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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(800) 277-2175

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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South State Corporation and Subsidiary

September 30, 2015 Form 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

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

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

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

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)

Nine months ended September 30, 2015 and 2014

(Dollars in thousands, except per share data)

| | Preferred Stock | | Common Stock | | | Retained | Accumulated Other Comprehensive Income | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Surplus | Earnings | (Loss) | Total |
| Balance, December 31, 2013 | 65,000 | $ 1 | 24,104,124 | $ 60,260 | $ 762,354 | $ 168,577 | $ (9,723) | $ 981,469 |
| Comprehensive income | — | — | — | — | — | 54,189 | 8,582 | 62,771 |
| Cash dividends on Series A preferred stock at annual dividend rate of 9% | — | — | — | — | — | (1,073) | — | (1,073) |
| Cash dividends declared on common stock at $0.60 per share | — | — | — | — | — | (14,474) | — | (14,474) |
| Employee stock purchases | — | — | 7,058 | 18 | 395 | — | — | 413 |
| Stock options exercised | — | — | 9,122 | 23 | 248 | — | — | 271 |
| Restricted stock awards | — | — | 21,560 | 54 | (54) | — | — | — |
| Repurchase of Series A preferred stock | (65,000) | (1) | — | — | (64,999) | — | — | (65,000) |
| Common stock repurchased | — | — | (6,644) | (17) | (387) | — | — | (404) |
| Share-based compensation expense | — | — | — | — | 3,022 | — | — | 3,022 |
| Balance, September 30, | — | $ — | 24,135,220 | $ 60,338 | $ 700,579 | $ 207,219 | $ (1,141) | $ 966,995 |

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | $ 73,938 | $ 54,189 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,704 | 15,846 |
| Provision for loan losses | 5,038 | 5,109 |
| Deferred income taxes | 1,213 | 7,301 |
| Loss on sale of securities | — | 2 |
| Share-based compensation expense | 4,314 | 3,022 |
| Amortization on FDIC indemnification asset | 7,120 | 17,718 |
| Accretion of discount related to performing acquired loans | (4,777) | (7,580) |
| Loss on disposals of premises and equipment | 432 | 1,402 |
| Gain on sale of OREO | (1,492) | (6,826) |
| Net amortization of premiums on investment securities | 3,293 | 3,057 |
| OREO write downs | 7,673 | 8,673 |
| Fair value adjustment for loans held for sale | (104) | — |
| Originations and purchases of mortgage loans for sale | (725,597) | (560,000) |
| Proceeds from mortgage loans sales | 738,558 | 533,982 |
| Net change in: | | |
| Accrued interest receivable | (248) | (4,129) |
| Prepaid assets | 187 | 4,845 |
| FDIC indemnification asset | 7,098 | 37,567 |
| Accrued interest payable | (2,009) | (1,154) |
| Accrued income taxes | 15,435 | (5,813) |
| Miscellaneous assets and liabilities | 4,109 | (12,542) |
| Net cash provided by operating activities | 149,885 | 94,669 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investment securities available for sale | — | 9,315 |
| Proceeds from maturities and calls of investment securities held to maturity | 345 | 1,535 |
| Proceeds from maturities and calls of investment securities available for sale | 175,875 | 114,441 |
| Proceeds from sales of investment securities held to maturity | — | 411 |
| Proceeds from calls of other investment securities | 1,392 | — |
| Proceeds from sales of other investment securities | 95 | 2,868 |
| Purchases of investment securities available for sale | (255,218) | (131,823) |
| Purchases of other investment securities | — | (6,186) |
| Net increase in loans | (175,094) | (21,877) |
| Net cash received from branch acquisitions | 403,548 | — |
| Purchases of premises and equipment | (11,677) | (13,258) |

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

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

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.  Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements.  In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.  Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported.  Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for complete financial statements.

Note 2 — Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "SEC") on February 27, 2015,  should be referenced when reading these unaudited condensed consolidated financial statements.  Unless otherwise mentioned or unless the context requires otherwise, references herein to "South State," the "Company" "we," "us," "our" or similar references mean South State Corporation and its consolidated subsidiaries.  References to the "Bank" means South State Corporation's wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

Subsequent Events

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

Note 3 — Recent Accounting and Regulatory Pronouncements

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

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

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In February 2015, the FASB issued Accounting Standards Update ASU 2015-02, Amendments to the Consolidation Analysis (“ASU 2015-02”). This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but does not expect it to have a material impact.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, a consensus of the FASB Emerging Issues Task Force (“ASU 2014-16”). This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. ASU 2014-16 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2014-16 is not expected to have a material impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure (“ASU 2014-14”). ASU 2014-14 provides clarifying guidance related to how creditors classify government-guaranteed loans upon foreclosure.  ASU 2014-14 requires that a mortgage loan be derecognized and a separate receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. ASU 2014-14 became effective for the Company on January 1, 2015 and did not have an impact on the Company’s financial statements.

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

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ("ASU 2014-11"). ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company's financial statements. See Note 21 – Repurchase Agreements for the disclosure required under the provisions of ASU 2014-11.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, Topic 606 (“ASU 2014-09”). The new standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. The Company is currently evaluating the provisions of ASU 2014-09 to determine the potential impact the new standard will have to the Company’s financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force (“ASU 2014-04”). ASU 2014-04 clarifies that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 became effective for the Company on January 1, 2015 and although additional disclosures regarding residential real estate foreclosures and properties in process of foreclosure were required, did not have a significant impact on the Company’s financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (“ASU 2014-01”). ASU 2014-01 amends FASB ASC 323, Investments – Equity Method and Joint Ventures, to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). ASU 2014-02 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company’s financial statements (see Note 20).

Note 4 — Mergers and Acquisitions

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

- Community Bank & Trust (“CBT”) – January 29, 2010 – Federal Deposit Insurance Corporation (“FDIC”) purchase and assumption agreement
- Habersham Bank (“Habersham”) – February 18, 2011 – FDIC purchase and assumption agreement
- BankMeridian, N.A. (“BankMeridian”) – July 29, 2011 – FDIC purchase and assumption agreement
- Peoples Bancorporation, Inc. (“Peoples”) – April 24, 2012 – Whole bank acquisition
- The Savannah Bancorp, Inc. (“Savannah”) – December 13, 2012 – Whole bank acquisition
- First Financial Holdings, Inc. (“FFHI”) – July 26, 2013 – Whole bank acquisition which resulted in the assumption of FDIC purchase and assumption agreements with respect to Cape Fear Bank (“Cape Fear”) – April 10, 2009 and Plantation Federal Bank (“Plantation”) – April 27, 2012
- Bank of America, N.A. (“BOA”) – August 21, 2015 – Branch acquisition which resulted in the purchase of 12 South Carolina branch locations and one Georgia branch location from BOA

“FDIC purchase and assumption agreement” means that only certain assets and liabilities were acquired by the bank from the FDIC.  A “whole bank acquisition” means that the two parties in the transaction agreed to the transaction, and there was no involvement of the FDIC.  A “whole bank acquisition with FDIC purchase and assumption agreements” means that the two parties in the transaction agreed to the merger, and there were existing FDIC purchase and assumption agreements.  A “branch acquisition” means that the Company purchased specific branches, including certain deposits and loans associated with such branches, from the seller at an agreed upon price.

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Branch Acquisition

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

The branch acquisition was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition.

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

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

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

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

Explanation of fair value adjustments

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

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

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

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Note 5 — Investment Securities

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| September 30, 2015: | | | | |
| State and municipal obligations | $ 9,314 | $ 444 | $ — | $ 9,758 |
| December 31, 2014: | | | | |
| State and municipal obligations | $ 9,659 | $ 574 | $ — | $ 10,233 |
| September 30, 2014: | | | | |
| State and municipal obligations | $ 10,389 | $ 630 | $ — | $ 11,019 |

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| September 30, 2015: | | | | |
| Government-sponsored entities debt* | $ 123,926 | $ 188 | $ (320) | $ 123,794 |
| State and municipal obligations | 130,553 | 3,946 | (161) | 134,338 |
| Mortgage-backed securities** | 616,341 | 9,170 | (438) | 625,073 |
| Corporate stocks | 3,161 | 411 | (979) | 2,593 |
| | $ 873,981 | $ 13,715 | $ (1,898) | $ 885,798 |
| December 31, 2014: | | | | |
| Government-sponsored entities debt* | $ 149,720 | $ 191 | $ (1,714) | $ 148,197 |
| State and municipal obligations | 133,635 | 4,141 | (195) | 137,581 |
| Mortgage-backed securities** | 511,414 | 7,572 | (1,040) | 517,946 |
| Corporate stocks | 3,161 | 573 | (692) | 3,042 |
| | $ 797,930 | $ 12,477 | $ (3,641) | $ 806,766 |
| September 30, 2014: | | | | |
| Government-sponsored entities debt* | $ 140,438 | $ 127 | $ (3,106) | $ 137,459 |
| State and municipal obligations | 137,733 | 3,834 | (309) | 141,258 |
| Mortgage-backed securities** | 519,569 | 5,608 | (2,168) | 523,009 |
| Corporate stocks | 3,161 | 538 | (311) | 3,388 |
| | $ 800,901 | $ 10,107 | $ (5,894) | $ 805,114 |

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

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

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| September 30, 2015: | | | | |
| Federal Home Loan Bank stock | $ 7,389 | $ — | $ — | $ 7,389 |
| Investment in unconsolidated subsidiaries | 1,642 | — | — | 1,642 |
| | $ 9,031 | $ — | $ — | $ 9,031 |
| December 31, 2014: | | | | |
| Federal Home Loan Bank stock | $ 7,484 | $ — | $ — | $ 7,484 |
| Investment in unconsolidated subsidiaries | 3,034 | — | — | 3,034 |
| | $ 10,518 | $ — | $ — | $ 10,518 |
| September 30, 2014: | | | | |
| Federal Home Loan Bank stock | $ 7,484 | $ — | $ — | $ 7,484 |
| Investment in unconsolidated subsidiaries | 3,034 | — | — | 3,034 |
| | $ 10,518 | $ — | $ — | $ 10,518 |

The amortized cost and fair value of debt securities at September 30, 2015 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

| | Securities Held to Maturity | | Securities Available for Sale | |
|---|---|---|---|---|
| (Dollars in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 640 | $ 650 | $ 5,910 | $ 5,973 |
| Due after one year through five years | 1,074 | 1,154 | 70,967 | 71,520 |
| Due after five years through ten years | 7,600 | 7,954 | 205,310 | 209,356 |
| Due after ten years | — | — | 591,794 | 598,949 |
| | $ 9,314 | $ 9,758 | $ 873,981 | $ 885,798 |

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

| (Dollars in thousands) | Less Than Twelve Months Gross Unrealized Losses | Less Than Twelve Months Fair Value | Twelve Months or More Gross Unrealized Losses | Twelve Months or More Fair Value |
|---|---|---|---|---|
| September 30, 2015: | | | | |
| Securities Available for Sale | | | | |
| Government-sponsored entities debt | $ 77 | $ 14,915 | $ 243 | $ 32,732 |
| State and municipal obligations | 12 | 5,074 | 149 | 4,221 |
| Mortgage-backed securities | 179 | 32,579 | 259 | 24,555 |
| Corporate stocks | — | — | 979 | 1,251 |
| | $ 268 | $ 52,568 | $ 1,630 | $ 62,759 |
| December 31, 2014: | | | | |
| Securities Available for Sale | | | | |
| Government-sponsored entities debt | $ 98 | $ 22,896 | $ 1,616 | $ 82,798 |
| State and municipal obligations | 3 | 1,444 | 192 | 8,269 |
| Mortgage-backed securities | 266 | 61,508 | 774 | 55,960 |
| Corporate stocks | — | — | 692 | 1,538 |
| | $ 367 | $ 85,848 | $ 3,274 | $ 148,565 |
| September 30, 2014: | | | | |
| Securities Available for Sale | | | | |
| Government-sponsored entities debt | $ 71 | $ 18,422 | $ 3,035 | $ 81,384 |
| State and municipal obligations | 1 | 831 | 308 | 11,558 |
| Mortgage-backed securities | 811 | 147,160 | 1,357 | 62,638 |
| Corporate stocks | 311 | 1,919 | — | — |
| | $ 1,194 | $ 168,332 | $ 4,700 | $ 155,580 |

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the anticipated outlook for changes in the general level of interest rates. All debt securities available for sale in an unrealized loss position as of September 30, 2015 continue to perform as scheduled. All equity securities available for sale in an unrealized loss position as of September 30, 2015 continue to pay dividends. As part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at September 30, 2015. Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

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Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

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

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

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

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

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

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

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

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

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of acquired credit impaired loans as of September 30, 2015, December 31, 2014 and September 30, 2014 are as follows:

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

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

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

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

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

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

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

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

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

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

With the FFHI acquisition, the Company segregated the loan portfolio into performing loans ("non-credit impaired") and acquired credit impaired loans. The performing loans and revolving type loans are accounted for under FASB

ASC 310-20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non-acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

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

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

| (Dollars in thousands) | Non-acquired Loans | Acquired Non-Credit Impaired Loans | Acquired Credit Impaired Loans | Total |
|---|---|---|---|---|
| Three Months Ended September 30, 2015: | | | | |
| Balance at beginning of period | $ 34,782 | $ — | $ 4,688 | $ 39,470 |
| Loans charged-off | (1,530) | (141) | — | (1,671) |
| Recoveries of loans previously charged off | 655 | 273 | — | 928 |
| Net charge-offs | (875) | 132 | — | (743) |
| Provision (benefit) | 1,209 | (132) | (2) | 1,075 |
| Benefit attributable to FDIC loss share agreements | — | — | — | — |
| Total provision for loan losses charged to operations | 1,209 | (132) | (2) | 1,075 |
| Provision for loan losses recorded through the FDIC loss share receivable | — | — | — | — |
| Reduction due to loan removals | — | — | (212) | (212) |
| Balance at end of period | $ 35,116 | $ — | $ 4,474 | $ 39,590 |
| Three Months Ended September 30, 2014: | | | | |
| Balance at beginning of period | $ 35,422 | $ — | $ 9,159 | $ 44,581 |
| Loans charged-off | (2,713) | (879) | — | (3,592) |
| Recoveries of loans previously charged off | 575 | 441 | — | 1,016 |
| Net charge-offs | (2,138) | (438) | — | (2,576) |
| Provision (benefit) | 1,520 | 438 | (658) | 1,300 |
| Benefit attributable to FDIC loss share agreements | — | — | 791 | 791 |
| | 1,520 | 438 | 133 | 2,091 |

| | | | | |
|---|---|---|---|---|
| Total provision for loan losses charged to operations | | | | |
| Provision for loan losses recorded through the FDIC loss share receivable | — | — | (791) | (791) |
| Reduction due to loan removals | — | — | (469) | (469) |
| Balance at end of period | $ 34,804 | $ — | $ 8,032 | $ 42,836 |

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

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

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

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

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

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

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

| rs in thousands) | Construction & Land Development | Commercial Non-owner Occupied | Commercial Owner Occupied | Consumer Owner Occupied | Home Equity | Commercial & Industrial | Other Income Producing Property | Consumer | Total |
|---|---|---|---|---|---|---|---|---|---|
| Months Ended nber 30, 2015 | | | | | | | | | |
| ance for loan | | | | | | | | | |
| e, June 30, 2015 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| e-offs | — | — | — | 8 | (79) | (7) | — | (63) | (141) |
| eries | 1 | — | — | 95 | 161 | 2 | 3 | 11 | 273 |

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

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| (Dollars in thousands) | Construction & Land Development | Commercial Non-owner Occupied | Commercial Owner Occupied | Consumer Owner Occupied | Home Equity | Commercial & Industrial | Other Income Producing Property | Consumer | Total |
|---|---|---|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2015 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Balance, December 31, 2014 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Charge-offs | — | — | — | (360) | (1,459) | (120) | (3) | (568) | (2,510) |
| Recoveries | 3 | — | — | 100 | 178 | 17 | 4 | 21 | 323 |
| Provision (benefit) | (3) | — | — | 260 | 1,281 | 103 | (1) | 547 | 2,187 |
| Balance, September 30, 2015 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Nine Months Ended September 30, 2014 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Balance, December 31, 2014 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Charge-offs | (60) | — | — | (22) | (363) | (273) | (14) | (147) | (879) |
| Recoveries | — | — | — | 1 | 79 | 347 | — | 14 | 441 |
| Provision (benefit) | 60 | — | — | 21 | 284 | (74) | 14 | 133 | 438 |
| Balance, September 30, 2015 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

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

| (Dollars in thousands) | Commercial Loans Greater Than or Equal to $1 Million-CBT | Commercial Real Estate | Commercial Real Estate- Construction and Development | Residential Real Estate | Consumer | Commercial and Industrial | Single Pay | Total |
|---|---|---|---|---|---|---|---|---|
| Three Months Ended September 30, 2015 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Balance, June 30, 2015 | $ (66) | $ 532 | $ 344 | $ 3,183 | $ 449 | $ 197 | $ 49 | $ 4,688 |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | 7 | — | 433 | (160) | (249) | 15 | (48) | (2) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Benefit attributable to FDIC loss share agreements | — | — | — | — | — | — | — | — |
| Total provision for loan losses charged to operations | 7 | — | 433 | (160) | (249) | 15 | (48) | (2) |
| Provision for loan losses recorded through the FDIC loss share receivable | — | — | — | — | — | — | — | — |
| Reduction due to loan removals | 59 | (7) | (49) | (160) | (44) | (12) | 1 | (212) |
| Balance, September 30, 2015 | $ — | $ 525 | $ 728 | $ 2,863 | $ 156 | $ 200 | $ 2 | $ 4,474 |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Loans collectively evaluated for impairment | $ — | $ 525 | $ 728 | $ 2,863 | $ 156 | $ 200 | $ 2 | $ 4,474 |
| Loans:* | | | | | | | | |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Loans collectively evaluated for impairment | 12,963 | 266,465 | 55,168 | 330,754 | 73,632 | 34,074 | 24 | 773,080 |
| Total acquired credit impaired loans | $ 12,963 | $ 266,465 | $ 55,168 | $ 330,754 | $ 73,632 | $ 34,074 | $ 24 | $ 773,080 |
| | | | | | | | | |
| Three Months Ended September 30, 2014 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Balance , June 30, 2014 | $ 201 | $ 1,616 | $ 815 | $ 5,118 | $ 385 | $ 950 | $ 74 | $ 9,159 |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | (6) | (132) | (9) | (279) | (39) | (191) | (2) | (658) |
| Benefit attributable to FDIC loss share agreements | 6 | 144 | 9 | 394 | 40 | 198 | — | 791 |
| Total provision for loan losses charged to operations | — | 12 | — | 115 | 1 | 7 | (2) | 133 |
| Provision for loan losses recorded through the FDIC loss share receivable | (6) | (144) | (9) | (394) | (40) | (198) | — | (791) |
| | — | — | (405) | (32) | (16) | (16) | — | (469) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reduction due to loan removals | | | | | | | | |
| Balance, September 30, 2014 | $ 195 | $ 1,484 | $ 401 | $ 4,807 | $ 330 | $ 743 | $ 72 | $ 8,032 |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Loans collectively evaluated for impairment | $ 195 | $ 1,484 | $ 401 | $ 4,807 | $ 330 | $ 743 | $ 72 | $ 8,032 |
| Loans:* | | | | | | | | |
| Loans individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Loans collectively evaluated for impairment | 17,097 | 354,715 | 73,322 | 406,276 | 90,038 | 46,988 | 88 | 988,524 |
| Total acquired credit impaired loans | $ 17,097 | $ 354,715 | $ 73,322 | $ 406,276 | $ 90,038 | $ 46,988 | $ 88 | $ 988,524 |

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

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

| (Dollars in thousands) | Commercial Loans Greater Than or Equal to $1 Million-CBT | Commercial Real Estate | Commercial Real Estate-Construction and Development | Residential Real Estate | Consumer | Commercial and Industrial | Single Pay | Total |
|---|---|---|---|---|---|---|---|---|
| Nine Months Ended September 30, 2015 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Balance, December 31, 2014 | $ 135 | $ 1,444 | $ 336 | $ 4,387 | $ 275 | $ 718 | $ 70 | $ 7,365 |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | 7 | 3 | 443 | (138) | 141 | (107) | (49) | 300 |
| Benefit attributable to FDIC loss share agreements | — | — | — | — | (107) | 127 | 1 | 21 |
| Total provision for loan losses charged to operations | 7 | 3 | 443 | (138) | 34 | 20 | (48) | 321 |
| Provision for loan losses recorded through the FDIC loss share receivable | — | — | — | — | 107 | (127) | (1) | (21) |
| Reduction due to loan removals | (142) | (922) | (51) | (1,386) | (260) | (411) | (19) | (3,191) |
| Balance, September 30, 2015 | $ — | $ 525 | $ 728 | $ 2,863 | $ 156 | $ 200 | $ 2 | $ 4,474 |
| Nine Months Ended September 30, 2014 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Balance, December 31, 2013 | $ 303 | $ 1,816 | $ 2,244 | $ 5,132 | $ 538 | $ 1,481 | $ 104 | $ 11,618 |
| Provision for loan losses before benefit attributable to FDIC loss share agreements | (129) | (328) | (623) | (205) | (144) | (366) | 3 | (1,792) |
| Benefit attributable to FDIC loss share agreements | 182 | 364 | 795 | 338 | 141 | 372 | (4) | 2,188 |
| Total provision for loan losses charged to | 53 | 36 | 172 | 133 | (3) | 6 | (1) | 396 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| operations | | | | | | | | |
| Provision for loan losses recorded through the FDIC loss share receivable | (182) | (364) | (795) | (338) | (141) | (372) | 4 | (2,188) |
| Reduction due to loan removals | 21 | (4) | (1,220) | (120) | (64) | (372) | (35) | (1,794) |
| Balance, September 30, 2014 | $ 195 | $ 1,484 | $ 401 | $ 4,807 | $ 330 | $ 743 | $ 72 | $ 8,032 |

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

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

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

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

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

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

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

| | Construction & Development | | | Commercial Non-owner Occupied | | | Commercial Owner Occupied | | |
|---|---|---|---|---|---|---|---|---|---|
| n thousands) | September 30, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2014 | September 30, 2015 | December 31, 2014 | Se 30 20 |
| | $ 349,808 | $ 337,641 | $ 358,474 | $ 388,303 | $ 307,450 | $ 292,231 | $ 970,090 | $ 858,220 | $ |

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

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

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

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

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

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

Total Non-acquired Loans

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

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

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

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

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

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

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

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

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

The following table presents the credit risk profile by risk grade of acquired credit impaired loans (identified as credit-impaired at the time of acquisition), net of the related discount (this table should be read in conjunction with the allowance for acquired credit impaired loan losses table found on page 18):

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

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

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

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

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

| (Dollars in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| September 30, 2015 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ 752 | $ 209 | $ 1,113 | $ 2,074 | $ 370,003 | $ 372,077 |
| Commercial non-owner occupied | 1,218 | — | 1,597 | 2,815 | 403,674 | 406,489 |
| Commercial owner occupied | 2,418 | 108 | 5,350 | 7,876 | 1,004,552 | 1,012,428 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 1,886 | 1,180 | 3,044 | 6,110 | 981,753 | 987,863 |
| Home equity loans | 661 | 275 | 584 | 1,520 | 307,043 | 308,563 |
| Commercial and industrial | 404 | 90 | 160 | 654 | 461,934 | 462,588 |
| Other income producing property | 246 | 194 | 450 | 890 | 169,107 | 169,997 |
| Consumer | 656 | 114 | 314 | 1,084 | 222,126 | 223,210 |
| Other loans | — | — | — | — | 51,501 | 51,501 |
| | $ 8,241 | $ 2,170 | $ 12,612 | $ 23,023 | $ 3,971,693 | $ 3,994,716 |
| December 31, 2014 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ 318 | $ 439 | $ 1,354 | $ 2,111 | $ 362,110 | $ 364,221 |
| Commercial non-owner occupied | 1,197 | — | 1,432 | 2,629 | 330,961 | 333,590 |
| Commercial owner occupied | 1,106 | 95 | 5,403 | 6,604 | 901,309 | 907,913 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 1,946 | 501 | 2,746 | 5,193 | 781,585 | 786,778 |
| Home equity loans | 679 | 443 | 519 | 1,641 | 282,293 | 283,934 |
| Commercial and industrial | 760 | 123 | 107 | 990 | 404,933 | 405,923 |
| Other income producing property | 570 | 114 | 1,319 | 2,003 | 148,925 | 150,928 |
| Consumer | 512 | 243 | 120 | 875 | 188,442 | 189,317 |
| Other loans | 65 | 46 | 62 | 173 | 45,049 | 45,222 |
| | $ 7,153 | $ 2,004 | $ 13,062 | $ 22,219 | $ 3,445,607 | $ 3,467,826 |
| September 30, 2014 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ 510 | $ 195 | $ 1,208 | $ 1,913 | $ 383,405 | $ 385,318 |
| Commercial non-owner occupied | 878 | — | 2,819 | 3,697 | 314,773 | 318,470 |
| Commercial owner occupied | 177 | 4,079 | 2,149 | 6,405 | 874,998 | 881,403 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 1,842 | 646 | 2,293 | 4,781 | 697,740 | 702,521 |
| Home equity loans | 1,178 | 291 | 404 | 1,873 | 274,468 | 276,341 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial and industrial | 408 | 121 | 113 | 642 | 354,938 | 355,580 |
| Other income producing property | 264 | 219 | 2,202 | 2,685 | 152,137 | 154,822 |
| Consumer | 442 | 153 | 117 | 712 | 182,739 | 183,451 |
| Other loans | 105 | 32 | 38 | 175 | 46,627 | 46,802 |
| | $ 5,804 | $ 5,736 | $ 11,343 | $ 22,883 | $ 3,281,825 | $ 3,304,708 |

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

| (Dollars in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| September 30, 2015 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ — | $ — | $ 39 | $ 39 | $ 16,443 | $ 16,482 |
| Commercial non-owner occupied | 32 | — | — | 32 | 42,140 | 42,172 |
| Commercial owner occupied | 245 | 4 | 39 | 288 | 42,236 | 42,524 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 116 | 150 | 516 | 782 | 541,496 | 542,278 |
| Home equity loans | 658 | 92 | 537 | 1,287 | 201,738 | 203,025 |
| Commercial and industrial | — | 2 | 238 | 240 | 27,219 | 27,459 |
| Other income producing property | 97 | 7 | 5 | 109 | 55,983 | 56,092 |
| Consumer | 598 | 244 | 722 | 1,564 | 175,844 | 177,408 |
| | $ 1,746 | $ 499 | $ 2,096 | $ 4,341 | $ 1,103,099 | $ 1,107,440 |
| December 31, 2014 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ 17 | $ — | $ 40 | $ 57 | $ 24,042 | $ 24,099 |
| Commercial non-owner occupied | — | — | — | — | 49,476 | 49,476 |
| Commercial owner occupied | 414 | — | 38 | 452 | 61,613 | 62,065 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 443 | 241 | 1,566 | 2,250 | 644,125 | 646,375 |
| Home equity loans | 1,451 | 866 | 972 | 3,289 | 231,660 | 234,949 |
| Commercial and industrial | 14 | 250 | 117 | 381 | 40,749 | 41,130 |
| Other income producing property | 97 | — | 88 | 185 | 64,954 | 65,139 |
| Consumer | 885 | 341 | 843 | 2,069 | 202,697 | 204,766 |
| | $ 3,321 | $ 1,698 | $ 3,664 | $ 8,683 | $ 1,319,316 | $ 1,327,999 |
| September 30, 2014 | | | | | | |
| Commercial real estate: | | | | | | |
| Construction and land development | $ 1,216 | $ — | $ 41 | $ 1,257 | $ 26,448 | $ 27,705 |
| Commercial non-owner occupied | 17 | — | — | 17 | 50,290 | 50,307 |
| Commercial owner occupied | 1,054 | — | 37 | 1,091 | 64,329 | 65,420 |
| Consumer real estate: | | | | | | |
| Consumer owner occupied | 7,429 | 664 | 2,338 | 10,431 | 662,668 | 673,099 |
| Home equity loans | 1,124 | 403 | 945 | 2,472 | 240,248 | 242,720 |
| Commercial and industrial | 218 | 56 | 240 | 514 | 34,558 | 35,072 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other income producing property | 276 | 75 | 85 | 436 | 68,121 | 68,557 |
| Consumer | 1,488 | 283 | 637 | 2,408 | 212,055 | 214,463 |
| | $ 12,822 | $ 1,481 | $ 4,323 | $ 18,626 | $ 1,358,717 | $ 1,377,343 |

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

| (Dollars in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| September 30, 2015 | | | | | | |
| Commercial loans greater than or equal to $1 million-CBT | $ — | $ — | $ — | $ — | $ 12,963 | $ 12,963 |
| Commercial real estate | 1,902 | 1,145 | 5,190 | 8,237 | 258,228 | 266,465 |
| Commercial real estate—construction and development | 960 | 983 | 2,575 | 4,518 | 50,650 | 55,168 |
| Residential real estate | 3,735 | 1,913 | 8,805 | 14,453 | 316,301 | 330,754 |
| Consumer | 1,660 | 630 | 2,305 | 4,595 | 69,037 | 73,632 |
| Commercial and industrial | 458 | 153 | 2,776 | 3,387 | 30,687 | 34,074 |
| Single pay | — | — | — | — | 24 | 24 |
| | $ 8,715 | $ 4,824 | $ 21,651 | $ 35,190 | $ 737,890 | $ 773,080 |
| December 31, 2014 | | | | | | |
| Commercial loans greater than or equal to $1 million-CBT | $ — | $ — | $ 2,896 | $ 2,896 | $ 12,917 | $ 15,813 |
| Commercial real estate | 4,350 | 723 | 15,866 | 20,939 | 304,170 | 325,109 |
| Commercial real estate—construction and development | 1,750 | 452 | 8,204 | 10,406 | 54,856 | 65,262 |
| Residential real estate | 7,194 | 2,856 | 15,471 | 25,521 | 364,723 | 390,244 |
| Consumer | 2,241 | 1,106 | 2,614 | 5,961 | 79,488 | 85,449 |
| Commercial and industrial | 451 | 196 | 3,413 | 4,060 | 40,744 | 44,804 |
| Single pay | — | — | — | — | 86 | 86 |
| | $ 15,986 | $ 5,333 | $ 48,464 | $ 69,783 | $ 856,984 | $ 926,767 |
| September 30, 2014 | | | | | | |
| Commercial loans greater than or equal to $1 million-CBT | $ — | $ — | $ 3,625 | $ 3,625 | $ 13,472 | $ 17,097 |
| Commercial real estate | 7,352 | 2,723 | 16,462 | 26,537 | 328,178 | 354,715 |
| Commercial real estate—construction and development | 700 | 529 | 9,930 | 11,159 | 62,163 | 73,322 |
| Residential real estate | 17,424 | 4,784 | 15,678 | 37,886 | 368,390 | 406,276 |
| Consumer | 5,070 | 1,517 | 2,166 | 8,753 | 81,285 | 90,038 |
| Commercial and industrial | 1,058 | 456 | 4,628 | 6,142 | 40,846 | 46,988 |
| Single pay | — | — | — | — | 88 | 88 |
| | $ 31,604 | $ 10,009 | $ 52,489 | $ 94,102 | $ 894,422 | $ 988,524 |

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

| (Dollars in thousands) | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Gross Recorded Investment With Allowance | Total Recorded Investment | Related Allowance |
|---|---|---|---|---|---|
| September 30, 2015 | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | $ 8,321 | $ 1,128 | $ 4,599 | $ 5,727 | $ 585 |
| Commercial non-owner occupied | 3,935 | 1,644 | 925 | 2,569 | 26 |
| Commercial owner occupied | 16,195 | 7,325 | 4,120 | 11,445 | 248 |
| Consumer real estate: | | | | | |
| Consumer owner occupied | 8,969 | 3,928 | 3,890 | 7,818 | 121 |
| Home equity loans | 390 | 185 | 108 | 293 | 3 |
| Commercial and industrial | 1,939 | 295 | 750 | 1,045 | 21 |
| Other income producing property | 5,601 | 117 | 4,671 | 4,788 | 430 |
| Consumer | 151 | — | 101 | 101 | 3 |
| Other loans | 887 | — | 693 | 693 | 19 |
| Total | $ 46,388 | $ 14,622 | $ 19,857 | $ 34,479 | $ 1,456 |
| December 31, 2014 | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | $ 7,414 | $ 1,528 | $ 3,324 | $ 4,852 | $ 475 |
| Commercial non-owner occupied | 4,920 | 2,539 | 1,071 | 3,610 | 77 |
| Commercial owner occupied | 12,508 | 5,546 | 3,614 | 9,160 | 172 |
| Consumer real estate: | | | | | |
| Consumer owner occupied | 3,393 | — | 2,966 | 2,966 | 144 |
| Home equity loans | 131 | — | 31 | 31 | 1 |
| Commercial and industrial | 1,625 | 336 | 572 | 908 | 41 |
| Other income producing property | 6,280 | 360 | 5,138 | 5,498 | 646 |
| Consumer | 95 | — | 60 | 60 | 2 |
| Total | $ 36,366 | $ 10,309 | $ 16,776 | $ 27,085 | $ 1,558 |
| September 30, 2014 | | | | | |
| Commercial real estate: | | | | | |
| Construction and land development | $ 7,386 | $ 2,229 | $ 2,647 | $ 4,876 | $ 402 |
| Commercial non-owner occupied | 4,846 | 2,700 | 1,084 | 3,784 | 30 |
| Commercial owner occupied | 13,097 | 5,576 | 3,860 | 9,436 | 100 |
| Consumer real estate: | | | | | |
| Consumer owner occupied | 2,972 | — | 2,427 | 2,427 | 121 |
| Home equity loans | — | — | — | — | — |
| Commercial and industrial | 1,447 | 693 | 417 | 1,110 | 12 |
| Other income producing property | 7,066 | 914 | 5,466 | 6,380 | 711 |
| Consumer | 81 | — | 50 | 50 | 1 |

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

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

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| (Dollars in thousands) | Average Investment in Impaired Loans | Interest Income Recognized | Average Investment in Impaired Loans | Interest Income Recognized |
| Commercial real estate: | | | | |
| Construction and land development | $ 5,418 | $ 116 | $ 5,277 | $ 23 |
| Commercial non-owner occupied | 2,590 | 13 | 4,966 | 8 |
| Commercial owner occupied | 11,208 | 89 | 10,294 | 27 |
| Consumer real estate: | | | | |
| Consumer owner occupied | 7,070 | 80 | 2,480 | 30 |
| Home equity loans | 263 | 4 | — | — |
| Commercial and industrial | 1,028 | 29 | 929 | 2 |
| Other income producing property | 4,788 | 95 | 6,377 | 52 |
| Consumer | 85 | 1 | 68 | 1 |
| Other loans | 347 | 4 | — | — |
| Total Impaired Loans | $ 32,797 | $ 431 | $ 30,391 | $ 143 |

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

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

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

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

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|
| Commercial non-owner occupied real estate: | | | |
| Construction and land development | $ 39 | $ 41 | $ — |
| Commercial non-owner occupied | 95 | 645 | 14 |
| Total commercial non-owner occupied real estate | 134 | 686 | 14 |
| Consumer real estate: | | | |
| Consumer owner occupied | 1,048 | 3,685 | 2,733 |
| Home equity loans | 1,115 | 1,507 | 1,228 |
| Total consumer real estate | 2,163 | 5,192 | 3,961 |
| Commercial owner occupied real estate | 40 | 38 | 38 |
| Commercial and industrial | 243 | 120 | 165 |
| Other income producing property | 382 | 309 | 318 |
| Consumer | 1,168 | 1,193 | 863 |
| Total loans on nonaccrual status | $ 4,130 | $ 7,538 | $ 5,359 |

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

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The Bank designates loan modifications as TDRs when it grants a concession to the borrower that it would not otherwise consider due to the borrower experiencing financial difficulty (FASB ASC Topic 310-40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accruing status when there is economic substance to the restructuring, there is documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months). For the three and nine months ended September 30, 2015 and 2014, the Company's TDR's were not material.

Note 7—FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

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

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

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

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

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Note 8—Other Real Estate Owned

The following is a summary of information pertaining to OREO:

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

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

Note 9 — Deposits

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

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

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

## Note 10 — Retirement Plans

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

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

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

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

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

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

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

Note 11 — Earnings Per Share

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

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

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

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

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

Note 12 — Share-Based Compensation

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

Stock Options

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

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

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

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

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

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

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Restricted Stock

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

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

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

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

Restricted Stock Units

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

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

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

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

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Note 13 — Commitments and Contingent Liabilities

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

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

Note 14 — Fair Value

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

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

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

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

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

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

Investment Securities

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

Mortgage Loans Held for Sale

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

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Loans

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

Other Real Estate Owned (“OREO”)

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

Derivative Financial Instruments

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

Mortgage servicing rights (“MSRs”)

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

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

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

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

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Changes in Level 1, 2 and 3 Fair Value Measurements

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

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

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

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

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

Quoted Prices

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

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Quantitative Information about Level 3 Fair Value Measurement

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 15 — Accumulated Other Comprehensive Income (Loss)

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

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

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

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

Note 16 — Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

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

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

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

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Non-designated Hedges of Interest Rate Risk

Customer Swap

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

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

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

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

Mortgage Banking

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

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Mortgage Servicing Rights

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

Mortgage Pipeline

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

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

Note 17 — Capital Ratios

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

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

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

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

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

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

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

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

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

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

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

Note 18—Goodwill and Other Intangible Assets

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

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

Amortization expense totaled $2.1 million and $6.1 million for the three and nine months ended September 30, 2015, respectively. Other intangibles are amortized using either the straight-line method or an accelerated basis over their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 20 – Investments in Qualified Affordable Housing Projects

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

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Note 21 – Repurchase Agreements

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

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

Note 22 – Subsequent Events

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

Branch Initiatives

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

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

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

### Overview

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

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

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

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

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

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

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

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Recent Events

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

Branch Initiatives

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

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

Critical Accounting Policies

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

Allowance for Loan Losses

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

Goodwill and Other Intangible Assets

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

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

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

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

Income Taxes and Deferred Tax Assets

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

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

Other Real Estate Owned

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our quarterly efficiency ratio increased to 64.4% compared to 63.2% in the second quarter of 2015 and decreased from 71.0% in the third quarter of 2014. The increase in the efficiency ratio compared to the second quarter of 2015 was the result of an increase in noninterest expense of $1.7 million while noninterest revenue remained flat. The increase in noninterest expense was driven by increases in operating expenses from the branches acquired from BOA in the third quarter and from an increase in nonrecurring charges related to the branch consolidations and acquisitions. The decrease in the efficiency ratio compared to the third quarter of 2014 was the result of a 21.8% increase in noninterest income and a 2.5% decrease in noninterest expense. Compared to the third quarter of 2014, noninterest expense was down by $1.9 million with a $3.8 million decrease in nonrecurring expenses. Excluding nonrecurring expenses, the efficiency ratio was 61.7% for the third quarter of 2015, compared to 61.2% for the second quarter of 2015 and 64.5% for the third quarter of 2014.

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

Selected Figures and Ratios

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

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

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

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

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

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Reconciliation of Non-GAAP to GAAP

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

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

Net Interest Income and Margin

Summary

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

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

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

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

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

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

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Loans

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

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

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

Note: Loan data excludes loans held for sale.

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

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

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

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

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

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

Investment Securities

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

| | Three Months Ended | Nine Months Ended |
|---|---|---|

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

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

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

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

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

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

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

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

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

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

Other Investments

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

Interest-Bearing Liabilities

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

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

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

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

Noninterest-Bearing Deposits

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

Provision for Loan Losses and Nonperforming Assets

The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

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

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

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

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past-due and nonaccrual levels and migration in the pools to lower loan grades. Offsetting the impact of the provision established for the loan, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 6—Loans and Allowance for Loan Losses).

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

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

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

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

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

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

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

We increased the ALLL compared to the third quarter of 2014, as well as compared to the second quarter of 2015, due primarily to larger loans and increases in certain loan types during the third quarter. During the third quarter of 2015, we continued to experience a decline in combined past due and nonaccrual loans, classified assets, and reduced bankruptcies and foreclosures.  From a general perspective, we consider three-year historical loss rates on all loan portfolios, except residential lot loans and lot loans held for sale where two-year historical loss rates are applied.  We also consider economic risk, model risk and operational risk when determining the ALLL.  All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio.  Overall, the general reserve increased by $233,000 compared to the balance at September 30, 2014 and increased by $190,000 from June 30, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Potential Problem Loans

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

Noninterest Income

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

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

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

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

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

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

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

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

Noninterest Expense

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2015 | 2014 |
| Salaries and employee benefits | $ 40,013 | $ 40,029 | $ 120,754 | $ 119,398 |
| Net occupancy expense | 5,395 | 5,387 | 15,678 | 16,758 |
| Information services expense | 4,736 | | | |