SOUTH STATE Corp
Form 10-Q
August 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

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

(800) 277-2175

(Registrant s telephone number, including area code)

FIRST FINANCIAL HOLDINGS, INC.

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

Class	**Outstanding as of July 31, 2014**
Common Stock, $2.50 par value	24,133,813

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South State Corporation and Subsidiary

June 30, 2014 Form 10-Q

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2014 (Unaudited)	December 31, 2013 (Note 1)	June 30, 2013 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 388,852**	$ 184,611	$ 157,362
Interest-bearing deposits with banks	**6,418**	32,632	4,478
Federal funds sold and securities purchased under agreements to resell	**194,253**	262,218	274,641
Total cash and cash equivalents	**589,523**	479,461	436,481
Investment securities:			
Securities held to maturity (fair value of $11,058, $12,891, and $13,047, respectively)	**10,389**	12,426	12,427
Securities available for sale, at fair value	**795,741**	786,791	511,347
Other investments	**10,518**	13,386	7,805
Total investment securities	**816,648**	812,603	531,579
Loans held for sale	**56,407**	30,586	47,980
Loans:			
Acquired credit impaired (covered of $243,942, $289,123, and $207,485, respectively; non-covered of $803,394, $931,516 and $613,105, respectively), net of allowance for loan losses	**1,047,336**	1,220,638	820,590
Acquired non-credit impaired (covered of $7,538, $7,824, and $0, respectively; non-covered of $1,440,045, $1,593,111 and $69,653, respectively)	**1,447,583**	1,600,935	69,653
Non-acquired	**3,174,625**	2,865,216	2,665,595
Less allowance for non-acquired loan losses	**(35,422)**	(34,331)	(38,625)
Loans, net	**5,634,122**	5,652,458	3,517,213
FDIC receivable for loss share agreements	**43,766**	86,447	104,048
Other real estate owned (covered of $21,998, $27,520, and $35,142, respectively; non-covered of $31,735, $37,398, and $33,486, respectively)	**53,733**	64,918	68,628
Premises and equipment, net	**184,113**	188,114	109,794
Bank owned life insurance	**97,933**	97,197	43,286
Deferred tax assets	**66,780**	72,914	36,144
Mortgage servicing rights	**21,015**	20,729	
Core deposit and other intangibles	**53,371**	59,908	23,159
Goodwill	**317,385**	317,385	103,292
Other assets	**58,890**	48,778	21,474
Total assets	**$ 7,993,686**	$ 7,931,498	$ 5,043,078
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Noninterest-bearing	**$ 1,623,291**	$ 1,487,798	$ 1,038,382

Interest-bearing	**4,952,847**	5,067,699	3,144,587
Total deposits	**6,576,138**	6,555,497	4,182,969
Federal funds purchased and securities sold under agreements to repurchase	**280,595**	211,401	262,447
Other borrowings	**101,045**	102,060	54,372
Other liabilities	**82,890**	81,071	26,698
Total liabilities	**7,040,668**	6,950,029	4,526,486
Shareholders equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; 0, 65,000, and 0 shares issued and outstanding, respectively		1	
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,130,006, 24,104,124, and 17,032,061 shares issued and outstanding, respectively	**60,325**	60,260	42,580
Surplus	**699,324**	762,354	330,563
Retained earnings	**192,961**	168,577	153,040
Accumulated other comprehensive income (loss)	**408**	(9,723)	(9,591)
Total shareholders equity	**953,018**	981,469	516,592
Total liabilities and shareholders equity	**$ 7,993,686**	$ 7,931,498	$ 5,043,078

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest income:				
Loans, including fees	**$ 79,322**	$ 53,816	**$ 161,163**	$ 106,199
Investment securities:				
Taxable	**3,997**	2,096	**7,878**	4,257
Tax-exempt	**1,071**	1,174	**2,227**	2,381
Federal funds sold and securities purchased under agreements to resell	**441**	444	**901**	862
Total interest income	**84,831**	57,530	**172,169**	113,699
Interest expense:				
Deposits	**2,261**	1,463	**4,654**	3,023
Federal funds purchased and securities sold under agreements to repurchase	**89**	115	**191**	251
Other borrowings	**1,508**	668	**3,009**	1,340
Total interest expense	**3,858**	2,246	**7,854**	4,614
Net interest income	**80,973**	55,284	**164,315**	109,085
Provision for loan losses	**2,169**	179	**3,018**	1,239
Net interest income after provision for loan losses	**78,804**	55,105	**161,297**	107,846
Noninterest income:				
Service charges on deposit accounts	**9,144**	5,736	**18,132**	11,497
Bankcard services income	**7,741**	4,245	**14,865**	8,138
Trust and investment services income	**4,812**	2,438	**9,355**	4,752
Mortgage banking income	**4,683**	1,922	**7,974**	5,277
Securities gains	**88**		**88**	
Accretion of FDIC indemnification assets, net	**(5,815)**	(7,310)	**(12,893)**	(14,481)
Other	**3,746**	1,454	**7,557**	2,825
Total noninterest income	**24,399**	8,485	**45,078**	18,008
Noninterest expense:				
Salaries and employee benefits	**40,276**	23,746	**79,369**	46,998
Merger and branding related expense	**6,510**	860	**12,495**	2,823
Net occupancy expense	**5,731**	3,272	**11,321**	6,617
Information services expense	**4,313**	2,992	**8,535**	6,184
Furniture and equipment expense	**3,264**	2,266	**7,018**	4,783
Bankcard expense	**2,187**	1,236	**4,486**	2,400
Amortization of intangibles	**2,084**	1,022	**4,188**	2,056
OREO expense and loan related	**1,875**	2,820	**6,144**	5,922
FDIC assessment and other regulatory charges	**1,267**	1,096	**2,843**	2,320
Professional fees	**1,190**	760	**2,460**	1,451
Advertising and marketing	**1,054**	648	**2,188**	1,490
Other	**6,138**	4,167	**12,265**	8,282
Total noninterest expense	**75,889**	44,885	**153,312**	91,326
Earnings:				
Income before provision for income taxes	**27,314**	18,705	**53,063**	34,528
Provision for income taxes	**9,368**	6,173	**18,200**	11,347
Net income	**$ 17,946**	$ 12,532	**$ 34,863**	$ 23,181
Preferred stock dividends			**1,073**	

Net income available to common shareholders	**$**	**17,946**	$	12,532	**$**	**33,790**	$	23,181
Earnings per common share:								
Basic	**$**	**0.75**	$	0.75	**$**	**1.41**	$	1.38
Diluted	**$**	**0.74**	$	0.74	**$**	**1.40**	$	1.36
Dividends per common share	**$**	**0.20**	$	0.18	**$**	**0.39**	$	0.36
Weighted-average common shares outstanding:								
Basic		**23,892**		16,790		**23,882**		16,804
Diluted		**24,141**		16,990		**24,126**		16,986

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	**$ 17,946**	$ 12,532	**$ 34,863**	$ 23,181
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	**7,005**	(13,360)	**16,163**	(16,563)
Tax effect	**(2,671)**	5,094	**(6,163)**	6,315
Reclassification adjustment for gains included in net income	**(88)**		**(88)**	
Tax effect	**34**		**34**	
Net of tax amount	**4,280**	(8,266)	**9,946**	(10,248)
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	**(107)**	276	**(178)**	301
Tax effect	**41**	(105)	**68**	(115)
Reclassification adjustment for losses included in interest expense	**73**	76	**149**	153
Tax effect	**(28)**	(29)	**(57)**	(58)
Net of tax amount	**(21)**	218	**(18)**	281
Changes in pension plan obligation:				
Reclassification adjustment for changes included in net income	**330**		**330**	
Tax effect	**(127)**		**(127)**	
Net of tax amount	**203**		**203**	
Other comprehensive income (loss), net of tax	**4,462**	(8,048)	**10,131**	(9,967)
Comprehensive income	**$ 22,408**	$ 4,484	**$ 44,994**	$ 13,214

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)

Six months ended June 30, 2014 and 2013

(Dollars in thousands, except per share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012		$	16,937,464	$ 42,344	$ 328,843	$ 135,986	$ 376	$ 507,549
Comprehensive income (loss):								
Net income						23,181		23,181
Other comprehensive loss, net of tax							(9,967)	(9,967)
Total comprehensive income								13,214
Cash dividends declared on common stock at $.36 per share						(6,127)		(6,127)
Employee stock purchases			4,932	12	183			195
Stock options exercised			20,746	51	534			585
Restricted stock awards			76,254	191	(191)			
Common stock repurchased			(7,335)	(18)	(347)			(365)
Share-based compensation expense					1,541			1,541
Balance, June 30, 2013		$	17,032,061	$ 42,580	$ 330,563	$ 153,040	$ (9,591)	$ 516,592
Balance, December 31, 2013	**65,000**	**$ 1**	**24,104,124**	**$ 60,260**	**$ 762,354**	**$ 168,577**	**$ (9,723)**	**$ 981,469**
Comprehensive income (loss):								
Net income						**34,863**		**34,863**
Other comprehensive income, net of tax							**10,131**	**10,131**
Total comprehensive income								**44,994**
Cash dividends on Series A preferred stock at annual dividend rate of 9%						**(1,073)**		**(1,073)**
Cash dividends declared on common stock at $.39 per share						**(9,406)**		**(9,406)**
Employee stock purchases			**3,251**	**8**	**185**			**193**
Stock options exercised			**4,660**	**12**	**117**			**129**
Restricted stock awards			**22,810**	**57**	**(57)**			
Repurchase of Series A preferred stock	**(65,000)**	**(1)**			**(64,999)**			**(65,000)**
Common stock repurchased			**(4,839)**	**(12)**	**(283)**			**(295)**
Share-based compensation expense					**2,007**			**2,007**
Balance, June 30, 2014		**$**	**24,130,006**	**$ 60,325**	**$ 699,324**	**$ 192,961**	**$ 408**	**$ 953,018**

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)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	**$ 34,863**	$ 23,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**10,540**	6,946
Provision for loan losses	**3,018**	1,239
Deferred income taxes	**(80)**	2,729
Gain on sale of securities available for sale	**(88)**	
Share-based compensation expense	**2,007**	1,541
Negative accretion on FDIC indemnification asset	**12,893**	14,481
Accretion of discount related to performing acquired loans	**(5,186)**	(1,143)
Loss on sale of premises and equipment	**287**	15
Gain on sale of OREO	**(5,368)**	(4,976)
Net amortization of premium on investment securities	**2,004**	2,283
OREO write downs	**5,724**	3,522
Originations and purchases of mortgage loans for sale	**(327,034)**	(432,732)
Proceeds from sales of mortgage loans for sale Proceeds from sales of mortgage loans for sale	**301,212**	450,031
Net change in:		
Accrued interest receivable	**(2,343)**	(1,612)
Prepaid assets	**2,886**	1,937
FDIC Loss Share Receivable	**29,609**	27,642
Accrued interest payable	**(1,106)**	(795)
Accrued income taxes	**11,711**	6,901
Miscellaneous assets and liabilities	**(11,640)**	(9,179)
Net cash provided by operating activities	**63,909**	92,011
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	**1,535**	3,014
Proceeds from maturities and calls of investment securities available for sale	**66,645**	89,297
Proceeds from sales of investment securities held to maturity	**411**	
Proceeds from sales of other investment securities	**2,868**	1,963
Purchases of investment securities available for sale	**(70,831)**	(84,585)
Purchases of other investments	**(6,186)**	
Net decrease (increase) in loans	**(18,716)**	29,510
Purchases of premises and equipment	**(10,161)**	(4,943)
Proceeds from sale of credit card loans	**20,350**	
Proceeds from sale of OREO	**36,289**	27,393
Proceeds from sale of premises and equipment	**1,437**	
Net cash provided by investing activities	**32,956**	61,649
Cash flows from financing activities:		
Net increase (decrease) in deposits	**20,639**	(115,391)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**69,194**	23,826
Repayment of other borrowings	**(1,184)**	(632)
Common stock issuance	**193**	195

Preferred stock repurchase		**(65,000)**		
Common stock repurchase		**(295)**		(365)
Dividends paid on preferred stock		**(1,073)**		
Dividends paid on common stock		**(9,406)**		(6,127)
Stock options exercised		**129**		585
Net cash provided by (used in) financing activities		**13,197**		(97,909)
Net increase in cash and cash equivalents		**110,062**		55,751
Cash and cash equivalents at beginning of period		**479,461**		380,730
Cash and cash equivalents at end of period	**$**	**589,523**	$	436,481
Supplemental Disclosures:				
Cash Flow Information:				
Cash paid for:				
Interest	**$**	**4,973**	$	5,268
Income taxes	**$**	**13,039**	$	5,036
Schedule of Noncash Investing Transactions:				
Real estate acquired in full or in partial settlement of loans (covered of $11,680 and $12,893, respectively; and non-covered of $13,781 and $15,170, respectively)	**$**	**25,461**	$	28,063

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

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

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

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

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

Note 2 Summary of Significant Accounting Policies

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

Subsequent Events

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

Note 3 Recent Accounting and Regulatory Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but does not expect it to have a material impact.

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Note 3 Recent Accounting and Regulatory Pronouncements (Continued)

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

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

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

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

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Note 4 Mergers and Acquisitions

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

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

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

First Financial Holdings, Inc. Merger

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

The FFHI transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition. The Company has gathered and completed the assessment of information for the final fair value adjustments related to the acquisition of FFHI. These currently include adjustments that would impact the fair value of other liabilities, the fair value of loans, and the fair value of deferred taxes. It is currently expected that these adjustments will not be material to the total fair value of assets acquired and liabilities assumed as of July 26, 2013.

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Note 4 Mergers and Acquisitions (Continued)

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

(Dollars in thousands)	As Recorded by FFHI	Initial Fair Value Adjustments	Subsequent Fair Value Adjustments	As Recorded by the Company
Assets				
Cash and cash equivalents	$ 174,082	$	$	$ 174,082
Investment securities	313,200	(1,388)(a)		311,812
Loans held for sale	19,858	6(b)		19,864
Loans	2,355,527	(92,720)(b)	12,957(b)	2,275,764
Premises and equipment	82,399	(5,435)(c)	(475)(c)	76,489
Intangible assets	7,037	33,738(d)	(2,542)(d)	38,233
Mortgage servicing rights	19,156			19,156
Other real estate owned	13,271	(2,065)(e)	1,972(e)	13,178
FDIC receivable for loss sharing agreement	47,459	(18,122)(f),(k)	(7,624)(f)	21,713
Bank owned life insurance	51,513		(493)(m)	51,020
Deferred tax asset	(5,279)	42,741(g)	(4,755)(g)	32,707
Other assets	47,257	(6,125)(h)	4,516(l)	45,648
Total assets	$ 3,125,480	$ (49,370)	$ 3,556	$ 3,079,666
Liabilities				
Deposits:				
Noninterest-bearing	$ 430,517	$	$	$ 430,517
Interest-bearing	2,083,495	7,801(i)		2,091,296
Total deposits	2,514,012	7,801		2,521,813
Other borrowings	280,187	21,526(j)		301,713
Other liabilities	25,584	(2,059)(k)	(245)(k)	23,280
Total liabilities	2,819,783	27,268	(245)	2,846,806
Net identifiable assets acquired over (under) liabilities assumed	305,697	(76,638)	3,801	232,860
Goodwill		217,894	(3,801)	214,093
Net assets acquired over liabilities assumed	$ 305,697	$ 141,256	$	$ 446,953
Consideration:				
Common shares issued	7,018,274			
Purchase price per share of the Company s common stock	$ 54.34			
Company common stock issued and cash exchanged for fractional shares	381,423			
Cash paid for stock options outstanding	530			
Assumption of preferred stock	65,000			
Fair value of total consideration transferred	$ 446,953			

Explanation of fair value adjustments

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

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

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

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

(e) Adjustment reflects the fair value adjustments to OREO based on the Company s evaluation of the acquired OREO portfolio.

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

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

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

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

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

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Note 4 Mergers and Acquisitions (Continued)

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

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

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

The operating results of the Company for the period ended June 30, 2014 include the operating results of the acquired assets and assumed liabilities since the acquisition date of July 26, 2013. Merger and branding related charges of $6.5 million and $12.5 million were recorded in the consolidated statements of income for the three and six months ended June 30, 2014, respectively; and include incremental costs related to the closing of certain branch locations, employment related cost, professional cost (legal, accounting and audit related), travel, printing and supplies, and other related costs.

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

Merger-related costs of $860,000 and $2.8 million from the acquisition of Savannah were included in the Company s consolidated statements of income for the three and six months ended June 30, 2013 and are not included in the pro forma information below. The Company expects to incur additional expenses related to systems conversions and other costs of integration during the remainder of 2014 related to the acquisition of FFHI. The Company also expects to achieve further operating cost savings and other business synergies as a result of the systems conversion and integration effort which are not reflected in the pro forma amounts below:

(Dollars in thousands)	**Three Months Ended June 30, 2014**	**Pro Forma Three Months Ended June 30, 2013**	**Six Months Ended June 30, 2014**	**Pro Forma Six Months Ended June 30, 2013**
Total revenues *(net interest income plus noninterest income)*	**$ 105,372**	$ 109,624	**$ 209,393**	$ 221,977
Net operating income available to common shareholders	**$ 22,223**	$ 20,878	**$ 41,999**	$ 39,071

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
June 30, 2014:								
State and municipal obligations	**$**	**10,389**	**$**	**669**	**$**		**$**	**11,058**
December 31, 2013:								
State and municipal obligations	$	12,426	$	480	$	(15)	$	12,891
June 30, 2013:								
State and municipal obligations	$	12,427	$	629	$	(9)	$	13,047

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Note 5 Investment Securities (Continued)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Government-sponsored entities debt *	**$ 142,310**	**$ 303**	**$ (3,086)**	**139,527**
State and municipal obligations	**140,075**	**3,366**	**(593)**	**142,848**
Mortgage-backed securities **	**503,212**	**7,910**	**(1,428)**	**509,694**
Corporate stocks	**3,161**	**590**	**(79)**	**3,672**
	$ 788,758	**$ 12,169**	**$ (5,186)**	**$ 795,741**
December 31, 2013:				
Government-sponsored entities debt *	$ 149,708	$ 185	$ (6,899)	$ 142,994
State and municipal obligations	142,934	1,798	(4,081)	140,651
Mortgage-backed securities **	500,000	4,394	(4,915)	499,479
Corporate stocks	3,161	638	(132)	3,667
	$ 795,803	$ 7,015	$ (16,027)	$ 786,791
June 30, 2013:				
Government-sponsored entities debt *	$ 100,231	$ 308	$ (4,180)	$ 96,359
State and municipal obligations	140,427	2,338	(3,252)	139,513
Mortgage-backed securities **	272,932	3,668	(1,582)	275,018
Corporate stocks	241	217	(1)	457
	$ 513,831	$ 6,531	$ (9,015)	$ 511,347

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

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

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

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

June 30, 2013:								
Federal Home Loan Bank stock	$	6,163	$		$		$	6,163
Investment in unconsolidated subsidiaries		1,642						1,642
	$	7,805	$		$		$	7,805

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

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Note 5 Investment Securities (Continued)

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

(Dollars in thousands)	Securities Held to Maturity Amortized Cost	Securities Held to Maturity Fair Value	Securities Available for Sale Amortized Cost	Securities Available for Sale Fair Value
Due in one year or less	$ 730	$ 742	$ 4,963	$ 5,032
Due after one year through five years	986	1,025	36,002	36,323
Due after five years through ten years	8,673	9,291	227,826	229,714
Due after ten years			519,967	524,672
	$ 10,389	$ 11,058	$ 788,758	$ 795,741

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

(Dollars in thousands)	Less Than Twelve Months Gross Unrealized Losses	Less Than Twelve Months Fair Value	Twelve Months or More Gross Unrealized Losses	Twelve Months or More Fair Value
June 30, 2014:				
Securities Available for Sale				
Government-sponsored entities debt	**$ 3**	**$ 8,491**	**$ 3,083**	**$ 82,145**
State and municipal obligations	**14**	**7,546**	**579**	**35,623**
Mortgage-backed securities	**234**	**82,939**	**1,194**	**63,403**
Corporate Stocks	**79**	**2,152**		
	$ 330	**$ 101,128**	**$ 4,856**	**$ 181,171**
December 31, 2013:				
Securities Held to Maturity				
State and municipal obligations	$ 15	$ 486	$	$
Securities Available for Sale				
Government-sponsored entities debt	$ 6,899	$ 112,085	$	$
State and municipal obligations	3,901	87,060	180	3,900
Mortgage-backed securities	4,874	263,383	41	2,125
Corporate stocks	132	2,099		
	$ 15,806	$ 464,627	$ 221	$ 6,025
June 30, 2013:				
Securities Held to Maturity				
State and municipal obligations	$ 9	$ 493	$	$
Securities Available for Sale				
Government-sponsored entities debt	$ 4,180	$ 83,549	$	$
State and municipal obligations	3,247	90,238	5	283
Mortgage-backed securities	1,582	105,472		

FHLMC preferred stock		1		10				
	$	9,010	$	279,269	$	5	$	283

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Note 5 Investment Securities (Continued)

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

Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 371,751**	$ 299,951	$ 285,370
Commercial non-owner occupied	**302,961**	291,171	298,768
Total commercial non-owner occupied real estate	**674,712**	591,122	584,138
Consumer real estate:			
Consumer owner occupied	**637,071**	548,170	460,434
Home equity loans	**271,028**	257,139	250,988
Total consumer real estate	**908,099**	805,309	711,422
Commercial owner occupied real estate	**849,048**	833,513	802,125
Commercial and industrial	**353,211**	321,824	294,580
Other income producing property	**151,928**	143,204	136,957
Consumer	**170,982**	136,410	104,239
Other loans	**66,645**	33,834	32,134
Total non-acquired loans	**3,174,625**	2,865,216	2,665,595
Less allowance for loan losses	**(35,422)**	(34,331)	(38,625)
Non-acquired loans, net	**$ 3,139,203**	$ 2,830,885	$ 2,626,970

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 35,880**	$ 58,396	$ 404
Commercial non-owner occupied	**50,593**	58,598	3,055
Total commercial non-owner occupied real estate	**86,473**	116,994	3,459
Consumer real estate:			
Consumer owner occupied	**698,580**	745,481	21
Home equity loans	**248,868**	264,150	32,569
Total consumer real estate	**947,448**	1,009,631	32,590
Commercial owner occupied real estate	**68,831**	73,714	12,719
Commercial and industrial	**41,977**	58,773	17,038
Other income producing property	**71,684**	74,566	3,842
Consumer	**231,170**	267,257	5
Total FASB ASC Topic 310-20 acquired loans	**$ 1,447,583**	$ 1,600,935	$ 69,653

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

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	**$ 19,557**	$ 24,109	$ 32,308
Commercial real estate	**375,610**	439,785	323,843
Commercial real estate construction and development	**85,660**	114,126	97,813
Residential real estate	**428,811**	481,247	313,196
Consumer	**95,089**	103,998	11,417
Commercial and industrial	**51,677**	68,862	56,279
Single pay	**91**	129	195
Total FASB ASC Topic 310-30 acquired loans	**1,056,495**	1,232,256	835,051
Less allowance for loan losses	**(9,159)**	(11,618)	(14,461)
FASB ASC Topic 310-30 acquired loans, net	**$ 1,047,336**	$ 1,220,638	$ 820,590

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Note 6 Loans and Allowance for Loan Losses (Continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired credit impaired loans at the acquisition date for FFHI (July 26, 2013) are as follows:

	July 26, 2013		
(Dollars in thousands)	**Loans Impaired at Acquisition**	**Loans Not Impaired at Acquisition**	**Total**
Contractual principal and interest	$ 650,331	$ 222,820	$ 873,151
Non-accretable difference	(125,701)	(20,161)	(145,862)
Cash flows expected to be collected	524,630	202,659	727,289
Accretable yield	(102,260)	(28,520)	(130,780)
Carrying value	$ 422,370	$ 174,139	$ 596,509

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

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

(Dollars in thousands)	**June 30, 2014**	**December 31, 2013**	**June 30, 2013**
Contractual principal and interest	**$ 1,463,643**	$ 1,700,129	$ 1,116,416
Non-accretable difference	**(189,514)**	(217,533)	(118,490)
Cash flows expected to be collected	**1,274,129**	1,482,596	997,926
Accretable yield	**(217,634)**	(250,340)	(162,875)
Carrying value	**$ 1,056,495**	$ 1,232,256	$ 835,051
Allowance for acquired loan losses	**$ (9,159)**	$ (11,618)	$ (14,461)

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:

	Six Months Ended June 30,	
(Dollars in thousands)	**2014**	**2013**

Balance at beginning of period	**$**	**1,220,638**	$	969,395
Net reductions for payments, foreclosures, and accretion		**(175,761)**		(151,562)
Change in the allowance for loan losses on acquired loans		**2,459**		2,757
Balance at end of period, net of allowance for loan losses on acquired loans	**$**	**1,047,336**	$	820,590

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following are changes in the amount of accretable difference for acquired credit impaired loans for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30,	
(Dollars in thousands)	**2014**	**2013**
Balance at beginning of period	**$ 250,340**	$ 160,849
Accretion	**(54,950)**	(44,145)
Reclass of nonaccretable difference due to improvement in expected cash flows	**24,675**	51,060
Other changes, net	**(2,431)**	(4,889)
Balance at end of period	**$ 217,634**	$ 162,875

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

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

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

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

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

(Dollars in thousands)	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Three months ended June 30, 2014:			
Balance at beginning of period	**$ 34,669**	**$ 11,046**	**$ 45,715**
Loans charged-off	**(1,889)**		**(1,889)**
Recoveries of loans previously charged off	**557**		**557**
Net charge-offs	**(1,332)**		**(1,332)**
Provision for loan losses	**2,085**	**(1,438)**	**647**
Benefit attributable to FDIC loss share agreements		**1,522**	**1,522**
Total provision for loan losses charged to operations	**2,085**	**84**	**2,169**
Provision for loan losses recorded through the FDIC loss share receivable		**(1,522)**	**(1,522)**
Reduction due to loan removals		**(449)**	**(449)**
Balance at end of period	**$ 35,422**	**$ 9,159**	**$ 44,581**
Three months ended June 30, 2013:			
Balance at beginning of period	$ 41,669	$ 15,605	$ 57,274
Loans charged-off	(3,220)		(3,220)
Recoveries of loans previously charged off	576		576
Net charge-offs	(2,644)		(2,644)
Provision for loan losses	(400)	320	(80)
Benefit attributable to FDIC loss share agreements		259	259
Total provision for loan losses charged to operations	(400)	579	179
Provision for loan losses recorded through the FDIC loss share receivable		(259)	(259)
Reduction due to loan removals		(1,464)	(1,464)
Balance at end of period	$ 38,625	$ 14,461	$ 53,086

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Note 6 Loans and Allowance for Loan Losses (Continued)

(Dollars in thousands)	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Six months ended June 30, 2014:			
Balance at beginning of period	**$ 34,331**	**$ 11,618**	**$ 45,949**
Loans charged-off	**(3,259)**		**(3,259)**
Recoveries of loans previously charged off	**1,595**		**1,595**
Net charge-offs	**(1,664)**		**(1,664)**
Provision for loan losses	**2,755**	**(1,134)**	**1,621**
Benefit attributable to FDIC loss share agreements		**1,397**	**1,397**
Total provision for loan losses charged to operations	**2,755**	**263**	**3,018**
Provision for loan losses recorded through the FDIC loss share receivable		**(1,397)**	**(1,397)**
Reduction due to loan removals		**(1,325)**	**(1,325)**
Balance at end of period	**$ 35,422**	**$ 9,159**	**$ 44,581**
Six months ended June 30, 2013:			
Balance at beginning of period	$ 44,378	$ 17,218	$ 61,596
Loans charged-off	(7,827)		(7,827)
Recoveries of loans previously charged off	1,621		1,621
Net charge-offs	(6,206)		(6,206)
Provision for loan losses	453	(536)	(83)
Benefit attributable to FDIC loss share agreements		1,322	1,322
Total provision for loan losses charged to operations	453	786	1,239
Provision for loan losses recorded through the FDIC loss share receivable		(1,322)	(1,322)
Reduction due to loan removals		(2,221)	(2,221)
Balance at end of period	$ 38,625	$ 14,461	$ 53,086

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Three months ended June 30, 2014										
Allowance for loan losses:										
Balance, March 31, 2014	**$ 6,322**	**$ 3,443**	**$ 8,317**	**$ 6,122**	**$ 2,921**	**$ 3,441**	**$ 2,848**	**$ 1,105**	**$ 150**	**$ 34,669**
Charge-offs	**(216)**	**(92)**	**(312)**	**(221)**	**(273)**	**(96)**	**(82)**	**(597)**		**(1,889)**
Recoveries	**97**	**16**	**11**	**39**	**27**	**38**	**153**	**176**		**557**
Provision	**449**	**31**	**(58)**	**597**	**300**	**257**	**(331)**	**586**	**254**	**2,085**
Balance, June 30, 2014	**$ 6,652**	**$ 3,398**	**$ 7,958**	**$ 6,537**	**$ 2,975**	**$ 3,640**	**$ 2,588**	**$ 1,270**	**$ 404**	**$ 35,422**
Loans individually evaluated for impairment	**$ 428**	**$ 31**	**$ 112**	**$ 86**	**$**	**$ 11**	**$ 761**	**$ 2**	**$**	**$ 1,431**
Loans collectively evaluated for impairment	**$ 6,224**	**$ 3,367**	**$ 7,846**	**$ 6,451**	**$ 2,975**	**$ 3,629**	**$ 1,827**	**$ 1,268**	**$ 404**	**$ 33,991**
Loans:										
Loans individually evaluated for impairment	**$ 5,678**	**$ 6,189**	**$ 11,110**	**$ 2,505**	**$**	**$ 749**	**$ 6,400**	**$ 87**	**$**	**$ 32,718**
Loans collectively evaluated for impairment	**366,073**	**296,772**	**837,938**	**634,566**	**271,028**	**352,462**	**145,528**	**170,895**	**66,645**	**3,141,907**
Total non-acquired loans	**$ 371,751**	**$ 302,961**	**$ 849,048**	**$ 637,071**	**$ 271,028**	**$ 353,211**	**$ 151,928**	**$ 170,982**	**$ 66,645**	**$ 3,174,625**
Three months ended June 30, 2013										
Allowance for loan losses:										
Balance, March 31, 2013	$ 9,236	$ 5,271	$ 8,208	$ 6,523	$ 3,536	$ 4,785	$ 3,459	$ 434	$ 217	$ 41,669
Charge-offs	(1,013)		(708)	(238)	(465)	(303)	(134)	(357)		(3,218)
Recoveries	135	73	5	41	27	37	102	154		574
Provision	73	(478)	479	112	(124)	(480)	(167)	195	(10)	(400)
Balance, June 30, 2013	$ 8,431	$ 4,866	$ 7,984	$ 6,438	$ 2,974	$ 4,039	$ 3,260	$ 426	$ 207	$ 38,625
Loans individually evaluated for impairment	$ 735	$ 636	$ 281	$ 667	$	$	$ 716	$	$	$ 3,035
Loans collectively evaluated for impairment	$ 7,696	$ 4,230	$ 7,703	$ 5,771	$ 2,974	$ 4,039	$ 2,544	$ 426	$ 207	$ 35,590
Loans:										
Loans individually evaluated for impairment	$ 9,746	$ 3,694	$ 17,120	$ 1,322	$	$ 1,534	$ 3,025	$	$	$ 36,441

Loans collectively evaluated for impairment	275,624	295,074	785,005	459,112	250,988	293,046	133,932	104,239	32,134	2,629,154
Total non-acquired loans	$ 285,370	$ 298,768	$ 802,125	$ 460,434	$ 250,988	$ 294,580	$ 136,957	$ 104,239	$ 32,134	$ 2,665,595

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

(Dollars in thousands)	**Construction & Land Development**	**Commercial Non-owner Occupied**	**Commercial Owner Occupied**	**Consumer Owner Occupied**	**Home Equity**	**Commercial & Industrial**	**Other Income Producing Property**	**Consumer**	**Other Loans**	**Total**
Six months ended June 30, 2014										
Allowance for loan losses:										
Balance, December 31, 2013	**$ 6,789**	**$ 3,677**	**$ 7,767**	**$ 6,069**	**$ 2,782**	**$ 3,592**	**$ 2,509**	**$ 937**	**$ 209**	**$ 34,331**
Charge-offs	**(308)**	**(236)**	**(528)**	**(299)**	**(416)**	**(156)**	**(168)**	**(1,148)**		**(3,259)**
Recoveries	**242**	**347**	**17**	**242**	**40**	**128**	**159**	**420**		**1,595**
Provision	**(71)**	**(390)**	**702**	**525**	**569**	**76**	**88**	**1,061**	**195**	**2,755**
Balance, June 30, 2014	**$ 6,652**	**$ 3,398**	**$ 7,958**	**$ 6,537**	**$ 2,975**	**$ 3,640**	**$ 2,588**	**$ 1,270**	**$ 404**	**$ 35,422**
Six months ended June 30, 2013										
Allowance for loan losses:										
Balance, December 31, 2012	$ 10,836	$ 4,921	$ 8,743	$ 6,568	$ 3,626	$ 4,939	$ 3,747	$ 781	$ 217	$ 44,378
Charge-offs	(3,212)		(1,403)	(388)	(662)	(627)	(473)	(1,062)		(7,827)
Recoveries	393	327	15	130	99	136	111	410		1,621
Provision	414	(382)	629	128	(89)	(409)	(125)	297	(10)	453
Balance, June 30, 2013	$ 8,431	$ 4,866	$ 7,984	$ 6,438	$ 2,974	$ 4,039	$ 3,260	$ 426	$ 207	$ 38,625

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Note 6 Loans and Allowance for Loan Losses (Continued)

As of June 30, 2014 and 2013, the Company has not recorded any allowance for loan losses for loans acquired and accounted for under FASB ASC Topic 310-20.

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 $1 Million-CBT**	**Commercial Real Estate**	**Commercial Real Estate-Construction and Development**	**Residential Real Estate**	**Consumer**	**Commercial and Industrial**	**Single Pay**	**Total**
Three months ended June 30, 2014								
Allowance for loan losses:								
Balance, March 31, 2014	**$ 311**	**$ 1,938**	**$ 1,972**	**$ 5,190**	**$ 410**	**$ 1,119**	**$ 106**	**$ 11,046**
Provision for loan losses before benefit attributable to FDIC loss share agreements	**(120)**	**(322)**	**(902)**	**(68)**	**7**	**(33)**		**(1,438)**
Benefit attributable to FDIC loss share agreements	**171**	**336**	**896**	**84**		**34**	**1**	**1,522**
Total provision for loan losses charged to operations	**51**	**14**	**(6)**	**16**	**7**	**1**	**1**	**84**
Provision for loan losses recorded through the FDIC loss share receivable	**(171)**	**(336)**	**(896)**	**(84)**		**(34)**	**(1)**	**(1,522)**
Reduction due to loan removals	**10**		**(255)**	**(4)**	**(32)**	**(136)**	**(32)**	**(449)**
Balance, June 30, 2014	**$ 201**	**$ 1,616**	**$ 815**	**$ 5,118**	**$ 385**	**$ 950**	**$ 74**	**$ 9,159**
Loans individually evaluated for impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Loans collectively evaluated for impairment	**$ 201**	**$ 1,616**	**$ 815**	**$ 5,118**	**$ 385**	**$ 950**	**$ 74**	**$ 9,159**
Loans:*								
Loans individually evaluated for impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Loans collectively evaluated for impairment	**19,557**	**375,610**	**85,660**	**428,811**	**95,089**	**51,677**	**91**	**1,056,495**
Total acquired loans	**$ 19,557**	**$ 375,610**	**$ 85,660**	**$ 428,811**	**$ 95,089**	**$ 51,677**	**$ 91**	**$ 1,056,495**
Three months ended June 30, 2013:								
Allowance for loan losses:								
Balance, March 31, 2013	$ 4,666	$ 842	$ 2,484	$ 4,156	$ 89	$ 3,086	$ 282	$ 15,605
Provision for loan losses before benefit attributable to FDIC loss share	(1,527)	(21)	1,908	588	385	(830)	(183)	320

agreements								
Benefit attributable to FDIC loss share agreements	1,451	(22)	(1,412)	(394)	(326)	788	174	259
Total provision for loan losses charged to operations	(76)	(43)	496	194	59	(42)	(9)	579
Provision for loan losses recorded through the FDIC loss share receivable	(1,451)	22	1,412	394	326	(788)	(174)	(259)
Reduction due to loan removals	(1,284)			(16)		(156)	(8)	(1,464)
Balance, June 30, 2013	$ 1,855	$ 821	$ 4,392	$ 4,728	$ 474	$ 2,100	$ 91	$ 14,461
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$ 1,855	$ 821	$ 4,392	$ 4,728	$ 474	$ 2,100	$ 91	$ 14,461
Loans:*								
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	32,308	323,843	97,813	313,196	11,417	56,279	195	835,051
Total acquired loans	$ 32,308	$ 323,843	$ 97,813	$ 313,196	$ 11,417	$ 56,279	$ 195	$ 835,051

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

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Six months ended June 30, 2014								
Allowance for loan losses:								
Balance, December 31, 2013	**$ 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	**(123)**	**(196)**	**(613)**	**73**	**(105)**	**(175)**	**5**	**(1,134)**
Benefit attributable to FDIC loss share agreements	**176**	**220**	**784**	**(54)**	**101**	**174**	**(4)**	**1,397**
Total provision for loan losses charged to operations	**53**	**24**	**171**	**19**	**(4)**	**(1)**	**1**	**263**
Provision for loan losses recorded through the FDIC loss share receivable	**(176)**	**(220)**	**(784)**	**54**	**(101)**	**(174)**	**4**	**(1,397)**
Reduction due to loan removals	**21**	**(4)**	**(816)**	**(87)**	**(48)**	**(356)**	**(35)**	**(1,325)**
Balance, June 30, 2014	**$ 201**	**$ 1,616**	**$ 815**	**$ 5,118**	**$ 385**	**$ 950**	**$ 74**	**$ 9,159**
Six months ended June 30, 2013:								
Allowance for loan losses:								
Balance, December 31, 2012	$ 5,337	$ 1,517	$ 1,628	$ 4,207	$ 96	$ 4,139	$ 294	$ 17,218
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,980)	(696)	2,764	533	378	(1,352)	(183)	(536)
Benefit attributable to FDIC loss share agreements	1,881	504	(2,098)	(104)	(319)	1,284	174	1,322
Total provision for loan losses charged to operations	(99)	(192)	666	429	59	(68)	(9)	786
Provision for loan losses recorded through the FDIC loss share receivable	(1,881)	(504)	2,098	104	319	(1,284)	(174)	(1,322)
Reduction due to loan removals	(1,502)			(12)		(687)	(20)	(2,221)
Balance, June 30, 2013	$ 1,855	$ 821	$ 4,392	$ 4,728	$ 474	$ 2,100	$ 91	$ 14,461

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

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

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

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

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

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

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 338,367**	$ 263,698	$ 236,677	**$ 271,346**	$ 259,120	$ 252,917	**$ 809,469**	$ 785,406	$ 749,992
Special mention	**20,797**	20,814	26,844	**22,704**	24,779	35,359	**23,049**	26,148	21,963
Substandard	**12,587**	15,439	21,849	**8,911**	7,272	10,492	**16,530**	21,959	30,170
Doubtful									
	$ 371,751	$ 299,951	$ 285,370	**$ 302,961**	$ 291,171	$ 298,768	**$ 849,048**	$ 833,513	$ 802,125

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 346,958**	$ 309,360	$ 278,364	**$ 135,345**	$ 124,519	$ 118,081	**$ 1,901,485**	$ 1,742,103	$ 1,461,789
Special mention	**4,775**	10,376	7,061	**8,763**	9,903	9,402	**80,088**	92,020	118,806
Substandard	**1,478**	2,088	9,155	**7,820**	8,753	9,474	**47,326**	55,511	106,612
Doubtful					29			29	
	$ 353,211	$ 321,824	$ 294,580	**$ 151,928**	$ 143,204	$ 136,957	**$ 2,028,899**	$ 1,889,663	$ 1,687,207

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

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 595,420**	$ 500,999	$ 418,601	**$ 257,102**	$ 243,615	$ 238,037	**$ 170,077**	$ 135,476	$ 103,014
Special mention	**24,567**	25,317	20,698	**8,618**	8,437	7,875	**634**	646	931
Substandard	**17,084**	21,854	21,135	**5,285**	5,064	5,051	**271**	288	294
Doubtful				**23**	23	25			
	$ 637,071	$ 548,170	$ 460,434	**$ 271,028**	$ 257,139	$ 250,988	**$ 170,982**	$ 136,410	$ 104,239

[redacted]

	2014	2013	2013	2014	2013	2013
Pass	**$ 66,644**	$ 33,834	$ 32,134	**$ 1,089,243**	$ 913,924	$ 791,786
Special mention	**1**			**33,820**	34,400	29,504
Substandard				**22,640**	27,206	26,480
Doubtful				**23**	23	25
	$ 66,645	$ 33,834	$ 32,134	**$ 1,145,726**	$ 975,553	$ 847,795

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

	Total Non-acquired Loans		
(Dollars in thousands)	**June 30, 2014**	**December 31, 2013**	**June 30, 2013**
Pass	**$ 2,990,728**	$ 2,656,027	$ 2,427,817
Special mention	**113,908**	126,420	130,133
Substandard	**69,966**	82,717	107,620
Doubtful	**23**	52	25
	$ 3,174,625	$ 2,865,216	$ 2,665,595

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 34,870**	$ 57,389	$ 358	**$ 44,020**	$ 56,539	$ 1,727	**$ 67,527**	$ 71,984	$ 12,320
Special mention	**348**	109		**5,822**	1,565	1,328	**310**	318	
Substandard	**662**	898	46	**751**	494		**994**	1,412	399
Doubtful									
	$ 35,880	$ 58,396	$ 404	**$ 50,593**	$ 58,598	$ 3,055	**$ 68,831**	$ 73,714	$ 12,719

	Commercial & Industrial			Other Income Producing Property		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 40,255**	$ 56,777	$ 15,007	**$ 66,678**	$ 70,812	$ 1,306
Special mention	**748**	924	1,808	**2,004**	2,177	234
Substandard	**974**	1,072	223	**3,002**	1,577	2,302
Doubtful						
	$ 41,977	$ 58,773	$ 17,038	**$ 71,684**	$ 74,566	$ 3,842

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

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 680,759**	$ 742,778	$	**$ 231,265**	$ 246,274	$ 28,797	**$ 202,026**	$ 266,645	$ 4
Special mention	**354**	417	21	**2,090**	6,733	899	**2,193**	127	
Substandard	**17,467**	2,286		**15,513**	11,143	2,873	**26,951**	485	1
Doubtful									
	$ 698,580	$ 745,481	$ 21	**$ 248,868**	$ 264,150	$ 32,569	**$ 231,170**	$ 267,257	$ 5

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 loan losses table found on page 20):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate Construction and Development		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	**$ 12,541**	$ 12,047	$ 13,553	**$ 225,144**	$ 244,293	$ 178,730	**$ 33,453**	$ 38,748	$ 34,247
Special mention	**1,010**	2,513	2,719	**37,439**	46,159	51,122	**11,627**	13,762	18,231
Substandard	**6,006**	9,549	16,036	**113,027**	149,333	93,832	**40,580**	61,616	45,335
Doubtful						159			
	$ 19,557	$ 24,109	$ 32,308	**$ 375,610**	$ 439,785	$ 323,843	**$ 85,660**	$ 114,126	$ 97,813

	Residential Real Estate			Consumer			Commercial & Industrial		
	June 30, 2014	**December 31, 2013**	**June 30, 2013**	**June 30, 2014**	**December 31, 2013**	**June 30, 2013**	**June 30, 2014**	**December 31, 2013**	**June 30, 2013**
Pass	**$ 225,366**	$ 203,296	$ 175,601	**$ 27,665**	$ 8,804	$ 9,023	**$ 29,680**	$ 38,450	$ 40,922
Special mention	**43,090**	91,468	47,110	**6,572**	38,322	478	**3,189**	3,968	3,476
Substandard	**160,355**	186,405	90,380	**60,852**	56,872	1,916	**18,808**	26,444	11,881
Doubtful		78	105						
	$ 428,811	$ 481,247	$ 313,196	**$ 95,089**	$ 103,998	$ 11,417	**$ 51,677**	$ 68,862	$ 56,279

	Single Pay		
	June 30, 2014	**December 31, 2013**	**June 30, 2013**
Pass	**$ 61**	$ 52	$ 56
Special mention			
Substandard	**30**	77	139
Doubtful			
	$ 91	$ 129	$ 195

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Note 6 Loans and Allowance for Loan Losses (Continued)

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.

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
June 30, 2014						
Commercial real estate:						
Construction and land development	**$ 1,651**	**$ 347**	**$ 1,035**	**$ 3,033**	**$ 368,718**	**$ 371,751**
Commercial non-owner occupied	**1,377**	**397**	**5,318**	**7,092**	**295,869**	**302,961**
Commercial owner occupied	**1,173**	**909**	**2,505**	**4,587**	**844,461**	**849,048**
Consumer real estate:						
Consumer owner occupied	**462**	**1,063**	**1,577**	**3,102**	**633,969**	**637,071**
Home equity loans	**959**	**189**	**735**	**1,883**	**269,145**	**271,028**
Commercial and industrial	**86**	**70**	**279**	**435**	**352,776**	**353,211**
Other income producing property	**382**	**21**	**2,227**	**2,630**	**149,298**	**151,928**
Consumer	**277**	**96**	**73**	**446**	**170,536**	**170,982**
Other loans	**66**	**22**	**35**	**123**	**66,522**	**66,645**
	$ 6,433	**$ 3,114**	**$ 13,784**	**$ 23,331**	**$ 3,151,294**	**$ 3,174,625**
December 31, 2013						
Commercial real estate:						
Construction and land development	$ 557	$ 476	$ 2,707	$ 3,740	$ 296,211	$ 299,951
Commercial non-owner occupied	1,780	1	2,684	4,465	286,706	291,171
Commercial owner occupied	457	650	3,601	4,708	828,805	833,513
Consumer real estate:						
Consumer owner occupied	1,526	1,107	2,621	5,254	542,916	548,170
Home equity loans	780	214	422	1,416	255,723	257,139
Commercial and industrial	390	105	370	865	320,959	321,824
Other income producing property	950	19	2,634	3,603	139,601	143,204
Consumer	337	142	28	507	135,903	136,410
Other loans	33	36	30	99	33,735	33,834
	$ 6,810	$ 2,750	$ 15,097	$ 24,657	$ 2,840,559	$ 2,865,216
June 30, 2013						
Commercial real estate:						
Construction and land development	$ 935	$ 1,134	$ 5,678	$ 7,747	$ 277,623	$ 285,370
Commercial non-owner occupied	291		3,558	3,849	294,919	298,768
Commercial owner occupied	2,607	116	7,602	10,325	791,800	802,125
Consumer real estate:						
Consumer owner occupied	3,651	922	3,307	7,880	452,554	460,434
Home equity loans	553	489	152	1,194	249,794	250,988

Commercial and industrial	1,127	129	1,555	2,811	291,769	294,580
Other income producing property	714	1,092	2,648	4,454	132,503	136,957
Consumer	178	46	29	253	103,986	104,239
Other loans	53	12	36	101	32,033	32,134
	$ 10,109	$ 3,940	$ 24,565	$ 38,614	$ 2,626,981	$ 2,665,595

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
June 30, 2014						
Commercial real estate:						
Construction and land development	**$**	**$**	**$ 228**	**$ 228**	**$ 35,652**	**$ 35,880**
Commercial non-owner occupied					**50,593**	**50,593**
Commercial owner occupied			**248**	**248**	**68,583**	**68,831**
Consumer real estate:						
Consumer owner occupied	**40**	**41**	**2,047**	**2,128**	**696,452**	**698,580**
Home equity loans	**241**	**71**	**866**	**1,178**	**247,690**	**248,868**
Commercial and industrial	**402**		**231**	**633**	**41,344**	**41,977**
Other income producing property			**85**	**85**	**71,599**	**71,684**
Consumer	**220**	**306**	**316**	**842**	**230,328**	**231,170**
	$ 903	**$ 418**	**$ 4,021**	**$ 5,342**	**$ 1,442,241**	**$ 1,447,583**
December 31, 2013						
Commercial real estate:						
Construction and land development	$ 371	$	$ 464	$ 835	$ 57,561	$ 58,396
Commercial non-owner occupied	105		17	122	58,476	58,598
Commercial owner occupied		71	272	343	73,371	73,714
Consumer real estate:						
Consumer owner occupied	3,368	393	1,196	4,957	740,524	745,481
Home equity loans	857	67	625	1,549	262,601	264,150
Commercial and industrial	827	894	282	2,003	56,770	58,773
Other income producing property	431			431	74,135	74,566
Consumer	291	213	154	658	266,599	267,257
	$ 6,250	$ 1,638	$ 3,010	$ 10,898	$ 1,590,037	$ 1,600,935
June 30, 2013						
Commercial real estate:						
Construction and land development	$	$	$ 46	$ 46	$ 358	$ 404
Commercial non-owner occupied					3,055	3,055
Commercial owner occupied					12,719	12,719
Consumer real estate:						
Consumer owner occupied					21	21
Home equity loans	443	128	227	798	31,771	32,569
Commercial and industrial	39		90	129	16,909	17,038
Other income producing property	141		583	724	3,118	3,842
Consumer			1	1	4	5
	$ 623	$ 128	$ 947	$ 1,698	$ 67,955	$ 69,653

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
June 30, 2014						
Commercial loans greater than or equal to $1 million-CBT	**$ 794**	**$**	**$ 5,213**	**$ 6,007**	**$ 13,550**	**$ 19,557**
Commercial real estate	**7,708**	**781**	**17,333**	**25,822**	**349,788**	**375,610**
Commercial real estate construction and development	**2,636**	**1,484**	**9,940**	**14,060**	**71,600**	**85,660**
Residential real estate	**5,735**	**2,489**	**18,971**	**27,195**	**401,616**	**428,811**
Consumer	**1,587**	**647**	**1,566**	**3,800**	**91,289**	**95,089**
Commercial and industrial	**353**	**2,366**	**3,296**	**6,015**	**45,662**	**51,677**
Single pay					**91**	**91**
	$ 18,813	**$ 7,767**	**$ 56,319**	**$ 82,899**	**$ 973,596**	**$ 1,056,495**
December 31, 2013						
Commercial loans greater than or equal to $1 million-CBT	$	$	$ 7,217	$ 7,217	$ 16,892	$ 24,109
Commercial real estate	4,493	3,728	24,362	32,583	407,202	439,785
Commercial real estate construction and development	4,847	9,166	17,567	31,580	82,546	114,126
Residential real estate	13,794	3,792	27,061	44,647	436,600	481,247
Consumer	2,390	552	2,050	4,992	99,006	103,998
Commercial and industrial	3,875	634	3,829	8,338	60,524	68,862
Single pay			46	46	83	129
	$ 29,399	$ 17,872	$ 82,132	$ 129,403	$ 1,102,853	$ 1,232,256
June 30, 2013						
Commercial loans greater than or equal to $1 million-CBT	$	$ 1,210	$ 11,657	$ 12,867	$ 19,441	$ 32,308
Commercial real estate	8,728	3,008	14,485	26,221	297,622	323,843
Commercial real estate construction and development	1,469	1,237	18,877	21,583	76,230	97,813
Residential real estate	7,130	3,376	19,072	29,578	283,618	313,196
Consumer	528	79	618	1,225	10,192	11,417
Commercial and industrial	405	369	3,821	4,595	51,684	56,279
Single pay	30	47	62	139	56	195
	$ 18,290	$ 9,326	$ 68,592	$ 96,208	$ 738,843	$ 835,051

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
June 30, 2014					
Commercial real estate:					
Construction and land development	**$ 7,251**	**$ 2,700**	**$ 2,978**	**$ 5,678**	**$ 428**
Commercial non-owner occupied	**8,236**	**5,079**	**1,110**	**6,189**	**31**
Commercial owner occupied	**13,293**	**6,912**	**4,198**	**11,110**	**112**
Consumer real estate:					
Consumer owner occupied	**2,763**		**2,505**	**2,505**	**86**
Home equity loans					
Commercial and industrial	**908**	**369**	**380**	**749**	**11**
Other income producing property	**6,612**	**914**	**5,486**	**6,400**	**761**
Consumer	**87**		**87**	**87**	**2**
Other loans					
Total impaired loans	**$ 39,150**	**$ 15,974**	**$ 16,744**	**$ 32,718**	**$ 1,431**
December 31, 2013					
Commercial real estate:					
Construction and land development	$ 7,341	$ 3,555	$ 2,184	$ 5,739	$ 704
Commercial non-owner occupied	3,592	2,681		2,681	
Commercial owner occupied	14,017	10,441	1,119	11,560	10
Consumer real estate:					
Consumer owner occupied	3,063		3,013	3,013	271
Home equity loans					
Commercial and industrial	477	405		405	
Other income producing property	2,794	554	2,095	2,649	646
Consumer					
Other loans					
Total impaired loans	$ 31,284	$ 17,636	$ 8,411	$ 26,047	$ 1,631
June 30, 2013					
Commercial real estate:					
Construction and land development	$ 19,888	$ 7,005	$ 2,741	$ 9,746	$ 735

Commercial non-owner occupied	4,879	1,523	2,171	3,694	636
Commercial owner occupied	21,055	14,610	2,510	17,120	281
Consumer real estate:					
Consumer owner occupied	1,419		1,322	1,322	667
Home equity loans					
Commercial and industrial	1,799	1,534		1,534	
Other income producing property	3,666	592	2,433	3,025	716
Consumer					
Other loans					
Total impaired loans	$ 52,706	$ 25,264	$ 11,177	$ 36,441	$ 3,035

Acquired credit impaired loans are accounted for in pools as shown on page 20 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Three Months Ended June 30,			
	2014		2013	
(Dollars in thousands)	**Average Investment in Impaired Loans**	**Interest Income Recognized**	**Average Investment in Impaired Loans**	**Interest Income Recognized**
Commercial real estate:				
Construction and land development	**$ 5,869**	**$ 16**	$ 11,406	$ 9
Commercial non-owner occupied	**6,175**	**13**	4,620	
Commercial owner occupied	**11,489**	**35**	16,985	13
Consumer real estate:				
Consumer owner occupied	**2,533**	**12**	1,322	2
Home equity loans	**31**			
Commercial and industrial	**993**		1,900	
Other income producing property	**6,189**	**33**	3,771	
Consumer	**87**	**1**		
Other loans				
Total Impaired Loans	**$ 33,366**	**$ 110**	$ 40,004	$ 24

	Six Months Ended June 30,			
	2014		2013	
(Dollars in thousands)	**Average Investment in Impaired Loans**	**Interest Income Recognized**	**Average Investment in Impaired Loans**	**Interest Income Recognized**
Commercial real estate:				
Construction and land development	**$ 5,948**	**$ 35**	$ 12,457	$ 27
Commercial non-owner occupied	**5,469**	**28**	4,838	1
Commercial owner occupied	**10,561**	**76**	15,141	61
Consumer real estate:				
Consumer owner occupied	**1,858**	**33**	1,336	7
Home equity loans				
Commercial and industrial	**592**	**13**	2,024	
Other income producing property	**5,884**	**60**	4,117	8
Consumer	**56**	**3**		
Other loans				
Total Impaired Loans	**$ 30,368**	**$ 248**	$ 39,913	$ 104

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Commercial non-owner occupied real estate:			
Construction and land development	**$ 3,259**	$ 5,819	$ 8,575
Commercial non-owner occupied	**5,496**	2,912	3,742
Total commercial non-owner occupied real estate	**8,755**	8,731	12,317
Consumer real estate:			
Consumer owner occupied	**6,916**	8,382	8,596
Home equity loans	**1,567**	1,128	755
Total consumer real estate	**8,483**	9,510	9,351
Commercial owner occupied real estate	**4,843**	7,753	11,801
Commercial and industrial	**682**	586	1,847
Other income producing property	**3,696**	4,704	5,450
Consumer	**87**	49	88
Other loans			
Restructured loans	**8,409**	10,690	11,689
Total loans on nonaccrual status	**$ 34,955**	$ 42,023	$ 52,543

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.

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).

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Three Months Ended June 30,					
	2014			2013		
(Dollars in thousands)	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Interest rate modification						
Construction and land development	**2**	**$ 602**	**$ 589**		$	$
Commercial non-owner occupied				1	247	247
Commercial owner occupied				1	750	750
Consumer owner occupied	**1**	**69**	**68**			
Other income producing property	**1**	**147**	**136**			
Total interest rate modifications	**4**	**818**	**793**	2	997	997
Term modification						
Construction and land development	**1**	**99**	**98**			
Total term modifications	**1**	**99**	**98**			
	5	**$ 917**	**$ 891**	2	$ 997	$ 997

	Six Months Ended June 30,					
	2014			2013		
(Dollars in thousands)	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Interest rate modification						
Construction and land development	**2**	**$ 602**	**$ 589**		$	$
Commercial non-owner occupied				1	247	247
Commercial owner occupied				1	750	750
Consumer owner occupied	**2**	**286**	**281**	1	124	122
Other income producing property	**1**	**147**	**136**			
Total interest rate modifications	**5**	**1,035**	**1,006**	3	1,121	1,119
Term modification						
Construction and land development	**1**	**99**	**98**	1	696	134
Total term modifications	**1**	**99**	**98**	1	696	134
	6	**$ 1,134**	**$ 1,104**	4	$ 1,817	$ 1,253

At June 30, 2014 and 2013, the balance of accruing TDRs was $6.9 million and $4.3 million, respectively.

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

	Paying Under Restructured Terms		Converted to Nonaccrual		Foreclosures and Defaults	
(Dollars in thousands)	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**	**Number of Loans**	**Recorded Investment**
Interest rate modification	6	$ 1,123		$		$
Term modification	2	2,066				
	8	$ 3,189		$		$

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Note 6 Loans and Allowance for Loan Losses (Continued)

The amount of specific reserve associated with non-acquired restructured loans was $714,000 at June 30, 2014, none of which was related to the restructured loans that had subsequently defaulted. The Company had $232,000 remaining availability under commitments to lend additional funds on these restructured loans at June 30, 2014.

Note 7 FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Six Months Ended June 30,			
(Dollars in thousands)		**2014**		**2013**
Balance at beginning of period	**$**	**86,447**	$	146,171
Decrease in expected losses on loans		**(1,397)**		(1,321)
Additional losses (recoveries) on OREO		**(2,846)**		574
Reimbursable expenses		**1,383**		2,607
Amortization of discounts and premiums, net		**(12,893)**		(14,481)
Reimbursements from FDIC		**(26,928)**		(29,502)
Balance at end of period	**$**	**43,766**	$	104,048

The FDIC indemnification asset is measured separately from the related covered assets. At June 30, 2014, the projected cash flows related to the FDIC indemnification asset for losses on assets acquired were approximately $22.5 million less than the current carrying value. This amount is being recognized as negative accretion (in non-interest income) over the shorter of the underlying asset s remaining life or remaining term of the loss share agreements. Subsequent to June 30, 2014, the Company expects to receive $7.4 million from loss share claims filed, including reimbursable expenses.

Included in the FDIC indemnification asset is an expected true up with the FDIC related to both the BankMeridian and Plantation acquisitions. This amount is determined each reporting period and at June 30, 2014 was estimated to be approximately $3.9 million related to the BankMeridian acquisition at the end of the loss share agreement (July 2021) and $3.1 million related to the Plantation acquisition at the end of the loss share agreement (April 2017). The actual payment 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 June 30, 2014.

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

Note 8 Other Real Estate Owned

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

(Dollars in thousands)	OREO	Covered OREO	Total
Balance, December 31, 2013	$ **37,398**	$ **27,520**	$ **64,918**
Additions	**13,781**	**11,680**	**25,461**
Write-downs	**(2,480)**	**(3,244)**	**(5,724)**
Sold	**(16,964)**	**(13,958)**	**(30,922)**
Balance, June 30, 2014	$ **31,735**	$ **21,998**	$ **53,733**

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Note 8 Other Real Estate Owned (Continued)

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

(Dollars in thousands)		OREO		Covered OREO		Total
Balance, December 31, 2012	$	32,248	$	34,257	$	66,505
Additions		15,170		12,893		28,063
Write-downs		(2,587)		(935)		(3,522)
Sold		(11,345)		(11,073)		(22,418)
Balance, June 30, 2013	$	33,486	$	35,142	$	68,628

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At June 30, 2014, there were 401 properties included in OREO, with 200 uncovered and 201 covered by loss share agreement with the FDIC. At June 30, 2013, there were 311 properties included in OREO, with 140 uncovered and 171 covered by loss share agreement with the FDIC.

Note 9 Deposits

The Company s total deposits are comprised of the following:

(Dollars in thousands)		June 30, 2014		December 31, 2013		June 30, 2013
Certificates of deposit	**$**	**1,373,498**	$	1,525,567	$	944,080
Interest-bearing demand deposits		**2,899,532**		2,893,646		1,847,375
Non-interest bearing demand deposits		**1,623,291**		1,487,798		1,038,382
Savings deposits		**676,482**		647,648		350,061
Other time deposits		**3,335**		838		3,071
Total deposits	**$**	**6,576,138**	$	6,555,497	$	4,182,969

At June 30, 2014, December 31, 2013, and June 30, 2013, the Company had $136.2 million, $166.1 million, and $116.7 million in certificates of deposits greater than $250,000, respectively. At June 30, 2014, December 31, 2013, and June 30, 2013, the Company had $29.7 million, $34.8 million and $1.3 million, in traditional, out-of-market brokered deposits, respectively.

Note 10 Retirement Plans

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

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 June 30, 2014.

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Note 10 Retirement Plans (Continued)

The components of net periodic pension expense recognized during the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Interest cost	**$ (277)**	$ (250)	**$ (555)**	$ (500)
Expected return on plan assets	**487**	430	**975**	860
Recognized net actuarial loss	**(165)**	(301)	**(330)**	(602)
Net periodic pension benefit (expense)	**$ 45**	$ (121)	**$ 90**	$ (242)

The Company contributed $300,000 and $600,000 to the pension plan for the three and six months ended June 30, 2014, and does not expect to make any additional contributions during the remainder of 2014. The plans assets currently exceed the projected benefit obligation of the plan, and no additional contributions are required for 2014.

Electing employees are eligible to participate in the employees savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Effective September 1, 2012, employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of salary. Prior to September 1, 2012, participating employees received a 50% matching of their 401(k) plan contribution, up to 6% of salary. The Company expensed $1.2 million and $748,000 for the 401(k) plan during the three months ended June 30, 2014 and 2013, respectively. The Company expensed $2.4 million and $1.2 million for the 401(k) plan during the six months ended June 30, 2014 and 2013, respectively.

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

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

Note 11 Earnings Per Share

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

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Note 11 Earnings Per Share (Continued)

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands)	**2014**	2013	**2014**	2013
Basic earnings per share:				
Net income available to common shareholders	**$ 17,946**	$ 12,532	**$ 33,790**	$ 23,181
Weighted-average basic shares	**23,892**	16,790	**23,882**	16,804
Basic earnings per share	**$ 0.75**	$ 0.75	**$ 1.41**	$ 1.38
Diluted earnings per share:				
Net income available to common shareholders	**$ 17,946**	$ 12,532	**$ 33,790**	$ 23,181
Weighted-average basic shares	**23,892**	16,790	**23,882**	16,804
Effect of dilutive securities	**249**	200	**244**	182
Weighted-average dilutive shares	**24,141**	16,990	**24,126**	16,986
Diluted earnings per share	**$ 0.74**	$ 0.74	**$ 1.40**	$ 1.36

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

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.

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Note 12 Share-Based Compensation (Continued)

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

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value (000 s)
Outstanding at January 1, 2014	295,916	$ 33.26		
Granted	22,497	65.59		
Exercised	(4,660)	27.70		
Expired/Forfeited	(13)	27.22		
Outstanding at June 30, 2014	313,740	35.66	4.79	$ 8,053
Exercisable at June 30, 2014	258,814	33.07	3.99	$ 7,233
Weighted-average fair value of options granted during the year	$ 26.44			

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

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

As of June 30, 2014, there was $845,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.54 years as of June 30, 2014. The total fair value of shares vested during the six months ended June 30, 2014 was $413,000.

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.

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Note 12 Share-Based Compensation (Continued)

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

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	232,547	$ 35.15
Granted	26,014	60.40
Vested	(17,896)	39.72
Forfeited	(3,204)	41.45
Nonvested at June 30, 2014	237,461	37.49

As of June 30, 2014, 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 2.71 years as of June 30, 2014. The total fair value of shares vested during the six months ended June 30, 2014 was $711,000.

Restricted Stock Units

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

Nonvested RSUs for the six months ended June 30, 2014 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	43,820	$ 51.01
Granted	37,802	61.49
Nonvested at June 30, 2014	81,622	55.87

As of June 30, 2014, 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 1.93 years as of June 30, 2014.

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 June 30, 2014, commitments to extend credit and standby letters of credit totaled $1.4 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

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determined, in the opinion of management, any such liability will not have a material effect on the Company s consolidated financial statements.

Note 14 Fair Value

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

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

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

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

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

Investment Securities

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

Mortgage Loans Held for Sale

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

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Note 14 Fair Value (Continued)

Loans

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

Other Real Estate Owned (OREO)

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

Derivative Financial Instruments

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

Mortgage servicing rights (MSRs)

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

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Note 14 Fair Value (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)		Fair Value		Quoted Prices In Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
June 30, 2014:								
Assets								
Derivative financial instruments	**$**	**1,313**	**$**		**$**	**1,313**	**$**	
Securities available for sale:								
Government-sponsored entities debt		**139,527**				**139,527**		
State and municipal obligations		**142,848**				**142,848**		
Mortgage-backed securities		**509,694**				**509,694**		
Corporate stocks		**3,672**		**3,447**		**225**		
Total securities available for sale		**795,741**		**3,447**		**792,294**		
Mortgage servicing rights		**21,015**						**21,015**
	$	**818,069**	**$**	**3,447**	**$**	**793,607**	**$**	**21,015**
Liabilities								
Derivative financial instruments	**$**	**1,127**	**$**		**$**	**1,127**	**$**	
December 31, 2013:								
Assets								
Derivative financial instruments	$	701	$		$	701	$	
Securities available for sale:								
Government-sponsored entities debt		142,994				142,994		
State and municipal obligations		140,651				140,651		
Mortgage-backed securities		499,479				499,479		
Corporate stocks		3,667		3,442		225		
Total securities available for sale		786,791		3,442		783,349		
Mortgage servicing rights		20,729						20,729
	$	808,221	$	3,442	$	784,050	$	20,729
Liabilities								
Derivative financial instruments	$	1,857	$		$	1,857	$	
June 30, 2013:								
Assets								
Derivative financial instruments	$	212	$		$	212	$	
Securities available for sale:								
Government-sponsored entities debt		96,359				96,359		
State and municipal obligations		139,513				139,513		
Mortgage-backed securities		275,018				275,018		
Corporate stocks		457		432		25		
Total securities available for sale		511,347		432		510,915		
	$	511,559	$	432	$	511,127	$	

Liabilities								
Derivative financial instruments	$	1,262	$		$	1,262	$	

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Note 14 Fair Value (Continued)

Changes in Level 1, 2 and 3 Fair Value Measurements

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

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

(Dollars in thousands)		**Assets**		**Liabilities**
Fair value, January 1, 2013	$	3,851	$	
Purchases, issuances and settlements, net		(3,851)		
Fair value, June 30, 2013	$		$	
Fair value, January 1, 2014	**$**	**20,729**	**$**	
Mortgage and other loan income		**(1,768)**		
Purchases and issuances		**2,054**		
Fair value, June 30, 2014	**$**	**21,015**	**$**	

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

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

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

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)
June 30, 2014:				
OREO	**$ 53,733**	**$**	**$**	**$ 53,733**
Non-acquired impaired loans	**8,620**			**8,620**
December 31, 2013:				
OREO	$ 64,918	$	$	$ 64,918
Non-acquired impaired loans	13,129			13,129
June 30, 2013:				
OREO	$ 52,638	$	$	$ 52,638
Non-acquired impaired loans	5,564			5,564

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Note 14 Fair Value (Continued)

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

	Valuation Technique	Unobservable Input	General Range	Weighted Average
Nonrecurring measurements:				
Impaired loans	Discounted appraisals	Collateral discounts	0-25%	4.37%
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	0-50%	12.97%

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 June 30, 2014, December 31, 2013 and June 30, 2013. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

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

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

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

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

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

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

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

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Note 14 Fair Value (Continued)

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

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

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
June 30, 2014					
Financial assets:					
Cash and cash equivalents	$ **589,523**	$ **589,523**	$ **589,523**	$	$
Investment securities	**816,648**	**817,317**	**13,965**	**803,352**	
Loans, net of allowance for loan losses, and loans held for sale	**5,690,529**	**5,775,384**		**56,407**	**5,718,977**
FDIC receivable for loss share agreements	**43,766**	**18,619**			**18,619**
Accrued interest receivable	**15,667**	**15,667**		**3,496**	**12,171**
Mortgage servicing rights	**21,015**	**21,015**			**21,015**
Interest rate swap non-designated hedge	**185**	**185**		**185**	
Other derivative financial instruments (mortgage banking related)	**1,128**	**1,128**		**1,128**	
Financial liabilities:					
Deposits	**6,576,138**	**6,316,613**		**6,316,613**	
Federal funds purchased and securities sold under agreements to repurchase	**280,595**	**280,595**		**280,595**	
Other borrowings	**101,045**	**104,810**		**104,810**	
Accrued interest payable	**4,282**	**4,282**		**4,282**	
Interest rate swap cash flow hedge	**942**	**942**		**942**	
Interest rate swap non-designated hedge	**185**	**185**		**185**	
Off balance sheet financial instruments:					
Commitments to extend credit		**19,872**		**19,872**	
Standby letters of credit and financial guarantees					
December 31, 2013					
Financial assets:					
Cash and cash equivalents	$ 479,461	$ 479,461	$ 479,461	$	$
Investment securities	812,603	813,068	16,828	796,240	
Loans, net of allowance for loan losses, and loans held for sale	5,683,044	5,742,078		30,586	5,711,492
FDIC receivable for loss share agreements	86,447	48,512			48,512

Accrued interest receivable	15,024	15,024		3,482	11,542
Mortgage servicing rights	20,729	20,729			20,729
Interest rate swap non-designated hedge	178	178		178	
Other derivative financial instruments (mortgage banking related)	523	523		523	
Financial liabilities:					
Deposits	6,555,497	6,313,543		6,313,543	
Federal funds purchased and securities sold under agreements to repurchase	211,401	211,401		211,401	
Other borrowings	102,060	92,751		92,751	
Accrued interest payable	5,388	5,388		5,388	
Interest rate swap cash flow hedge	914	914		914	
Interest rate swap non-designated hedge	178	178		178	
Other derivative financial instruments (mortgage banking related)	765	765		765	
Off balance sheet financial instruments:					
Commitments to extend credit		15,555		15,555	
Standby letters of credit and financial guarantees					

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Note 14 Fair Value (Continued)

(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2013					
Financial assets:					
Cash and cash equivalents	$ 436,481	$ 436,481	$ 436,481	$	$
Investment securities	531,579	532,199	8,237	523,962	
Loans, net of allowance for loan losses, and loans held for sale	3,565,193	3,578,267		47,980	3,530,287
FDIC receivable for loss share agreements	104,048	64,569			64,569
Accrued interest receivable	9,801	9,801		2,846	6,955
Interest rate swap non-designated hedge	212	212		212	
Financial liabilities:					
Deposits	4,182,969	4,049,826		4,049,826	
Federal funds purchased and securities sold under agreements to repurchase	262,447	262,447		262,447	
Other borrowings	54,372	55,719		55,719	
Accrued interest payable	1,391	1,391		1,391	
Interest rate swap cash flow hedge	1,050	1,050		1,050	
Interest rate swap non-designated hedge	212	212		212	
Off balance sheet financial instruments:					
Commitments to extend credit		3,339		3,339	
Standby letters of credit and financial guarantees					

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 June 30, 2014				
Balance at March 31, 2014	**$ (3,585)**	**$ 93**	**$ (562)**	**$ (4,054)**
Other comprehensive income (loss) before reclassifications		**4,334**	**(66)**	**4,268**
Amounts reclassified from accumulated other comprehensive income (loss)	**203**	**(54)**	**45**	**194**
Net comprehensive income (loss)	**203**	**4,280**	**(21)**	**4,462**
Balance at June 30, 2014	**$ (3,382)**	**$ 4,373**	**$ (583)**	**$ 408**
Three months ended June 30, 2013				
Balance at March 31, 2013	$ (7,458)	$ 6,782	$ (867)	$ (1,543)
Other comprehensive income (loss) before reclassifications		(8,266)	171	(8,095)

Amounts reclassified from accumulated other comprehensive income (loss)						47		47
Net comprehensive income (loss)				(8,266)		218		(8,048)
Balance at June 30, 2013	$	(7,458)	$	(1,484)	$	(649)	$	(9,591)
Six months ended June 30, 2014								
Balance at December 31, 2013	**$**	**(3,585)**	**$**	**(5,573)**	**$**	**(565)**	**$**	**(9,723)**
Other comprehensive income (loss) before reclassifications				**10,000**		**(110)**		**9,890**
Amounts reclassified from accumulated other comprehensive income (loss)		**203**		**(54)**		**92**		**241**
Net comprehensive income (loss)		**203**		**9,946**		**(18)**		**10,131**
Balance at June 30, 2014	**$**	**(3,382)**	**$**	**4,373**	**$**	**(583)**	**$**	**408**
Six months ended June 30, 2013								
Balance at December 31, 2012	$	(7,458)	$	8,764	$	(930)	$	376
Other comprehensive income (loss) before reclassifications				(10,248)		186		(10,062)
Amounts reclassified from accumulated other comprehensive income (loss)						95		95
Net comprehensive income (loss)				(10,248)		281		(9,967)
Balance at June 30, 2013	$	(7,458)	$	(1,484)	$	(649)	$	(9,591)

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

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

Accumulated Other Comprehensive Income (Loss) Component	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended June 30, 2014	2013	For the Six Months Ended June 30, 2014	2013	Income Statement Line Item Affected
Gains and losses on cash flow hedges:					
Interest rate contracts	**$ 73**	$ 76	**$ 149**	$ 153	Interest expense
	(28)	(29)	**(57)**	(58)	Provision for income taxes
	45	47	**92**	95	Net income
Gains on sales of available for sale securities:					
	$ (88)	$	**$ (88)**	$	Other noninterest income
	34		**34**		Provision for income taxes
	(54)		**(54)**		Net income
Amortization of defined benefit pension items:					
Actuarial losses	**$ 330**	$	**$ 330**	$	Salaries and employee benefits
	(127)		**(127)**		Provision for income taxes
	203		**203**		Net income
Total reclassifications for the period	**$ 194**	$ 47	**$ 241**	$ 95	

Note 16 Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

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

The Company recognized an after-tax unrealized loss on its cash flow hedge in other comprehensive income of $21,000 and $18,000 for the three and six months ended June 30, 2014, respectively, compared to an after-tax unrealized gain on its cash flow hedge in other comprehensive income of $218,000 and $281,000 for the three and six months ended June 30, 2013, respectively. The Company recognized a $942,000 cash flow hedge liability in other liabilities on the balance sheet at June 30, 2014, compared to a $1.0 million liability recognized at June 30, 2013.

There was no ineffectiveness in the cash flow hedge during the three and six months ended June 30, 2014 and 2013.

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

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Note 16 Derivative Financial Instruments (Continued)

Non-designated Hedges of Interest Rate Risk

Customer Swap

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

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

As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2014, the interest rate swaps had an aggregate notional amount of approximately $4.1 million and the fair value of these two interest rate swap derivatives are recorded in other assets and in other liabilities for $185,000 on the balance sheet. The net effect of recording the derivatives at fair value through earnings was immaterial to the Company s financial condition and results of operations during 2014.

The Company also has an agreement with the derivatives dealer in this transaction that contains a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on this derivatives obligation. As of June 30, 2014, the fair value of the interest rate swap derivative with the derivatives dealer was in a net liability position of $185,000, which excludes any adjustment for nonperformance risk, related to these agreements. As of June 30, 2014, the Company provided $354,000 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 June 30, 2014, it would have been required to settle its obligations under the agreement at the termination value, $185,000.

Mortgage Banking

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

Mortgage Servicing Rights

Derivatives contracts related to mortgage servicing rights are used to help offset changes in fair value and are written in amounts referred to as notional amounts. Notional amounts provide a basis for calculating payments between counterparties but do not represent amounts to be exchanged between the parties, and are not a measure of financial risk. On June 30, 2014, the Company had derivative financial instruments outstanding with notional amounts totaling $72.5 million related to mortgage servicing rights. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as an asset of $5,000 at June 30, 2014.

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Note 16 Derivative Financial Instruments (Continued)

Mortgage Pipeline

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Mortgage loan pipeline*	$ 77,343	$ 44,678	$
Expected closures	58,829	33,508	
Fair Value of mortgage loan pipeline commitments	1,539	112	
Forward commitments	75,027	36,230	
Fair value of forward commitments	11	296	

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

Note 17 Capital Ratios

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

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

The Company s capital adequacy ratios are reflected below:

	June 30, 2014	December 31, 2013	June 30, 2013
South State Corporation:			
Tier 1 risk-based capital	**12.94%**	13.58%	13.61%
Total risk-based capital	**13.80%**	14.47%	14.87%
Tier 1 leverage	**8.93%**	9.30%	9.22%

South State Bank:			
Tier 1 risk-based capital	**12.74%**	13.37%	13.28%
Total risk-based capital	**13.60%**	14.26%	14.54%
Tier 1 leverage	**8.81%**	9.16%	9.00%

Note 18 Goodwill and Other Intangible Assets

The carrying amount of goodwill was $317.4 million, $317.4 million, and $103.3 million for June 30, 2014, December 31, 2013, and June 30, 2013, respectively. 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)	June 30, 2014	December 31, 2013	June 30, 2013
Gross carrying amount	**$ 75,354**	$ 77,896	$ 37,121
Accumulated amortization	**(21,983)**	(17,988)	(13,962)
	$ 53,371	$ 59,908	$ 23,159

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Note 18 Goodwill and Other Intangible Assets (Continued)

Amortization expense totaled $4.2 million and $2.1 million for the six months ended June 30, 2014, and 2013, respectively. Other intangibles are amortized using either the straight-line method or an accelerated basis over their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

(Dollars in thousands)		
Quarters ending:		
September 30, 2014		2,080
December 31, 2014		2,052
March 31, 2015		2,016
June 30, 2015		1,963
September 30, 2015		1,962
Thereafter		43,298
	$	53,371

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

The portfolio of residential mortgages serviced for others, which are not included in the accompanying balance sheets, was $2.2 billion and $2.1 billion at June 30, 2014 and December 31, 2013, 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 six months ended June 30, 2014 was $1.4 million and $2.7 million, respectively. Servicing fees are recorded in mortgage banking income in the Company s consolidated statements of income.

At June 30, 2014 and December 31, 2013, mortgage servicing rights (MSRs) were $21.0 million and $20.7 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 six months ended June 30, 2014 was a loss of $483,000 and $692,000, respectively. Since the merger with FFHI, the Company has used various free standing derivative instruments to mitigate the income statement effect of changes in fair value due to changes in market value adjustments and to changes in valuation inputs and assumptions related to MSRs.

The following table presents the changes in the fair value of MSRs and its offsetting hedge for the three and six months ended June 30, 2014.

(Dollars in thousands)		**Three Months Ended June 30, 2014**		**Six Months Ended June 30, 2014**
Increase (decrease) in fair value of MSRs	**$**	**(483)**	**$**	**(692)**
Decay of MSRs		**(621)**		**(1,076)**
Gains (losses) related to derivatives		**1,140**		**1,935**
Net effect on consolidated statements of income	**$**	**36**	**$**	**167**

The following table is an analysis of the activity in the MSRs for the six months ended June 30, 2014.

(Dollars in thousands)		Six Months Ended June 30, 2014
Balance at beginning of the period	$	20,729
Additions:		
Servicing assets that resulted from transfers of financial assets		2,054
Increase in fair value due to change in valuation inputs or assumptions		(692)
Decay in fair value:		
Due to increases in principal paydowns or runoff		(1,076)
Carrying value at end of period	$	21,015

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

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

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

(Dollars in thousands)	**June 30, 2014**	**December 31, 2013**
Composition of residential loans serviced for others		
Fixed-rate mortgage loans	**99.1%**	99.0%
Adjustable-rate mortgage loans	**0.9%**	1.0%
Total	**100.0%**	100.0%
Weighted average life	**6.01**	6.91 years
Constant Prepayment rate (CPR)	**12.1%**	10.2%
Weighted average discount rate	**9.4%**	10.1%
Effect on fair value due to change in interest rates		
25 basis point increase	**$ 1,311**	$ 1,059
50 basis point increase	**2,499**	1,964
25 basis point decrease	**(1,470)**	(1,248)
50 basis point decrease	**(2,736)**	(2,255)

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

Custodial escrow balances maintained in connection with the loan servicing were $15.6 million at June 30, 2014.

Mandatory cash forwards and whole loan sales were $154.6 million and $270.3 million for the three and six months ended June 30, 2014, respectively. For the three and six months ended June 30, 2014, $128.2 million and $216.0 million, or 82.9% and 80.0%, respectively, were sold with the servicing rights retained by the Company.

Loans held for sale have historically been comprised of residential mortgage loans awaiting sale in the secondary market, which generally settle in 15 to 45 days. Loans held for sale, which consists primarily of residential mortgage loans to be sold in the secondary market, were $56.4

million, $30.6 million, and $48.0 million at June 30, 2014, December 31, 2013, and June 30, 2013, respectively.

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

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

Overview

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

At June 30, 2014, we had approximately $8.0 billion in assets and 2,095 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, 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 quarter ended June 30, 2014 as compared to the quarter ended June 30, 2013 and also analyzes our financial condition as of June 30, 2014 as compared to December 31, 2013 and June 30, 2013. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

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

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

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

Recent Events

Preferred Stock Redemption

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

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Name Change and System Conversion

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

Critical Accounting Policies

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

Allowance for Loan Losses

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed in a business combination. As of June 30, 2014, December 31, 2013 and June 30, 2013, the balance of goodwill was $317.4 million, $317.4 million, and $103.3 million, respectively. The increase from the balance at June 30, 2013 was the result of the FFHI merger, which added $214.1 million in additional goodwill. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

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

Our stock price has historically traded above its book value. As of June 30, 2014, book value was $39.50 per share. The lowest trading price during the first six months of 2014, as reported by the NASDAQ Global Select Market, was $54.03 per share, and the stock price closed on June 30, 2014 at $61.00 per share, which is above book value. In the event our stock was to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2014, our annual test date, and

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

Other-Than-Temporary Impairment

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

Other Real Estate Owned

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

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

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

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

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

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

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

Results of Operations

We reported consolidated net income available to common shareholders of $17.9 million, or diluted earnings per share (EPS) of $0.74, for the second quarter of 2014 as compared to consolidated net income available to common shareholders of $12.5 million, or diluted EPS of $0.74, in the comparable period of 2013. The $5.4 million increase in consolidated net income available to common shareholders was the net result of the following items:

- Improved net interest income of $25.7 million due primarily to acquisition of FFHI and the increase in average earning assets of $2.4 billion which increased interest income by $27.3 million. Average interest-bearing liabilities increased $1.8 billion, and the related interest expense increased $1.6 million with a rate of 0.29%, three basis points higher than a year ago;

- An increase in the provision for loan losses by $2.0 million over the comparable quarter;

- An increase in noninterest income totaling $15.9 million, due in large part to the acquisition of FFHI;

- An increase in most categories of noninterest expense totaling $31.0 million due to the acquisition of FFHI. The larger increases were $16.5 million in salaries and benefits, $5.7 million in merger expenses, $2.5 million in net occupancy, $1.1 million in amortization of intangibles, $1.3 million in information services expense, and $2.0 million in other expense; and

- An increase in the provision for income taxes of $3.2 million due to higher pre-tax income.

- Diluted EPS was $0.74 and the same for the comparable period in 2013, due to the issuance of approximately 7.2 million shares in the acquisition of FFHI in July 2013, even though net income increased by $5.4 million.

Our asset quality related to non-acquired loans continues to be at manageable levels and improved from the end of 2013. Non-acquired nonperforming assets declined from $49.6 million at March 31, 2014 to $44.3 million at June 30, 2014. Compared to the balance of nonperforming assets at June 30, 2013, nonperforming assets decreased $24.4 million due to a reduction in nonperforming loans of $17.4 million and a reduction in non-acquired OREO of $6.9 million. Our non-acquired OREO decreased by $3.2 million since March 31, 2014 to $9.0 million at June 30, 2014. During the second quarter of 2014, classified assets declined by $12.8 million from March 31, 2014 to $78.7 million at June 30, 2014. Since June 30, 2013 classified assets have declined by $44.9 million. Annualized net charge-offs for the second quarter of 2014 were 0.17%, down from the second quarter of 2013 of 0.40% and up from the first quarter of 2014 of 0.05%.

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The allowance for loan losses decreased to 1.12% of total non-acquired loans at June 30, 2014, down from 1.16% at March 31, 2014 and 1.45% at June 30, 2013. The allowance provides 1.00 times coverage of nonperforming loans at June 30, 2014, higher than 0.93 times at March 31, 2014, and 0.73 times at June 30, 2013.

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

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

- Removals from the loan pools due to repayments, charge offs, and transfers to OREO or other assets owned through foreclosures resulted in a decline in loan accretion income of $4.3 million from the first quarter of 2014; and compared to the second quarter of 2013, there was a large increase in loan accretion income of $22.3 million primarily from the FFHI merger; and

- The negative accretion of the indemnification asset also decreased by approximately $1.3 million compared to the first quarter of 2014, and by $1.5 million compared to the second quarter of 2013. This was primarily the result of the decline in the difference between the net carrying value of the FDIC indemnification asset and projected cash flows of the indemnification asset.

As of June 30, 2014, the Company had not made any changes to the estimated cash flow assumptions or expected losses for the acquired loans from the merger with FFHI.

Compared to the balance at March 31, 2014, our non-acquired loan portfolio has increased $194.7 million, or 26.1% annualized, to $3.2 billion, driven by increases in most categories. Consumer real estate lending increased by $49.4 million, or 23.0% annualized; consumer non real estate lending by $23.3 million, or 63.0% annualized; commercial owner occupied loans by $3.3 million, or 1.6% annualized; construction and land development by $52.3 million or 65.5% annualized; and commercial and industrial by $19.6 million, or 23.6% annualized. The acquired loan portfolio decreased by $131.0 million, in the second quarter of 2014, due to continued payoffs, charge-offs, and transfers to OREO. Since June 30, 2013, the non-acquired loan portfolio has grown by $509.0 million, or 19.1%, in most categories. Consumer real estate loans have led the way and increased by $196.7 million, or 27.7%, in the past year.

Non-taxable equivalent net interest income for the quarter increased $25.7 million or 46.5% compared to the second quarter of 2013. Non-taxable equivalent net interest margin decreased by 23 basis points to 4.70% from the second quarter of 2013 of 4.93% due to the decrease in yield on acquired and non-acquired loans. Compared to the first quarter of 2014, net interest margin (taxable equivalent) decreased by 24 basis points. Interest earning assets yield decreased by 26 basis points primarily from the decrease in the yield of the acquired and non-acquired loan portfolios. The rate on interest bearing liabilities decreased by 1 basis point compared to the first quarter of 2014 from a 3 basis point decrease in the rates on certificate of deposit balances.

Our quarterly efficiency ratio decreased to 71.5% compared to 73.8% in the first quarter of 2014, and increased from 69.5% in the second quarter of 2013. The decrease in the efficiency ratio compared to the first quarter of 2014 was the result of a $1.5 million reduction in noninterest expense primarily from decreases in OREO and loan related expense. The increase in the efficiency ratio over the second quarter of 2013 was the result of a 69.1% increase in noninterest expense, a 187.6% increase in noninterest income, and a 46.5% increase in net interest income compared to the second quarter of 2013. Compared to the second quarter of 2013 noninterest expense was up $31.0 million with a $5.7 million increase in merger expenses, $16.5 million increase in salaries and employee benefits, $2.5 million in net occupancy expense, and $1.5 million in other noninterest expense. Excluding OREO and merger and branding related expenses, the efficiency ratio was 63.6% for the second quarter of 2014, compared to 64.1% for the first quarter of 2014 and 63.8% for the second quarter of 2013.

Diluted EPS and basic EPS were both flat from the comparable period in 2013 at $0.74 and $0.75, respectively, for the second quarter of 2014. This was the result of a 43% increase in net income available to common shareholders, along with a 42% increase in weighted average basic and diluted common shares from 7.2 million shares being issued in the FFHI merger.

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Selected Figures and Ratios

(Dollars in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Return on average assets (annualized)	**0.91%**	0.99%	**0.88%**	0.92%
Return on average common equity (annualized)	**7.63%**	9.72%	**7.27%**	9.09%
Return on average equity (annualized)	**7.63%**	9.72%	**7.26%**	9.09%
Return on average tangible common equity (annualized)*	**13.62%**	13.48%	**13.12%**	12.71%
Return on average tangible equity (annualized)*	**13.62%**	13.48%	**12.80%**	12.71%
Dividend payout ratio **	**26.89%**	24.46%	**27.84%**	26.43%
Equity to assets ratio	**11.92%**	10.24%	**11.92%**	10.24%
Average shareholders common equity (in thousands)	**$ 942,935**	$ 517,141	**$ 937,479**	$ 514,282
Average shareholders equity (in thousands)	**$ 942,935**	$ 517,141	**$ 968,363**	$ 514,282

* - 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 six months ended June 30, 2014, return on average tangible equity increased compared to the same period in 2013. The increase was driven by the 53.1% increase in net income excluding amortization of intangibles while average total assets increased 56.1%. The increase in average total assets reflects the additions from the FFHI acquisition. Return on average assets decreased to 0.88% compared to the six months ended June 30, 2013 due to the growth in average assets surpassing the growth in net income.

• Dividend payout ratio increased to 27.8% for the six months ended June 30, 2014 compared with 26.4% for the six months ended June 30, 2013. The increase from the comparable period in 2013 primarily reflects the higher dividend paid at $0.39 per share in 2014 vs. $0.36 per share in 2013 and the additional dividends paid on shares issued as a result of the FFHI acquisition. 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 11.9% at June 30, 2014 compared with 10.2% at June 30, 2013. The increase in the equity to assets ratio reflects a 58.5% increase in assets as a result of the FFHI acquisition compared to the 84.5% increase in equity as a result of the Company s retained earnings and the issuance of $446.4 million in equity (both common and preferred) in the FFHI acquisition partially offset by the redemption of $65.0 million of preferred stock.

• Quarterly average shareholders equity increased $425.8 million, or 82.3%, from the quarter ended June 30, 2013 driven by the issuance of $446.4 million in common and preferred equity in the FFHI acquisition in the third quarter of 2013.

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Reconciliation of Non-GAAP to GAAP

(Dollars in thousands)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Return on average tangible equity (non-GAAP)	**13.62%**	13.48%	**12.80%**	12.71%
Effect to adjust for intangible assets	**-5.99%**	-3.76%	**-5.54%**	-3.62%
Return on average equity (GAAP)	**7.63%**	9.72%	**7.26%**	9.09%
Adjusted average shareholders equity (non-GAAP)	**$ 568,914**	$ 393,260	**$ 592,729**	$ 389,717
Average intangible assets	**374,021**	123,881	**375,634**	124,565
Average shareholders equity (GAAP)	**$ 942,935**	$ 517,141	**$ 968,363**	$ 514,282
Adjusted net income (non-GAAP)	**$ 19,315**	$ 13,217	**$ 37,615**	$ 24,561
Amortization of intangibles	**(2,084)**	(1,022)	**(4,188)**	(2,056)
Tax effect	**715**	337	**1,436**	676
Net income (GAAP)	**$ 17,946**	$ 12,532	**$ 34,863**	$ 23,181
Return on average common tangible equity (non-GAAP)	**13.62%**	13.48%	**13.12%**	12.71%
Effect to adjust for intangible assets	**-5.99%**	-3.76%	**-5.85%**	-3.62%
Return on average common equity (GAAP)	**7.63%**	9.72%	**7.27%**	9.09%
Adjusted average common shareholders equity (non-GAAP)	**$ 568,914**	$ 393,260	**$ 561,845**	$ 389,717
Average intangible assets	**374,021**	123,881	**375,634**	124,565
Average common shareholders equity (GAAP)	**$ 942,935**	$ 517,141	**$ 937,479**	$ 514,282
Adjusted net income available to common shareholders (non-GAAP)	**$ 19,315**	$ 13,217	**$ 36,542**	$ 24,561
Amortization of intangibles	**(2,084)**	(1,022)	**(4,188)**	(2,056)
Tax effect	**715**	337	**1,436**	676
Net income available to common shareholders (GAAP)	**$ 17,946**	$ 12,532	**$ 33,790**	$ 23,181

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

Net Interest Income and Margin

Summary

Our taxable equivalent (TE) net interest margin decreased by 26 basis points from the second quarter of 2013, due primarily to the growth in interest earning assets from the FFHI acquisition and organic loan growth, partially offset by a three basis point increase in funding cost from 0.26% in the second quarter of 2013 to 0.29% in the second quarter of 2014. The net interest margin decreased by 24 basis points from the first quarter of 2014 to 4.75%. Yields on average earning assets decreased by 26 basis points from the first quarter of 2014 while the rate on average interest bearing liabilities decreased by 1 basis point. Compared to June 30, 2013, the yield on interest earning assets decreased by 21 basis points.

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

Net interest income increased from the second quarter of 2013 and was driven by growth in average interest-earning assets due to the FFHI acquisition as well as organic growth. Certificates of deposit rates increased by 4 basis points from the second quarter of 2013 with the addition of the CDs from the FFHI acquisition. The year over year increase in interest expense totaled $1.6

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million, from the addition of the FFHI acquisition of funding sources. The cost on interest bearing liabilities increased by four basis points comparing the six months ended periods June 30, 2014 and 2013.

(Dollars in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Non-TE net interest income	**$ 80,974**	$ 55,284	**$ 164,307**	$ 109,085
Non-TE yield on interest-earning assets	**4.92%**	5.13%	**5.03%**	5.10%
Non-TE rate on interest-bearing liabilities	**0.29%**	0.26%	**0.30%**	0.26%
Non-TE net interest margin	**4.70%**	4.93%	**4.80%**	4.90%
TE net interest margin	**4.75%**	5.01%	**4.85%**	4.97%

Non-TE net interest income increased $25.7 million, or 46.5%, in the second quarter of 2014 compared to the same period in 2013. Some key highlights are outlined below:

- Average interest-earning assets increased 53.7% to $6.9 billion in the second quarter of 2014 compared to the same period last year due largely to the acquisition of FFHI.

- Non-TE yield on interest-earning assets for the second quarter of 2014 decreased 21 basis points from the comparable period in 2013. The decrease since the second quarter of 2013 was driven by a 326 basis point decrease in the yield on acquired loans and a 24 basis point decrease in the yield on non-acquired loans. The yield on a portion of our earning assets adjusts simultaneously, but to varying degrees of magnitude, with changes in the general level of interest rates.

- The average cost of interest-bearing liabilities for the second quarter of 2014 increased three basis points from the same period in 2013. The increase since the second quarter of 2013 is a reflection of the addition of FFHI trust preferred securities at a fixed rate of 7% and a slightly higher rate on the certificates of deposits acquired in the FFHI acquisition.

- TE net interest margin decreased by 26 basis points in the second quarter of 2014, compared to the second quarter of 2013.

Loans

Total loans, net of deferred loan costs and fees (excluding mortgage loans held for sale), increased by $2.1 billion, or 59.0%, at June 30, 2014 as compared to the same period in 2013. Acquired covered loans increased by $38.7 million and acquired non-covered loans increased by $1.7 billion due to the FFHI acquisition partially offset by principal payments, charge offs, and foreclosures. Non-acquired loans or legacy loans increased by $509.0 million, or 19.1%, from June 30, 2013 to June 30, 2014. The increase was driven by loan growth in commercial owner occupied loans of $46.9 million, consumer owner occupied loans of $176.6 million, commercial non-owner occupied loans of $4.2 million, commercial and industrial loans of $58.6 million, consumer loans of $66.7 million, construction and land development loans of $86.4 million, other income producing property loans of $15.0 million, home equity loans of $20.0 million, and other loans of $34.5 million.

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

	June 30,	% of	December 31,	% of