habersham will expire and losses on assets covered under this agreement are no longer claimable after March 31, 2016. The Commercial Shared-Loss Agreements for Cape Fear and CBT expired June 30, 2014 and March 31, 2015, respectively, and losses on assets covered under these agreements are no longer claimable.

Deposit and Loan Concentrations

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. As of September 30, 2015, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

Concentration of Credit Risk

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk-based capital, or $195.9 million at September 30, 2015. Based on this criteria, the Company had four such credit concentrations for non-acquired loans and acquired non-credit impaired loans at September 30, 2015, including $289.6 million of loans to lessors of residential buildings, $468.1 million of loans to lessors of nonresidential buildings (except mini-warehouses), $231.7 million of loans to religious organizations, and $239.3 million of loans to offices of physicians, dentists and other health practitioners.

Cautionary Note Regarding Any Forward-Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "es "continue," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2014, and the following:

- Credit risk associated with an obligor's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed;
- Interest rate risk involving the effect of a change in interest rates on both the Bank's earnings and the market value of the portfolio equity;
- Liquidity risk affecting our Bank's ability to meet its obligations when they come due;

- Price risk focusing on changes in market factors that may affect the value of financial instruments which are "marked-to-market" periodically;
- Merger and merger integration risk including potential deposit attrition, higher than expected costs, customer loss and business disruption, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters, and the potential inability to identify and successfully negotiate and complete additional successful combinations with potential merger or acquisition partners;
- Transaction risk arising from problems with service or product delivery;
- Compliance risk involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- Controls and procedures risk, including the potential failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures;
- Regulatory change risk resulting from new laws, rules, regulations, proscribed practices or ethical standards, including the possibility that regulatory agencies may require higher levels of capital above the current regulatory-mandated minimums, including the impact of the new capital rules under Basel III and the possibility of changes in accounting principles relating to loan loss recognition;
- Strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- Reputation risk that adversely affects earnings or capital arising from negative public opinion;
- Terrorist activities risk that result in loss of consumer confidence and economic disruptions;
- Cybersecurity risk related to our dependence on internal computer systems and the technology of outside service providers, as well as the potential impacts of third-party security breaches, subjects us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;
- Noninterest income risk resulting from the effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions; and
- Economic downturn risk resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which risks could be exacerbated by potential negative economic developments resulting from the expiration of the federal tax reductions, and the implementation of federal spending cuts currently scheduled to go into effect.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by our forward-looking statements may also be included in other reports that the Company files with the Securities and Exchange Commission. The Company cautions that the foregoing list of risk factors is not exclusive and not to place undue reliance on forward-looking statements.

For any forward-looking statements made in this Form 10-Q or in any documents incorporated by reference into this Form 10-Q, we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements speak only as of the date of this Form 10-Q or the date of any document incorporated by reference in Form 10-Q. We do not undertake to update forward looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward looking statements by the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2015 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized

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and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the nine months ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As of September 30, 2015 and the date of this form 10-Q, we believe that we are not a party to, nor is any of our property the subject of, any pending material legal proceeding other than those that may occur in the ordinary course of our business.

Item 1A. RISK FACTORS

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Cautionary Note Regarding Any Forward-Looking Statements" set forth in Part I, Item 2 of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS (a)Not applicable

(b)Not applicable

(c)Issuer Purchases of Registered Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 147,872 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the third quarter of 2015:

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	343	*	$ 75.50	—	147,872
August 1 - August 31	—		—	—	147,872
September 1 - September 30	—		—	—	147,872
Total	343			—	147,872

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

On November 5, 2015, the Company entered into an amendment to its credit agreement with U.S. Bank, National Association (the “Lender”) to extend its $20.0 million unsecured line of credit through November 15, 2015. It is expected that the Company will enter into a renewed unsecured line of credit facility of $20.0 million with the Lender on November 16, 2015 which would mature on or about November 14, 2016.

The amendment to extend the credit facility through November 15, 2015, does not change the terms of the credit agreement, other than the maturity date. The interest rate per annum continues to be equal to 1.75% plus one-month LIBOR quoted by the Lender from Reuters Screen LIBOR01 Page or any successor thereto. The Company currently has no outstanding loans under the credit facility.

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Item 6. EXHIBITS

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

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

	SOUTH STATE CORPORATION (Registrant)
Date: November 6, 2015	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. Chief Executive Officer (Principal Executive Officer)
Date: November 6, 2015	/s/ John C. Pollok John C. Pollok Senior Executive Vice President, Chief Financial Officer, and Chief Operating Officer (Principal Financial Officer)
Date: November 6, 2015	/s/ Keith S. Rainwater Keith S. Rainwater Executive Vice President and Principal Accounting Officer

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Exhibit Index

Exhibit No.	Description
Exhibit 31.1	Rule 13a-14(a) Certification of Principal Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Principal Financial Officer
Exhibit 32	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer
Exhibit 101	The following financial statements from the Quarterly Report on Form 10-Q of South State Corporation for the quarter ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.