

Ameris Bancorp  
Form 10-Q  
November 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**Commission File Number: 001-13901**

**AMERIS BANCORP**

**(Exact name of registrant as specified in its charter)**

**GEORGIA**  
(State of incorporation)  
**58-1456434**  
(IRS Employer ID No.)  
**310 FIRST STREET, S.E., MOULTRIE, GA 31768**

(Address of principal executive offices)

(229) 890-1111

(Registrant's telephone number)

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 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

There were 28,160,598 shares of Common Stock outstanding as of October 31, 2014.

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**AMERIS BANCORP**

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**Table of Contents****Item 1. Financial Statements.****AMERIS BANCORP AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(amounts in thousands, except per share data)**

|  | <b>September 30,<br/>2014<br/>(Unaudited)</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013<br/>(Unaudited)</b> |
|--|---|------------------------------|---|
| <b>Assets</b>  |   |                              |   |
| Cash and due from banks  | \$ 69,421                                     | \$ 62,955                    | \$ 53,516                                     |
| Federal funds sold and interest-bearing accounts   | 40,165  | 204,984                      | 73,899  |
| Investment securities available for sale, at fair value                                      | 529,509                                       | 486,235                      | 312,248                                       |
| Other investments  | 12,687  | 16,828                       | 7,764   |
| Mortgage loans held for sale   | 110,059                                       | 67,278                       | 69,634  |
| Loans, net of unearned income  | 1,848,759                                     | 1,618,454                    | 1,589,267                                     |
| Purchased loans not covered by FDIC loss share agreements<br>( purchased non-covered loans ) | 673,724                                       | 448,753                      |   |
| Purchased loans covered by FDIC loss share agreements<br>( covered loans )                   | 313,589                                       | 390,237                      | 417,649                                       |
| Less: allowance for loan losses  | (22,212)                                      | (22,377)                     | (23,854)                                      |
| <b>Loans, net</b>  | <b>2,813,860</b>                              | <b>2,435,067</b>             | <b>1,983,062</b>                              |
| Other real estate owned, net   | 35,320  | 33,351                       | 37,978  |
| Purchased, non-covered other real estate owned, net  | 13,660  | 4,276                        |   |
| Covered other real estate owned, net   | 28,883  | 45,893                       | 52,552  |
| <b>Total other real estate owned, net</b>  | <b>77,863</b>                                 | <b>83,520</b>                | <b>90,530</b>                                 |
| Premises and equipment, net  | 98,752  | 103,188                      | 65,661  |
| FDIC loss-share receivable   | 38,233  | 65,441                       | 81,763  |
| Other intangible assets, net   | 9,114   | 6,009                        | 1,972   |
| Goodwill   | 58,879  | 35,049                       | 956   |
| Cash value of bank owned life insurance  | 58,217  | 49,432                       | 49,095  |
| Other assets   | 82,649  | 51,663                       | 28,402  |
| <b>Total assets</b>  | <b>\$ 3,999,408</b>                           | <b>\$ 3,667,649</b>          | <b>\$ 2,818,502</b>                           |
| <b>Liabilities and Stockholders Equity</b>   |   |                              |   |
| <b>Liabilities</b>   |   |                              |   |
| <b>Deposits:</b>   |   |                              |   |
| Noninterest-bearing  | \$ 816,517                                    | \$ 668,531                   | \$ 475,505                                    |
| Interest-bearing   | 2,556,602                                     | 2,330,700                    | 1,967,916                                     |

|  |                  |                  |                  |
|--|------------------|------------------|------------------|
| Total deposits                                 | 3,373,119        | 2,999,231        | 2,443,421        |
| Securities sold under agreements to repurchase | 32,351           | 83,516           | 20,255           |
| Other borrowings                               | 147,409          | 194,572          | 5,000            |
| Other liabilities                              | 27,615           | 18,165           | 17,201           |
| Subordinated deferrable interest debentures    | 65,084           | 55,466           | 42,269           |
| <b>Total liabilities</b>                       | <b>3,645,578</b> | <b>3,350,950</b> | <b>2,528,146</b> |

### Stockholders' Equity

|  |                |                |                |
|--|----------------|----------------|----------------|
| Preferred stock, stated value \$1,000; 5,000,000 shares authorized; 0, 28,000 and 28,000 shares issued and outstanding |                | 28,000         | 27,938         |
| Common stock, par value \$1; 100,000,000 shares authorized; 28,157,898; 26,461,769 and 25,270,851 issued               | 28,158         | 26,462         | 25,271         |
| Capital surplus  | 224,142        | 189,722        | 165,835        |
| Retained earnings  | 109,170        | 83,991         | 83,025         |
| Accumulated other comprehensive income (loss)  | 3,974          | (294)          | (531)          |
| Treasury stock, at cost, 1,383,496; 1,363,342 and 1,363,342 shares   | (11,614)       | (11,182)       | (11,182)       |
| <b>Total stockholders' equity</b>  | <b>353,830</b> | <b>316,699</b> | <b>290,356</b> |

|  |              |              |              |
|--|--------------|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 3,999,408 | \$ 3,667,649 | \$ 2,818,502 |
|--|--------------|--------------|--------------|

See notes to unaudited consolidated financial statements.

Table of Contents**AMERIS BANCORP AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(amounts in thousands, except per share data)

(Unaudited)

|  | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2014</b>                                     | <b>2013</b> | <b>2014</b>                                | <b>2013</b> |
| <b>Interest income</b>                                     |   |             |  |             |
| Interest and fees on loans                                 | \$ 39,610                                       | \$ 29,633   | \$ 109,376                                 | \$ 88,208   |
| Interest on taxable securities                             | 3,034   | 1,720       | 8,972                                      | 5,136       |
| Interest on nontaxable securities                          | 496   | 352         | 1,143                                      | 1,071       |
| Interest on deposits in other banks and federal funds sold | 46  | 44          | 175  | 158         |
| Total interest income                                      | 43,186  | 31,749      | 119,666                                    | 94,573      |
| <b>Interest expense</b>                                    |   |             |  |             |
| Interest on deposits                                       | 2,540   | 2,025       | 6,928                                      | 6,334       |
| Interest on other borrowings                               | 1,514   | 404         | 3,858                                      | 1,105       |
| Total interest expense                                     | 4,054   | 2,429       | 10,786                                     | 7,439       |
| Net interest income  | 39,132  | 29,320      | 108,880                                    | 87,134      |
| <b>Provision for loan losses</b>                           | 1,669   | 2,920       | 4,760                                      | 10,008      |
| Net interest income after provision for loan losses        | 37,463  | 26,400      | 104,120                                    | 77,126      |
| <b>Noninterest income</b>                                  |   |             |  |             |
| Service charges on deposit accounts                        | 6,659   | 4,948       | 18,092                                     | 14,480      |
| Mortgage banking activity                                  | 7,498   | 5,232       | 19,510                                     | 14,697      |
| Other service charges, commissions and fees                | 690   | 593         | 2,004                                      | 1,539       |
| Gain (loss) on sale of securities                          | 132   |             | 138  | 171         |
| Other noninterest income                                   | 2,922   | 1,515       | 6,730                                      | 4,145       |
| Total noninterest income                                   | 17,901  | 12,288      | 46,474                                     | 35,032      |
| <b>Noninterest expense</b>                                 |   |             |  |             |
| Salaries and employee benefits                             | 20,226  | 14,412      | 54,562                                     | 41,599      |
| Occupancy and equipment                                    | 4,669   | 3,149       | 12,804                                     | 9,058       |
| Advertising and marketing expenses                         | 594   | 434         | 2,022                                      | 1,016       |
| Amortization of intangible assets                          | 698   | 346         | 1,668                                      | 1,068       |
| Data processing and telecommunications expenses            | 3,928   | 3,072       | 11,322                                     | 8,478       |

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|   |           |          |           |           |
|---|-----------|----------|-----------|-----------|
| Credit resolution related expenses  | 3,186     | 2,971    | 8,216     | 10,164    |
| Merger and conversion charges   | 551       | 512      | 3,873     | 512       |
| Other noninterest expenses  | 4,727     | 3,853    | 14,669    | 12,426    |
| Total noninterest expense   | 38,579    | 28,749   | 109,136   | 84,321    |
| Income before income tax expense  | 16,785    | 9,939    | 41,458    | 27,837    |
| Income tax expense  | 5,122     | 3,262    | 13,315    | 9,197     |
| Net income  | 11,663    | 6,677    | 28,143    | 18,640    |
| Less preferred stock dividends and discount accretion   |           | 443      | 286       | 1,326     |
| Net income available to common shareholders   | \$ 11,663 | \$ 6,234 | \$ 27,857 | \$ 17,314 |
| <b>Other comprehensive income (loss)</b>  |           |          |           |           |
| Unrealized holding gain (loss) arising during period on investment securities available for sale, net of tax of \$114, \$2,158, (\$2,610) and \$4,375 | (211)     | (4,007)  | 4,847     | (8,125)   |
| Reclassification adjustment for losses (gains) included in earnings, net of tax of \$46, \$0, \$48 and \$60   | (86)      |          | (90)      | (111)     |
| Unrealized gain (loss) on cash flow hedges arising during period, net of tax of (\$80), \$57, \$264 and (\$591)                                       | 149       | (106)    | (489)     | 1,098     |
| <b>Other comprehensive income (loss)</b>  | (148)     | (4,113)  | 4,268     | (7,138)   |
| <b>Total comprehensive income</b>   | \$ 11,515 | \$ 2,564 | \$ 32,411 | \$ 11,502 |
| <b>Basic earnings per common share</b>  | \$ 0.44   | \$ 0.26  | \$ 1.08   | \$ 0.72   |
| <b>Diluted earnings per common share</b>  | \$ 0.43   | \$ 0.26  | \$ 1.07   | \$ 0.71   |
| <b>Dividends declared per common share</b>  | \$ 0.05   | \$       | \$ 0.10   | \$        |
| <b>Weighted average common shares outstanding</b>   |           |          |           |           |
| Basic   | 26,773    | 23,901   | 25,705    | 23,883    |
| Diluted   | 27,161    | 24,316   | 26,099    | 24,298    |

See notes to unaudited consolidated financial statements.

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(amounts in thousands, except per share data)

(Unaudited)

|   | Nine Months Ended<br>September 30, 2014 |                   | Nine Months Ended<br>September 30, 2013 |                   |
|---|---|-------------------|---|-------------------|
|   | Shares                                  | Amount            | Shares                                  | Amount            |
| <b>PREFERRED STOCK</b>                                    |   |                   |   |                   |
| Issued at beginning of period                             | 28,000                                  | \$ 28,000         | 28,000                                  | \$ 27,662         |
| Repurchase of preferred stock                             | (28,000)                                | (28,000)          |   |                   |
| Accretion of fair value of warrant                        |   |                   |   | 276               |
| <i>Issued at end of period</i>                            |   | \$                | <b>28,000</b>                           | <b>\$ 27,938</b>  |
| <b>COMMON STOCK</b>                                       |   |                   |   |                   |
| Issued at beginning of period                             | 26,461,769                              | \$ 26,462         | 25,154,818                              | \$ 25,155         |
| Issuance of restricted shares                             | 68,047                                  | 68                | 83,400                                  | 83                |
| Issuance of common stock                                  | 1,598,998                               | 1,599             |   |                   |
| Cancellation of restricted shares                         |   |                   | (1,000)                                 | (1)               |
| Proceeds from exercise of stock options                   | 29,084                                  | 29                | 33,633                                  | 34                |
| <i>Issued at end of period</i>                            | <b>28,157,898</b>                       | <b>\$ 28,158</b>  | <b>25,270,851</b>                       | <b>\$ 25,271</b>  |
| <b>CAPITAL SURPLUS</b>                                    |   |                   |   |                   |
| Balance at beginning of period                            |   | \$ 189,722        |   | \$ 164,949        |
| Stock-based compensation                                  |   | 1,230             |   | 592               |
| Issuance of common stock                                  |   | 32,875            |   |                   |
| Proceeds from exercise of stock options                   |   | 383               |   | 376               |
| Issuance of restricted shares                             |   | (68)              |   | (83)              |
| Cancellation of restricted shares                         |   |                   |   | 1                 |
| <i>Balance at end of period</i>                           |   | <b>\$ 224,142</b> |   | <b>\$ 165,835</b> |
| <b>RETAINED EARNINGS</b>                                  |   |                   |   |                   |
| Balance at beginning of period                            |   | \$ 83,991         |   | \$ 65,710         |
| Net income  |   | 28,143            |   | 18,640            |
| Cash dividends declared, \$0.10 per share                 |   | (2,678)           |   |                   |
| Dividends on preferred shares                             |   | (286)             |   | (1,050)           |
| Accretion of fair value of warrant                        |   |                   |   | (275)             |
| <i>Balance at end of period</i>                           |   | <b>\$ 109,170</b> |   | <b>\$ 83,025</b>  |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF TAX</b> |   |                   |   |                   |
| Unrealized gains on securities and derivatives:           |   |                   |   |                   |
| Balance at beginning of period                            |   | \$ (294)          |   | \$ 6,607          |

|                                   |                    |                    |                    |                    |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
| Other comprehensive income (loss) |                    | 4,268              |                    | (7,138)            |
| <b>Balance at end of period</b>   |                    | <b>\$ 3,974</b>    |                    | <b>\$ (531)</b>    |
| <b>TREASURY STOCK</b>             |                    |                    |                    |                    |
| Balance at beginning of period    | (1,363,342)        | \$ (11,182)        | (1,355,050)        | \$ (11,066)        |
| Purchase of treasury shares       | (20,154)           | (432)              | (8,292)            | (116)              |
| <b>Balance at end of period</b>   | <b>(1,383,496)</b> | <b>\$ (11,614)</b> | <b>(1,363,342)</b> | <b>\$ (11,182)</b> |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  |                    | <b>\$ 353,830</b>  |                    | <b>\$ 290,356</b>  |

See notes to unaudited consolidated financial statements.

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**AMERIS BANCORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

(Unaudited)

|   | <b>Nine Months Ended<br/>September 30,</b> |               |
|---|--|---------------|
|   | <b>2014</b>                                | <b>2013</b>   |
| <b>Cash flows from operating activities:</b>  |  |               |
| Net income  | \$ 28,143                                  | \$ 18,640     |
| Adjustments reconciling net income to net cash provided by operating activities:      |  |               |
| Depreciation  | 5,850                                      | 3,683         |
| Stock based compensation expense  | 1,230                                      | 592           |
| Net gains on sale or disposal of premises and equipment                               | (615)                                      | (61)          |
| Net losses or write-downs on sale of other real estate owned                          | 2,344                                      | 5,646         |
| Provision for loan losses   | 4,760                                      | 10,008        |
| Accretion of discount on covered loans  | (20,822)                                   | (36,552)      |
| Accretion of discount on purchased non-covered loans                                  | (5,840)                                    |               |
| Accretion of FDIC loss-share receivable, net of amortization of FDIC clawback payable | 8,699                                      | 19,721        |
| Increase in cash surrender value of BOLI  | (973)                                      | (898)         |
| Amortization of intangible assets   | 1,668                                      | 1,068         |
| Net amortization of investment securities available for sale                          | 2,609                                      | 2,531         |
| Originations of mortgage loans held for sale  | (504,164)                                  | (399,606)     |
| Proceeds from sales of mortgage loans held for sale                                   | 468,671                                    | 378,758       |
| Net gains on securities available for sale  | (138)                                      | (171)         |
| Change attributable to other operating activities                                     | 3,685                                      | 15,843        |
| <b>Net cash provided by (used in) operating activities</b>                            | <b>(4,893)</b>                             | <b>19,202</b> |
| <b>Cash flows from investing activities, net of effect of business combinations:</b>  |  |               |
| Net decrease in federal funds sold and interest-bearing deposits                      | 180,742                                    | 119,778       |
| Proceeds from maturities of securities available for sale                             | 37,706                                     | 43,474        |
| Purchase of securities available for sale   | (102,340)                                  | (61,445)      |
| Proceeds from sales of securities available for sale                                  | 92,975                                     | 36,669        |
| Purchase of bank owned life insurance   |  | (30,000)      |
| Net increase in loans, excluding purchased non-covered and covered loans              | (243,809)                                  | (155,447)     |
| Payments received on purchased non-covered loans                                      | 58,350                                     |               |
| Payments received on covered loans  | 85,946                                     | 96,629        |
| Payments received from FDIC under loss share agreements                               | 18,509                                     | 58,240        |
| Proceeds from sales of other real estate owned  | 31,913                                     | 55,270        |
| Decrease in restricted equity securities, net   | 5,116                                      |               |
| Proceeds from sales of premises and equipment   | 1,213                                      | 1,889         |

|  |                  |                  |
|--|------------------|------------------|
| Purchases of premises and equipment  | (3,779)          | (4,136)          |
| Net cash proceeds received from acquisitions   | 1,099            |                  |
| <b>Net cash provided by investing activities</b>                                     | <b>163,641</b>   | <b>160,921</b>   |
| <b>Cash flows from financing activities, net of effect of business combinations:</b> |                  |                  |
| Net increase/(decrease) in deposits  | 4,864            | (181,242)        |
| Net decrease in securities sold under agreements to repurchase                       | (56,593)         | (29,865)         |
| Repayment of other borrowings  | (187,032)        |                  |
| Proceeds from other borrowings   | 117,463          | 5,000            |
| Redemption of preferred stock  | (28,000)         |                  |
| Dividends paid preferred stock   | (286)            | (1,050)          |
| Dividends paid common stock  | (2,678)          |                  |
| Purchase of treasury shares  | (432)            | (116)            |
| Proceeds from exercise of stock options  | 412              | 410              |
| <b>Net cash used in financing activities</b>   | <b>(152,282)</b> | <b>(206,863)</b> |
| <b>Net increase (decrease) in cash and due from banks</b>                            | <b>6,466</b>     | <b>(26,740)</b>  |
| <b>Cash and due from banks at beginning of period</b>                                | <b>62,955</b>    | <b>80,256</b>    |
| <b>Cash and due from banks at end of period</b>                                      | <b>\$ 69,421</b> | <b>\$ 53,516</b> |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid/(received) during the period for:

|  |           |           |
|--|-----------|-----------|
| Interest   | \$ 10,773 | \$ 7,840  |
| Income taxes   | \$ 15,008 | \$ 11,304 |
| Loans (excluding purchased non-covered and covered loans) transferred to other real estate owned | \$ 9,268  | \$ 8,329  |
| Purchased non-covered loans transferred to other real estate owned                               | \$ 1,955  | \$        |
| Covered loans transferred to other real estate owned   | \$ 10,840 | \$ 28,725 |
| Issuance of common stock in acquisitions   | \$ 34,474 | \$        |

**See notes to unaudited consolidated financial statements.**

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**AMERIS BANCORP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

Ameris Bancorp (the Company or Ameris) is a financial holding company headquartered in Moultrie, Georgia. Ameris conducts substantially all of its operations through its wholly-owned banking subsidiary, Ameris Bank (the Bank). At September 30, 2014, the Bank operated 74 retail branches and 11 mortgage offices in select markets in Georgia, Alabama, Florida and South Carolina. Our business model capitalizes on the efficiencies of a large financial services company while still providing the community with the personalized banking service expected by our customers. We manage our Bank through a balance of decentralized management responsibilities and efficient centralized operating systems, products and loan underwriting standards. The Company's Board of Directors and senior managers establish corporate policy, strategy and administrative policies. Within the Company's established guidelines and policies, the banker closest to the customer responds to the differing needs and demands of their market.

The accompanying unaudited consolidated financial statements for Ameris have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the period ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto and the report of our registered independent public accounting firm included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

***Newly Issued Accounting Pronouncements***

ASU 2014-09 *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 provides guidance that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective prospectively, for annual and interim periods, beginning after December 15, 2016. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position or disclosures.

ASU 2014-04 *Receivables - Troubled Debt Restructurings by Creditors* (ASU 2014-04). ASU 2014-04 clarifies when a creditor should reclassify mortgage loans collateralized by residential real estate from loans to other real estate owned. It defines when an in-substance repossession or foreclosure has occurred and when a creditor is considered to have received physical possession of residential real estate collateralizing a mortgage loan. ASU 2014-04 is effective for fiscal years beginning after December 31, 2014, and early adoption is permitted. It can be applied either prospectively or using a modified retrospective transition method. The Company is evaluating the impact this standard

may have on the Company's results of operations, financial position or disclosures.

ASU 2013-11 *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. However, if a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of these revisions did not have a material impact on the Company's results of operations, financial position or disclosures.

**Table of Contents****NOTE 2 BUSINESS COMBINATIONS***Coastal Bankshares, Inc.*

On June 30, 2014, the Company completed its acquisition of The Coastal Bankshares, Inc. (Coastal), a bank holding company headquartered in Savannah, Georgia. Upon consummation of the acquisition, Coastal was merged with and into the Company, with Ameris as the surviving entity in the merger. At that time, Coastal's wholly owned banking subsidiary, The Coastal Bank (Coastal Bank), was also merged with and into the Bank. The acquisition grew the Company's existing market presence, as Coastal Bank had a total of six banking locations in Chatham, Liberty and Effingham Counties, Georgia. Coastal's common shareholders received 0.4671 of a share of the Company's common stock in exchange for each share of Coastal's common stock. As a result, the Company issued 1,598,998 common shares at a fair value of \$34.5 million and paid \$2.8 million cash in exchange for outstanding warrants.

The acquisition of Coastal was accounted for using the purchase method of accounting in accordance with FASB ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. During the third quarter of 2014, management revised its initial estimates regarding the valuation of other real estate owned. In addition, during the third quarter of 2014, management completed its assessment and recorded the deferred tax assets resulting from differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for income tax purposes. This estimate also reflects acquired net operating loss carryforwards and other acquired assets with built-in losses that are expected to be settled or otherwise recovered in future periods where the realization of such benefits would be subject to applicable limitations under Sections 382 of the Internal Revenue Code of 1986, as amended.

The following table presents the assets acquired and liabilities of Coastal assumed as of June 30, 2014 and their fair value estimates:

| (Dollars in Thousands)                              | As Recorded by<br>Coastal | Initial<br>Fair<br>Value<br>Adjustments | Subsequent<br>Fair<br>Value<br>Adjustments | As Recorded<br>by Ameris |
|---|---------------------------|---|--|--------------------------|
| <b>Assets</b>                                       |                           |   |  |                          |
| Cash and cash equivalents                           | \$ 3,895                  | \$                                      | \$   | \$ 3,895                 |
| Federal funds sold and interest-bearing<br>balances | 15,923                    |   |  | 15,923                   |
| Investment securities                               | 67,266                    | (500)(a)                                |  | 66,766                   |
| Other investments                                   | 975                       |   |  | 975                      |
| Mortgage loans held for sale                        | 7,288                     |   |  | 7,288                    |
| Loans   | 296,141                   | (16,700)(b)                             |  | 279,441                  |
| Less allowance for loan losses                      | (3,218)                   | 3,218(c)                                |  |                          |
| Loans, net  | 292,923                   | (13,482)                                |  | 279,441                  |
| Other real estate owned                             | 14,992                    | (3,528)(d)                              | (2,600)(g)                                 | 8,864                    |

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|                        |        |          |          |        |
|------------------------|--------|----------|----------|--------|
| Premises and equipment | 11,882 |          |          | 11,882 |
| Intangible assets      | 507    | 4,266(e) |          | 4,773  |
| Other assets           | 22,710 |          | 2,624(h) | 25,334 |

|              |            |             |       |            |
|--------------|------------|-------------|-------|------------|
| Total assets | \$ 438,361 | \$ (13,244) | \$ 24 | \$ 425,141 |
|--------------|------------|-------------|-------|------------|

**Liabilities**

Deposits:

|                     |           |    |    |           |
|---------------------|-----------|----|----|-----------|
| Noninterest-bearing | \$ 80,012 | \$ | \$ | \$ 80,012 |
| Interest-bearing    | 289,012   |    |    | 289,012   |

|                |         |  |  |         |
|----------------|---------|--|--|---------|
| Total deposits | 369,024 |  |  | 369,024 |
|----------------|---------|--|--|---------|

|  |       |  |  |       |
|--|-------|--|--|-------|
| Federal funds purchased and securities sold under agreements to repurchase | 5,428 |  |  | 5,428 |
|--|-------|--|--|-------|

|                  |        |  |  |        |
|------------------|--------|--|--|--------|
| Other borrowings | 22,005 |  |  | 22,005 |
|------------------|--------|--|--|--------|

|                   |       |  |  |       |
|-------------------|-------|--|--|-------|
| Other liabilities | 6,192 |  |  | 6,192 |
|-------------------|-------|--|--|-------|

|   |        |            |  |       |
|---|--------|------------|--|-------|
| Subordinated deferrable interest debentures | 15,465 | (6,413)(f) |  | 9,052 |
|---|--------|------------|--|-------|

|                   |         |         |  |         |
|-------------------|---------|---------|--|---------|
| Total liabilities | 418,114 | (6,413) |  | 411,701 |
|-------------------|---------|---------|--|---------|

|   |        |         |  |        |
|---|--------|---------|--|--------|
| Net identifiable assets acquired over (under) liabilities assumed | 20,247 | (6,831) |  | 13,440 |
|---|--------|---------|--|--------|

|          |  |        |    |        |
|----------|--|--------|----|--------|
| Goodwill |  | 23,854 | 24 | 23,830 |
|----------|--|--------|----|--------|

|  |           |           |    |           |
|--|-----------|-----------|----|-----------|
| Net assets acquired over (under) liabilities assumed | \$ 20,247 | \$ 17,023 | \$ | \$ 37,270 |
|--|-----------|-----------|----|-----------|

**Consideration:**

|                                     |           |
|-------------------------------------|-----------|
| Ameris Bancorp common shares issued | 1,598,998 |
|-------------------------------------|-----------|

|  |          |
|--|----------|
| Purchase price per share of the Company's common stock | \$ 21.56 |
|--|----------|

|                             |        |
|-----------------------------|--------|
| Company common stock issued | 34,474 |
|-----------------------------|--------|

|                           |       |
|---------------------------|-------|
| Cash exchanged for shares | 2,796 |
|---------------------------|-------|

|   |           |
|---|-----------|
| Fair value of total consideration transferred | \$ 37,270 |
|---|-----------|

*Explanation of fair value adjustments*

(a) Adjustment reflects the fair value adjustments of the available for sale portfolio as of the acquisition date.

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- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (c) Adjustment reflects the elimination of Coastal's allowance for loan losses.
- (d) Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired OREO portfolio.
- (e) Adjustment reflects the recording of core deposit intangible on the acquired core deposit accounts.
- (f) Adjustment reflects the fair value adjustment to the subordinated deferrable interest debentures at the acquisition date.
- (g) Adjustment reflects the additional fair value adjustment based on the Company's evaluation of the acquired OREO portfolio.
- (h) Adjustment reflects the deferred taxes on the differences in the carrying values of acquired assets and assumed liabilities for financial reporting purposes and their basis for federal income tax purposes. Goodwill of \$23.8 million, which is the excess of the merger consideration over the fair value of net assets acquired, was recorded in the Coastal acquisition and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes.

The results of operations of Coastal subsequent to the acquisition date are included in the Company's consolidated statements of operations. The following unaudited pro forma information reflects the Company's estimated consolidated results of operations as if the acquisition had occurred on January 1, 2013, unadjusted for potential cost savings (in thousands).

|  | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2013</b> | <b>Nine Months Ended<br/>September 30,<br/>2014</b> | <b>2013</b> |
|--|--|---|-------------|
| Net interest income and noninterest income                         | \$ 46,373  | \$ 165,913  | \$ 137,590  |
| Net income   | \$ 6,680   | \$ 26,275   | \$ 19,733   |
| Net income available to common stockholders                        | \$ 6,237   | \$ 25,989   | \$ 18,407   |
| Income per common share available to common stockholders - basic   | \$ 0.24  | \$ 0.95   | \$ 0.72     |
| Income per common share available to common stockholders - diluted | \$ 0.24  | \$ 0.94   | \$ 0.71     |
| Average number of shares outstanding, basic                        | 25,500   | 27,304  | 25,482      |

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|   |        |        |        |
|---|--------|--------|--------|
| Average number of shares outstanding, diluted | 25,915 | 27,698 | 25,897 |
|---|--------|--------|--------|

In the acquisition, the Company purchased \$279.4 million of loans at fair value, net of \$16.7 million, or 5.64%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified \$29.3 million that were considered to be credit impaired and are accounted for under ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payment, management's estimate of expected total cash payments and fair value of the loans as of acquisition date for purchased credit impaired loans.

Contractually required principal and interest payment have been adjusted for estimated prepayments.

|  |           |
|--|-----------|
| Contractually required principal and interest  | \$ 38,194 |
| Non-accretable difference                      | (5,632)   |
| Cash flows expected to be collected            | 32,562    |
| Accretable yield                               | (3,282)   |
| Total purchased credit-impaired loans acquired | \$ 29,280 |

**Table of Contents***Prosperity Banking Company*

On December 23, 2013, the Company completed its acquisition of The Prosperity Banking Company ( Prosperity ), a bank holding company headquartered in Saint Augustine, Florida. Upon consummation of the acquisition, Prosperity was merged with and into the Company, with Ameris as the surviving entity in the merger. At that time, Prosperity's wholly owned banking subsidiary, Prosperity Bank, was also merged with and into the Bank. Prosperity Bank had a total of 12 banking locations, with the majority of the franchise concentrated in northeast Florida. Prosperity's common shareholders were entitled to elect to receive either 3.125 shares of the Company's common stock or \$41.50 in cash in exchange for each share of Prosperity's voting common stock. As a result of Prosperity shareholders' elections, the Company issued 1,168,918 common shares at a fair value of \$24.6 million.

The acquisition of Prosperity was accounted for using the purchase method of accounting in accordance with FASB ASC 805, *Business Combinations*. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available.

The following table presents the assets acquired and liabilities of Prosperity assumed as of December 23, 2013 and their initial fair value estimates:

| <b>(Dollars in Thousands)</b>                       | <b>As Recorded by<br/>Prosperity</b> | <b>Fair Value<br/>Adjustments</b> | <b>As Recorded<br/>by Ameris</b> |
|---|--------------------------------------|-----------------------------------|----------------------------------|
| <b>Assets</b>                                       |                                      |                                   |                                  |
| Cash and cash equivalents                           | \$ 4,285                             | \$                                | \$ 4,285                         |
| Federal funds sold and interest-bearing<br>balances | 21,687                               |                                   | 21,687                           |
| Investment securities                               | 151,863                              | 411(a)                            | 152,274                          |
| Other investments                                   | 8,727                                |                                   | 8,727                            |
| Loans   | 487,358                              | (37,662)(b)                       | 449,696                          |
| Less allowance for loan losses                      | (6,811)                              | 6,811(c)                          |                                  |
| Loans, net  | 480,547                              | (30,851)                          | 449,696                          |
| Other real estate owned                             | 6,883                                | (1,260)(d)                        | 5,623                            |
| Premises and equipment                              | 36,293                               |                                   | 36,293                           |
| Intangible assets                                   | 174                                  | 4,383(e)                          | 4,557                            |
| Other assets  | 26,600                               | 1,192(f)                          | 27,792                           |
| <b>Total assets</b>                                 | <b>\$ 737,059</b>                    | <b>\$ (26,125)</b>                | <b>\$ 710,934</b>                |
| <b>Liabilities</b>                                  |                                      |                                   |                                  |
| <b>Deposits:</b>                                    |                                      |                                   |                                  |
| Noninterest-bearing                                 | \$ 149,242                           | \$                                | \$ 149,242                       |
| Interest-bearing                                    | 324,441                              |                                   | 324,441                          |
| <b>Total deposits</b>                               | <b>473,683</b>                       |                                   | <b>473,683</b>                   |

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|  |                |                |                |
|--|----------------|----------------|----------------|
| Federal funds purchased and securities sold under agreements to repurchase | 21,530         |                | 21,530         |
| Other borrowings   | 185,000        | 12,313(g)      | 197,313        |
| Other liabilities  | 14,058         | 455(h)         | 14,513         |
| Subordinated deferrable interest debentures                                | 29,500         | (16,303)(i)    | 13,197         |
| <b>Total liabilities</b>   | <b>723,771</b> | <b>(3,535)</b> | <b>720,236</b> |
| Net identifiable assets acquired over (under) liabilities assumed          | 13,288         | (22,590)       | (9,302)        |
| Goodwill   |                | 34,093         | 34,093         |
| Net assets acquired over (under) liabilities assumed                       | \$ 13,288      | \$ 11,503      | \$ 24,791      |
| <b>Consideration:</b>  |                |                |                |
| Ameris Bancorp common shares issued  | 1,168,918      |                |                |
| Purchase price per share of the Company's common stock                     | \$ 21.07       |                |                |
| Company common stock issued  | 24,629         |                |                |
| Cash exchanged for shares  | 162            |                |                |
| Fair value of total consideration transferred                              | \$ 24,791      |                |                |

*Explanation of fair value adjustments*

- (a) Adjustment reflects the fair value adjustments of the available for sale portfolio as of the acquisition date.
- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (c) Adjustment reflects the elimination of Prosperity's allowance for loan losses.

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- (d) Adjustment reflects the fair value adjustment based on the Company's evaluation of the acquired OREO portfolio.
- (e) Adjustment reflects the recording of core deposit intangible on the acquired core deposit accounts.
- (f) Adjustment reflects the adjustment to write-off the non-realizable portion of Prosperity's deferred tax asset of (\$6.644 million), to record the deferred tax asset generated by purchase accounting adjustments of \$8.435 million and to record the fair value adjustment of other assets of (\$0.599 million) at the acquisition date.
- (g) Adjustment reflects the fair value adjustment (premium) to the FHLB borrowings of \$12.741 million and the fair value adjustment to the subordinated debt of \$0.428 million.
- (h) Adjustment reflects the fair value adjustment of other liabilities at the acquisition date.
- (i) Adjustment reflects the fair value adjustment to the subordinated deferrable interest debentures at the acquisition date.

Goodwill of \$34.1 million, which is the excess of the merger consideration over the fair value of net assets acquired, was recorded in the Prosperity acquisition and is the result of expected operational synergies and other factors. This goodwill is not expected to be deductible for tax purposes.

The results of operations of Prosperity subsequent to the acquisition date are included in the Company's consolidated statements of operations. The following unaudited pro forma information reflects the Company's estimated consolidated results of operations as if the acquisition had occurred on January 1, 2013, unadjusted for potential cost savings (in thousands).

|   | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2013</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2013</b> |
|---|--|---|
| Net interest income and noninterest income                          | \$ 48,541  | \$ 142,390  |
| Net income  | \$ 7,214   | \$ 18,729   |
| Net income available to common stockholders                         | \$ 6,771   | \$ 17,403   |
| Income per common share available to common stockholders<br>basic   | \$ 0.27  | \$ 0.69   |
| Income per common share available to common stockholders<br>diluted | \$ 0.27  | \$ 0.68   |
| Average number of shares outstanding, basic                         | 25,070   | 25,052  |
| Average number of shares outstanding, diluted                       | 25,485   | 25,467  |

In the acquisition, the Company purchased \$449.7 million of loans at fair value, net of \$37.7 million, or 7.73%, estimated discount to the outstanding principal balance. Of the total loans acquired, management identified \$67.2 million that were considered to be credit impaired and are accounted for under ASC Topic 310-30. The table below

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summarizes the total contractually required principal and interest cash payment, management's estimate of expected total cash payments and fair value of the loans as of acquisition date for purchased credit impaired loans. Contractually required principal and interest payment have been adjusted for estimated prepayments.

|  |           |
|--|-----------|
| Contractually required principal and interest  | \$ 92,461 |
| Non-accretable difference                      | (14,311)  |
| Cash flows expected to be collected            | 78,150    |
| Accretable yield                               | (10,985)  |
| Total purchased credit-impaired loans acquired | \$ 67,165 |

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On the dates of acquisition, the Company estimated the future cash flows on each individual loan and made the necessary adjustments to reflect the asset at fair value. At each quarter end subsequent to the acquisition dates, the Company revises the estimates of future cash flows based on current information and makes the necessary adjustments to carrying value. The adjustments are performed on a loan-by-loan basis and have resulted in the Company recording a \$4,000 provision for loan loss expense during the three month period ended September 30, 2014. There were no adjustments needed during the twelve months ended December 31, 2013 and the nine months ended September 30, 2013.

A rollforward of purchased non-covered loans with deterioration of credit quality for the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013 is shown below:

| <b>(Dollars in Thousands)</b>          | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1                     | \$ 67,165                     | \$                           | \$                            |
| Charge-offs, net of recoveries         | (4)                           |                              |                               |
| Additions due to acquisitions          | 29,280                        | 67,165                       |                               |
| Other (loan payments, transfers, etc.) | (4,440)                       |                              |                               |
| Ending balance                         | \$ 92,001                     | \$ 67,165                    | \$                            |

A rollforward of purchased non-covered loans without deterioration of credit quality for the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013 is shown below:

| <b>(Dollars in Thousands)</b>  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--------------------------------|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1             | \$ 381,588                    | \$                           | \$                            |
| Additions due to acquisitions  | 250,161                       | 382,531                      |                               |
| Loan payments, transfers, etc. | (50,026)                      | (943)                        |                               |
| Ending balance                 | \$ 581,723                    | \$ 381,588                   | \$                            |

The following is a summary of changes in the accretable discounts of purchased non-covered loans during the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013:

| <b>(Dollars in Thousands)</b> | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|-------------------------------|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1            | \$ 26,189                     | \$                           | \$                            |
| Additions due to acquisitions | 7,799                         | 26,189                       |                               |
| Accretion                     | (5,840)                       |                              |                               |

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Other activity, net 916

|                |    |        |    |        |    |
|----------------|----|--------|----|--------|----|
| Ending balance | \$ | 29,064 | \$ | 26,189 | \$ |
|----------------|----|--------|----|--------|----|

**Table of Contents****NOTE 3 INVESTMENT SECURITIES**

The Company's investment policy blends the Company's liquidity needs and interest rate risk management with its desire to increase income and provide funds for expected growth in loans. The investment securities portfolio consists primarily of U.S. government sponsored mortgage-backed securities and agencies, state, county and municipal securities and corporate debt securities. The Company's portfolio and investing philosophy concentrate activities in obligations where the credit risk is limited. For the small portion of the Company's portfolio found to present credit risk, the Company has reviewed the investments and financial performance of the obligors and believes the credit risk to be acceptable.

The amortized cost and estimated fair value of investment securities available for sale at September 30, 2014, December 31, 2013 and September 30, 2013 are presented below:

|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains<br/>(Dollars in Thousands)</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|--|--|-----------------------|
| <b>September 30, 2014:</b>             |                           |  |  |                       |
| U. S. government agencies              | \$ 14,951                 | \$   | \$ (491)                               | \$ 14,460             |
| State, county and municipal securities | 134,641                   | 3,708  | (714)                                  | 137,635               |
| Corporate debt securities              | 10,801                    | 237  | (73)                                   | 10,965                |
| Mortgage-backed securities             | 364,399                   | 4,493  | (2,443)                                | 366,449               |
| <b>Total securities</b>                | <b>\$ 524,792</b>         | <b>\$ 8,438</b>  | <b>\$ (3,721)</b>                      | <b>\$ 529,509</b>     |
| <b>December 31, 2013:</b>              |                           |  |  |                       |
| U. S. government agencies              | \$ 14,947                 | \$   | \$ (1,021)                             | \$ 13,926             |
| State, county and municipal securities | 112,659                   | 2,269  | (2,174)                                | 112,754               |
| Corporate debt securities              | 10,311                    | 275  | (261)                                  | 10,325                |
| Collateralized debt obligations        | 1,480                     |  |  | 1,480                 |
| Mortgage-backed securities             | 349,441                   | 2,347  | (4,038)                                | 347,750               |
| <b>Total securities</b>                | <b>\$ 488,838</b>         | <b>\$ 4,891</b>  | <b>\$ (7,494)</b>                      | <b>\$ 486,235</b>     |
| <b>September 30, 2013:</b>             |                           |  |  |                       |
| U. S. government agencies              | \$ 14,945                 | \$   | \$ (1,028)                             | \$ 13,917             |
| State, county and municipal securities | 112,643                   | 2,331  | (2,035)                                | 112,939               |
| Corporate debt securities              | 10,314                    | 280  | (856)                                  | 9,738                 |
| Mortgage-backed securities             | 176,818                   | 2,714  | (3,878)                                | 175,654               |
| <b>Total securities</b>                | <b>\$ 314,720</b>         | <b>\$ 5,325</b>  | <b>\$ (7,797)</b>                      | <b>\$ 312,248</b>     |

The amortized cost and fair value of available-for-sale securities at September 30, 2014 by contractual maturity are summarized in the table below. Expected maturities for mortgage-backed securities may differ from contractual maturities because in certain cases borrowers can prepay obligations without prepayment penalties. The weighted average life of these securities is less than 4.5 years and modeled not to extend beyond 6 years in an increasing rate

scenario. Therefore, these securities are not included in the following maturity summary:

|                                 | <b>Amortized<br/>Cost<br/>(Dollars in<br/>Thousands)</b> | <b>Fair<br/>Value</b> |
|---------------------------------|--|-----------------------|
| Due in one year or less         | \$ 10,647  | \$ 10,844             |
| Due from one year to five years | 35,432   | 36,856                |
| Due from five to ten years      | 66,554   | 67,094                |
| Due after ten years             | 47,760   | 48,266                |
| Mortgage-backed securities      | 364,399  | 366,449               |
|                                 | \$ 524,792   | \$ 529,509            |

Securities with a carrying value of approximately \$265.9 million serve as collateral to secure public deposits and for other purposes required or permitted by law at September 30, 2014, compared to \$399.0 million and \$217.3 million at December 31, 2013 and September 30, 2013, respectively.

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The following table details the gross unrealized losses and fair value of securities aggregated by category and duration of continuous unrealized loss position at September 30, 2014, December 31, 2013 and September 30, 2013.

| Description of Securities              | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| (Dollars in Thousands)                 |                     |                   |                   |                   |            |                   |
| September 30, 2014:                    |                     |                   |                   |                   |            |                   |
| U. S. government agencies              | \$                  | \$                | \$ 14,460         | \$ (491)          | \$ 14,460  | \$ (491)          |
| State, county and municipal securities | 10,296              | (98)              | 22,696            | (616)             | 32,992     | (714)             |
| Corporate debt securities              |                     |                   | 4,997             | (73)              | 4,997      | (73)              |
| Mortgage-backed securities             | 71,050              | (416)             | 51,314            | (2,027)           | 122,364    | (2,443)           |
| Total temporarily impaired securities  | \$ 81,346           | \$ (514)          | \$ 93,467         | \$ (3,207)        | \$ 174,813 | \$ (3,721)        |
| December 31, 2013:                     |                     |                   |                   |                   |            |                   |
| U. S. government agencies              | \$ 13,926           | \$ (1,021)        | \$                | \$                | \$ 13,926  | \$ (1,021)        |
| State, county and municipal securities | 47,401              | (1,882)           | 3,794             | (292)             | 51,195     | (2,174)           |
| Corporate debt securities              |                     |                   | 4,826             | (261)             | 4,826      | (261)             |
| Collateralized debt obligations        |                     |                   |                   |                   |            |                   |
| Mortgage-backed securities             | 94,989              | (2,493)           | 23,388            | (1,545)           | 118,377    | (4,038)           |
| Total temporarily impaired securities  | \$ 156,316          | \$ (5,396)        | \$ 32,008         | \$ (2,098)        | \$ 188,324 | \$ (7,494)        |
| September 30, 2013:                    |                     |                   |                   |                   |            |                   |
| U. S. government agencies              | \$ 13,917           | \$ (1,028)        | \$                | \$                | \$ 13,917  | \$ (1,028)        |
| State, county and municipal securities | 46,516              | (1,735)           | 3,807             | (300)             | 50,323     | (2,035)           |
| Corporate debt securities              |                     |                   | 4,235             | (856)             | 4,235      | (856)             |
| Mortgage-backed securities             | 90,639              | (3,878)           |                   |                   | 90,639     | (3,878)           |
| Total temporarily impaired securities  | \$ 151,072          | \$ (6,641)        | \$ 8,042          | \$ (1,156)        | \$ 159,114 | \$ (7,797)        |

Management and the Company's Asset and Liability Committee (the ALCO Committee) evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. While the majority of the unrealized losses on debt securities relate to changes in interest rates, corporate debt securities have also been affected by reduced levels of liquidity and higher risk premiums. Occasionally, management engages independent third parties to evaluate the Company's position in certain corporate debt securities to aid management and the ALCO Committee in its determination regarding the status of impairment. The Company believes that each investment poses minimal credit risk and further, that the Company does not intend to sell these investment securities at an unrealized loss position at September 30, 2014, and it is more likely than not that the Company will not be required to sell these securities prior to recovery or maturity. Therefore, at September 30, 2014, these investments are not considered impaired on an other-than-temporary basis.

At September 30, 2014, December 31, 2013 and September 30, 2013, all of the Company's mortgage-backed securities were obligations of government-sponsored agencies.

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The following table is a summary of sales activities in the Company's investment securities available for sale for the nine months ended September 30, 2014, year ended December 31, 2013 and nine months ended September 30, 2013:

|   | September 30,<br>2014 | December 31, 2013<br>(Dollars in Thousands) | September 30,<br>2013 |
|---|-----------------------|---|-----------------------|
| Gross gains on sales of securities                              | \$ 141                | \$ 353                                      | \$ 353                |
| Gross losses on sales of securities                             | (3)                   | (182)                                       | (182)                 |
| Net realized gains on sales of securities<br>available for sale | \$ 138                | \$ 171                                      | \$ 171                |
| Sales proceeds  | \$ 92,975             | \$ 36,669                                   | \$ 36,669             |

**Table of Contents****NOTE 4 LOANS**

The Company engages in a full complement of lending activities, including real estate-related loans, agriculture-related loans, commercial and financial loans and consumer installment loans within select markets in Georgia, Alabama, Florida and South Carolina. Ameris concentrates the majority of its lending activities in real estate loans. While risk of loss in the Company's portfolio is primarily tied to the credit quality of the various borrowers, risk of loss may increase due to factors beyond the Company's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio.

Commercial, financial and agricultural loans include both secured and unsecured loans for working capital, expansion, crop production, and other business purposes. Short-term working capital loans are secured by non-real estate collateral such as accounts receivable, crops, inventory and equipment. The Company evaluates the financial strength, cash flow, management, credit history of the borrower and the quality of the collateral securing the loan. The Bank often requires personal guarantees and secondary sources of repayment on commercial, financial and agricultural loans.

Real estate loans include construction and development loans, commercial and farmland loans and residential loans. Construction and development loans include loans for the development of residential neighborhoods, construction of one-to-four family residential construction loans to builders and consumers, and commercial real estate construction loans, primarily for owner-occupied properties. The Company limits its construction lending risk through adherence to established underwriting procedures. Commercial real estate loans include loans secured by owner-occupied commercial buildings for office, storage, retail, farmland and warehouse space. They also include non-owner occupied commercial buildings such as leased retail and office space. Commercial real estate loans may be larger in size and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties. The Company's residential loans represent permanent mortgage financing and are secured by residential properties located within the Bank's market areas.

Consumer installment loans and other loans include automobile loans, boat and recreational vehicle financing, and both secured and unsecured personal loans. Consumer loans carry greater risks than other loans, as the collateral can consist of rapidly depreciating assets such as automobiles and equipment that may not provide an adequate source of repayment of the loan in the case of default.

Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans receivable categories are presented in the following table, excluding purchased non-covered and covered loans:

| (Dollars in Thousands)                   | September 30,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |
|--|-----------------------|----------------------|-----------------------|
| Commercial, financial and agricultural   | \$ 334,783            | \$ 244,373           | \$ 244,991            |
| Real estate construction and development | 154,315               | 146,371              | 132,277               |
| Real estate commercial and farmland      | 882,160               | 808,323              | 799,149               |
| Real estate residential                  | 436,515               | 366,882              | 355,920               |
| Consumer installment                     | 31,403                | 34,249               | 36,303                |
| Other                                    | 9,583                 | 18,256               | 20,627                |
|  | \$ 1,848,759          | \$ 1,618,454         | \$ 1,589,267          |

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Purchased non-covered loans are defined as loans that were acquired in bank acquisitions that are not covered by a loss-sharing agreement with the FDIC. Purchased non-covered loans totaling \$673.7 million and \$448.8 million at September 30, 2014 and December 31, 2013, respectively, are not included in the above schedule. There were no purchased non-covered loans at September 30, 2013.

Purchased non-covered loans are shown below according to major loan type as of the end of the periods shown:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 38,077                     | \$ 32,141                    | \$                            |
| Real estate construction and development | 60,262                        | 31,176                       |                               |
| Real estate commercial and farmland      | 296,790                       | 179,898                      |                               |
| Real estate residential                  | 273,347                       | 200,851                      |                               |
| Consumer installment                     | 5,248                         | 4,687                        |                               |
|  | \$ 673,724                    | \$ 448,753                   | \$                            |

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Covered loans are defined as loans that were acquired in FDIC-assisted transactions that are covered by a loss-sharing agreement with the FDIC. Covered loans totaling \$313.6 million, \$390.2 million and \$417.6 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively, are not included in the above schedule.

Covered loans are shown below according to loan type as of the end of the periods shown:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 22,545                     | \$ 26,550                    | \$ 27,768                     |
| Real estate construction and development | 27,756                        | 43,179                       | 50,702                        |
| Real estate commercial and farmland      | 180,566                       | 224,451                      | 237,086                       |
| Real estate residential                  | 82,445                        | 95,173                       | 101,146                       |
| Consumer installment                     | 277                           | 884                          | 947                           |
|  | \$ 313,589                    | \$ 390,237                   | \$ 417,649                    |

**Nonaccrual and Past Due Loans**

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged against interest income. Interest payments on nonaccrual loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are loans whose principal or interest is past due 90 days or more. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

The following table presents an analysis of loans accounted for on a nonaccrual basis, excluding purchased non-covered and covered loans:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 2,695                      | \$ 4,103                     | \$ 4,198                      |
| Real estate construction and development | 3,037                         | 3,971                        | 4,229                         |
| Real estate commercial and farmland      | 8,983                         | 8,566                        | 9,548                         |
| Real estate residential                  | 7,608                         | 12,152                       | 13,303                        |
| Consumer installment                     | 487                           | 411                          | 442                           |
|  | \$ 22,810                     | \$ 29,203                    | \$ 31,720                     |

The following table presents an analysis of purchased non-covered loans accounted for on a nonaccrual basis:

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| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 54                         | \$ 11                        | \$                            |
| Real estate construction and development | 1,969                         | 325                          |                               |
| Real estate commercial and farmland      | 8,776                         | 1,653                        |                               |
| Real estate residential                  | 6,132                         | 4,658                        |                               |
| Consumer installment                     | 76                            | 12                           |                               |
|  | \$ 17,007                     | \$ 6,659                     | \$                            |

The following table presents an analysis of covered loans accounted for on a nonaccrual basis:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 8,441                      | \$ 7,257                     | \$ 7,872                      |
| Real estate construction and development | 8,896                         | 14,781                       | 16,582                        |
| Real estate commercial and farmland      | 14,617                        | 33,495                       | 37,079                        |
| Real estate residential                  | 7,227                         | 13,278                       | 13,028                        |
| Consumer installment                     | 102                           | 341                          | 350                           |
|  | \$ 39,283                     | \$ 69,152                    | \$ 74,911                     |

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The following table presents an aging analysis of loans, excluding purchased non-covered and covered past due loans as of September 30, 2014, December 31, 2013 and September 30, 2013:

|  | Loans<br>30-59<br>Days Past<br>Due | Loans<br>60-89<br>Days<br>Past Due | Loans 90<br>or More<br>Days Past<br>Due | Total<br>Loans<br>Past Due | Current<br>Loans | Total<br>Loans | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing |
|--|------------------------------------|------------------------------------|---|----------------------------|------------------|----------------|--|
| (Dollars in Thousands)                 |                                    |                                    |   |                            |                  |                |  |
| <b>As of September 30, 2014:</b>       |                                    |                                    |   |                            |                  |                |  |
| Commercial, financial & agricultural   | \$ 271                             | \$ 400                             | \$ 2,483                                | \$ 3,154                   | \$ 331,629       | \$ 334,783     | \$   |
| Real estate construction & development | 1,232                              | 285                                | 2,899                                   | 4,416                      | 149,899          | 154,315        |  |
| Real estate commercial & farmland      | 3,025                              | 484                                | 8,918                                   | 12,427                     | 869,733          | 882,160        |  |
| Real estate residential                | 4,416                              | 2,085                              | 7,303                                   | 13,804                     | 422,711          | 436,515        |  |
| Consumer installment loans             | 333                                | 113                                | 396                                     | 842                        | 30,561           | 31,403         |  |
| Other                                  |                                    |                                    |   |                            | 9,583            | 9,583          |  |
| Total                                  | \$ 9,277                           | \$ 3,367                           | \$ 21,999                               | \$ 34,643                  | \$ 1,814,116     | \$ 1,848,759   | \$   |

|  | Loans<br>30-59<br>Days Past<br>Due | Loans<br>60-89<br>Days<br>Past Due | Loans 90<br>or More<br>Days Past<br>Due | Total<br>Loans<br>Past Due | Current<br>Loans | Total<br>Loans | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing |
|--|------------------------------------|------------------------------------|---|----------------------------|------------------|----------------|--|
| (Dollars in Thousands)                 |                                    |                                    |   |                            |                  |                |  |
| <b>As of December 31, 2013:</b>        |                                    |                                    |   |                            |                  |                |  |
| Commercial, financial & agricultural   | \$ 10,893                          | \$ 272                             | \$ 4,081                                | \$ 15,246                  | \$ 229,127       | \$ 244,373     | \$   |
| Real estate construction & development | 1,026                              | 69                                 | 3,935                                   | 5,030                      | 141,341          | 146,371        |  |
| Real estate commercial & farmland      | 3,981                              | 1,388                              | 7,751                                   | 13,120                     | 795,203          | 808,323        |  |
| Real estate residential                | 5,422                              | 1,735                              | 11,587                                  | 18,744                     | 348,138          | 366,882        |  |
| Consumer installment loans             | 568                                | 197                                | 305                                     | 1,070                      | 33,179           | 34,249         |  |
| Other                                  |                                    |                                    |   |                            | 18,256           | 18,256         |  |
| Total                                  | \$ 21,890                          | \$ 3,661                           | \$ 27,659                               | \$ 53,210                  | \$ 1,565,244     | \$ 1,618,454   | \$   |

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|  | Loans<br>30-59<br>Days Past<br>Due | Loans<br>60-89<br>Days<br>Past<br>Due | Loans<br>90<br>or More<br>Days<br>Past<br>Due | Total<br>Loans<br>Past<br>Due | Current<br>Loans | Total<br>Loans | Loans 90<br>Days or<br>More<br>Past<br>Due<br>and<br>Still<br>Accruing |
|--|------------------------------------|---------------------------------------|---|-------------------------------|------------------|----------------|--|
|--|------------------------------------|---------------------------------------|---|-------------------------------|------------------|----------------|--|

(Dollars in Thousands)

**As of September 30, 2013:**

|  |           |          |           |           |              |              |    |
|--|-----------|----------|-----------|-----------|--------------|--------------|----|
| Commercial, financial & agricultural   | \$ 623    | \$ 297   | \$ 4,107  | \$ 5,027  | \$ 239,964   | \$ 244,991   | \$ |
| Real estate construction & development | 1,200     | 794      | 4,229     | 6,223     | 126,054      | 132,277      |    |
| Real estate commercial & farmland      | 3,883     | 2,458    | 9,523     | 15,864    | 783,285      | 799,149      |    |
| Real estate residential                | 5,515     | 3,531    | 11,818    | 20,864    | 335,056      | 355,920      |    |
| Consumer installment loans             | 497       | 255      | 327       | 1,079     | 35,224       | 36,303       |    |
| Other                                  |           |          |           |           | 20,627       | 20,627       |    |
| Total                                  | \$ 11,718 | \$ 7,335 | \$ 30,004 | \$ 49,057 | \$ 1,540,210 | \$ 1,589,267 | \$ |

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The following table presents an aging analysis of purchased non-covered past due loans based on the recorded basis as of September 30, 2014 and December 31, 2013. There were no purchased non-covered loans as of September 30, 2013:

|  | <b>Loans<br/>30-59<br/>Days Past<br/>Due</b> | <b>Loans<br/>60-89<br/>Days<br/>Past Due</b> | <b>Loans 90<br/>or More<br/>Days Past<br/>Due</b> | <b>Total<br/>Loans<br/>Past Due</b> | <b>Current<br/>Loans</b> | <b>Total<br/>Loans</b> | <b>Loans 90<br/>Days or<br/>More Past<br/>Due and<br/>Still<br/>Accruing</b> |
|--|--|--|---|-------------------------------------|--------------------------|------------------------|--|
| <b>(Dollars in Thousands)</b>          |  |  |   |                                     |                          |                        |  |
| <b>As of September 30, 2014:</b>       |  |  |   |                                     |                          |                        |  |
| Commercial, financial & agricultural   | \$ 33  | \$ 46  | \$ 55   | \$ 134                              | \$ 37,943                | \$ 38,077              | \$   |
| Real estate construction & development | 520  | 135  | 3,069   | 3,724                               | 56,538                   | 60,262                 | 1,100  |
| Real estate commercial & farmland      | 3,497  | 1,227  | 8,266   | 12,990                              | 283,800                  | 296,790                | 258  |
| Real estate residential                | 3,915  | 1,440  | 5,929   | 11,284                              | 262,063                  | 273,347                |  |
| Consumer installment loans             | 36   | 5  | 76  | 117                                 | 5,131                    | 5,248                  |  |
| <b>Total</b>                           | <b>\$ 8,001</b>                              | <b>\$ 2,853</b>                              | <b>\$ 17,395</b>                                  | <b>\$ 28,249</b>                    | <b>\$ 645,475</b>        | <b>\$ 673,724</b>      | <b>\$ 1,358</b>  |

|  | <b>Loans<br/>30-59<br/>Days Past<br/>Due</b> | <b>Loans<br/>60-89<br/>Days<br/>Past Due</b> | <b>Loans 90<br/>or More<br/>Days Past<br/>Due</b> | <b>Total<br/>Loans<br/>Past Due</b> | <b>Current<br/>Loans</b> | <b>Total<br/>Loans</b> | <b>Loans 90<br/>Days or<br/>More Past<br/>Due and<br/>Still<br/>Accruing</b> |
|--|--|--|---|-------------------------------------|--------------------------|------------------------|--|
| <b>(Dollars in Thousands)</b>          |  |  |   |                                     |                          |                        |  |
| <b>As of December 31, 2013:</b>        |  |  |   |                                     |                          |                        |  |
| Commercial, financial & agricultural   | \$ 370                                       | \$ 70  | \$ 11   | \$ 451                              | \$ 31,690                | \$ 32,141              | \$   |
| Real estate construction & development | 1,008  | 89   | 325   | 1,422                               | 29,754                   | 31,176                 |  |
| Real estate commercial & farmland      | 6,851  | 2,064  | 1,516   | 10,431                              | 169,467                  | 179,898                |  |
| Real estate residential                | 4,667  | 1,074  | 3,428   | 9,169                               | 191,682                  | 200,851                |  |
| Consumer installment loans             | 7  | 17   | 9   | 33                                  | 4,654                    | 4,687                  |  |
| <b>Total</b>                           | <b>\$ 12,903</b>                             | <b>\$ 3,314</b>                              | <b>\$ 5,289</b>                                   | <b>\$ 21,506</b>                    | <b>\$ 427,247</b>        | <b>\$ 448,753</b>      | <b>\$</b>  |

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The following table presents an aging analysis of covered loans as of September 30, 2014, December 31, 2013 and September 30, 2013:

|  | Loans<br>30-59<br>Days Past<br>Due | Loans<br>60-89<br>Days<br>Past Due | Loans 90<br>or More<br>Days Past<br>Due | Total<br>Loans<br>Past Due | Current<br>Loans  | Total<br>Loans    | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing |
|--|------------------------------------|------------------------------------|---|----------------------------|-------------------|-------------------|--|
| (Dollars in Thousands)                 |                                    |                                    |   |                            |                   |                   |  |
| <b>As of September 30, 2014:</b>       |                                    |                                    |   |                            |                   |                   |  |
| Commercial, financial & agricultural   | \$ 568                             | \$ 188                             | \$ 1,978                                | \$ 2,734                   | \$ 19,811         | \$ 22,545         | \$   |
| Real estate construction & development | 632                                | 72                                 | 8,659                                   | 9,363                      | 18,393            | 27,756            |  |
| Real estate commercial & farmland      | 7,100                              | 322                                | 8,930                                   | 16,352                     | 164,214           | 180,566           | 305  |
| Real estate residential                | 2,694                              | 1,473                              | 5,563                                   | 9,730                      | 72,715            | 82,445            | 65   |
| Consumer installment loans             | 2                                  | 7                                  | 101                                     | 110                        | 167               | 277               |  |
| <b>Total</b>                           | <b>\$ 10,996</b>                   | <b>\$ 2,062</b>                    | <b>\$ 25,231</b>                        | <b>\$ 38,289</b>           | <b>\$ 275,300</b> | <b>\$ 313,589</b> | <b>\$ 370</b>  |

|  | Loans<br>30-59<br>Days Past<br>Due | Loans<br>60-89<br>Days<br>Past Due | Loans 90<br>or More<br>Days Past<br>Due | Total<br>Loans<br>Past Due | Current<br>Loans  | Total<br>Loans    | Loans 90<br>Days or<br>More Past<br>Due and<br>Still<br>Accruing |
|--|------------------------------------|------------------------------------|---|----------------------------|-------------------|-------------------|--|
| (Dollars in Thousands)                 |                                    |                                    |   |                            |                   |                   |  |
| <b>As of December 31, 2013:</b>        |                                    |                                    |   |                            |                   |                   |  |
| Commercial, financial & agricultural   | \$ 3,966                           | \$ 12                              | \$ 6,165                                | \$ 10,143                  | \$ 16,407         | \$ 26,550         | \$   |
| Real estate construction & development | 843                                | 144                                | 14,055                                  | 15,042                     | 28,137            | 43,179            |  |
| Real estate commercial & farmland      | 8,482                              | 4,350                              | 26,428                                  | 39,260                     | 185,191           | 224,451           | 346  |
| Real estate residential                | 7,648                              | 1,914                              | 10,244                                  | 19,806                     | 75,367            | 95,173            |  |
| Consumer installment loans             | 51                                 | 14                                 | 305                                     | 370                        | 514               | 884               |  |
| <b>Total</b>                           | <b>\$ 20,990</b>                   | <b>\$ 6,434</b>                    | <b>\$ 57,197</b>                        | <b>\$ 84,621</b>           | <b>\$ 305,616</b> | <b>\$ 390,237</b> | <b>\$ 346</b>  |

| Loans<br>30-59<br>Days Past | Loans<br>60-89<br>Days | Loans<br>90<br>or More | Total<br>Loans<br>Past | Current<br>Loans | Total<br>Loans | Loans 90<br>Days or<br>More |
|-----------------------------|------------------------|------------------------|------------------------|------------------|----------------|-----------------------------|
|-----------------------------|------------------------|------------------------|------------------------|------------------|----------------|-----------------------------|

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| Due | Past<br>Due | Days<br>Past<br>Due | Due | Past<br>Due and<br>Still<br>Accruing |
|-----|-------------|---------------------|-----|--------------------------------------|
|-----|-------------|---------------------|-----|--------------------------------------|

(Dollars in Thousands)

**As of September 30, 2013:**

|  |                  |                 |                  |                  |                   |                   |                 |
|--|------------------|-----------------|------------------|------------------|-------------------|-------------------|-----------------|
| Commercial, financial & agricultural   | \$ 319           | \$ 50           | \$ 6,695         | \$ 7,064         | \$ 20,704         | \$ 27,768         | \$              |
| Real estate construction & development | 2,831            | 658             | 15,781           | 19,270           | 31,432            | 50,702            | 266             |
| Real estate commercial & farmland      | 7,365            | 5,350           | 30,503           | 43,218           | 193,868           | 237,086           | 568             |
| Real estate residential                | 2,980            | 1,727           | 11,078           | 15,785           | 85,361            | 101,146           | 823             |
| Consumer installment loans             | 49               |                 | 311              | 360              | 587               | 947               |                 |
| <b>Total</b>                           | <b>\$ 13,544</b> | <b>\$ 7,785</b> | <b>\$ 64,368</b> | <b>\$ 85,697</b> | <b>\$ 331,952</b> | <b>\$ 417,649</b> | <b>\$ 1,657</b> |

**Table of Contents****Impaired Loans**

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. When determining if the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considers the borrower's capacity to pay, which includes such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. Impaired loans include loans on nonaccrual status and troubled debt restructurings. The Company individually assesses for impairment all nonaccrual loans greater than \$200,000 and rated substandard or worse and all troubled debt restructurings greater than \$100,000. If a loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

The following is a summary of information pertaining to impaired loans, excluding purchased non-covered and covered loans:

|  | As of and For the Period Ended |                      |                       |
|--|--------------------------------|----------------------|-----------------------|
|  | September 30,<br>2014          | December 31,<br>2013 | September 30,<br>2013 |
|  | (Dollars in Thousands)         |                      |                       |
| Nonaccrual loans   | \$ 22,810                      | \$ 29,203            | \$ 31,720             |
| Troubled debt restructurings not included above              | 17,261                         | 17,214               | 17,024                |
| <b>Total impaired loans</b>                                  | <b>\$ 40,071</b>               | <b>\$ 46,417</b>     | <b>\$ 48,744</b>      |
| Quarter-to-date interest income recognized on impaired loans | \$ 117                         | \$ 54                | \$ 17                 |
| Year-to-date interest income recognized on impaired loans    | \$ 799                         | \$ 522               | \$ 468                |
| Quarter-to-date foregone interest income on impaired loans   | \$ 138                         | \$ 30                | \$ 216                |
| Year-to-date foregone interest income on impaired loans      | \$ 161                         | \$ 418               | \$ 388                |

The following table presents an analysis of information pertaining to impaired loans, excluding purchased non-covered and covered loans as of September 30, 2014, December 31, 2013 and September 30, 2013.

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|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three Month<br>Average<br>Recorded<br>Investment | Nine Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|--|---|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |  |   |
| <b>As of September 30, 2014:</b>       |   |  |   |                                 |                      |  |   |
| Commercial, financial & agricultural   | \$ 4,445                                      | \$ 8   | \$ 2,943                                    | \$ 2,951                        | \$ 631               | \$ 2,402   | \$ 3,285  |
| Real estate construction & development | 8,824   | 211  | 4,743                                       | 4,954                           | 612                  | 5,243  | 5,596   |
| Real estate commercial & farmland      | 18,955  | 7,311  | 8,753                                       | 16,064                          | 1,698                | 16,242   | 16,312  |
| Real estate residential                | 18,251  | 5,635  | 9,946                                       | 15,581                          | 1,286                | 15,356   | 17,169  |
| Consumer installment loans             | 606   |  | 521   | 521                             | 10                   | 517  | 516   |
| <b>Total</b>                           | <b>\$ 51,081</b>                              | <b>\$ 13,165</b>                               | <b>\$ 26,906</b>                            | <b>\$ 40,071</b>                | <b>\$ 4,237</b>      | <b>\$ 39,760</b>                                 | <b>\$ 42,878</b>                                |

|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three Month<br>Average<br>Recorded<br>Investment | Twelve Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|--|---|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |  |   |
| <b>As of December 31, 2013:</b>        |   |  |   |                                 |                      |  |   |
| Commercial, financial & agricultural   | \$ 6,240                                      | \$   | \$ 4,618                                    | \$ 4,618                        | \$ 435               | \$ 4,669   | \$ 4,844  |
| Real estate construction & development | 11,363  |  | 5,867                                       | 5,867                           | 512                  | 6,011  | 8,341   |
| Real estate commercial & farmland      | 18,456  |  | 15,479                                      | 15,479                          | 1,443                | 15,860   | 17,559  |
| Real estate residential                | 24,342  |  | 19,970                                      | 19,970                          | 1,472                | 20,571   | 20,335  |
| Consumer installment loans             | 623   |  | 483   | 483                             | 9                    | 469  | 642   |
| <b>Total</b>                           | <b>\$ 61,024</b>                              | <b>\$</b>                                      | <b>\$ 46,417</b>                            | <b>\$ 46,417</b>                | <b>\$ 3,871</b>      | <b>\$ 47,580</b>                                 | <b>\$ 51,721</b>                                  |

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|  | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance | Three Month Average Recorded Investment | Twelve Month Average Recorded Investment |
|--|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|---|--|
| (Dollars in Thousands)                 |                                      |                                       |                                    |                           |                   |   |  |
| <b>As of September 30, 2013:</b>       |                                      |                                       |                                    |                           |                   |   |  |
| Commercial, financial & agricultural   | \$ 7,401                             | \$                                    | \$ 4,719                           | \$ 4,719                  | \$ 820            | \$ 5,052                                | \$ 4,900                                 |
| Real estate construction & development | 14,299                               |                                       | 6,155                              | 6,155                     | 821               | 6,775                                   | 8,960                                    |
| Real estate commercial & farmland      | 18,628                               |                                       | 16,241                             | 16,241                    | 1,999             | 16,366                                  | 18,079                                   |
| Real estate residential                | 24,701                               |                                       | 21,174                             | 21,174                    | 1,530             | 20,533                                  | 20,427                                   |
| Consumer installment loans             | 565                                  |                                       | 455                                | 455                       | 10                | 559                                     | 681                                      |
| <b>Total</b>                           | <b>\$ 65,594</b>                     | <b>\$</b>                             | <b>\$ 48,744</b>                   | <b>\$ 48,744</b>          | <b>\$ 5,180</b>   | <b>\$ 49,285</b>                        | <b>\$ 53,047</b>                         |

The following is a summary of information pertaining to purchased non-covered impaired loans:

|  | As of and For the Period Ended |                   |                    |
|--|--------------------------------|-------------------|--------------------|
|  | September 30, 2014             | December 31, 2013 | September 30, 2013 |
| (Dollars in Thousands)                                       |                                |                   |                    |
| Nonaccrual loans   | \$ 17,007                      | \$ 6,659          | \$                 |
| Troubled debt restructurings not included above              | 583                            |                   |                    |
| <b>Total impaired loans</b>                                  | <b>\$ 17,590</b>               | <b>\$ 6,659</b>   | <b>\$</b>          |
| Quarter-to-date interest income recognized on impaired loans | \$ 19                          | \$                | \$                 |
| Year-to-date interest income recognized on impaired loans    | \$ 35                          | \$                | \$                 |
| Quarter-to-date foregone interest income on impaired loans   | \$ 18                          | \$                | \$                 |
| Year-to-date foregone interest income on impaired loans      | \$ 176                         | \$                | \$                 |

The following table presents an analysis of information pertaining to impaired purchased non-covered loans as of September 30, 2014 and December 31, 2013. There were no purchased non-covered loans as of September 30, 2013:

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|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three<br>Month<br>Average<br>Recorded<br>Investment | Nine<br>Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|---|--|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |   |  |
| <b>As of September 30, 2014:</b>       |   |  |   |                                 |                      |   |  |
| Commercial, financial & agricultural   | \$ 438  | \$ 54  | \$  | \$ 54                           | \$                   | \$ 98   | \$ 81  |
| Real estate construction & development | 3,794   | 2,274  |   | 2,274                           |                      | 2,273   | 1,501  |
| Real estate commercial & farmland      | 12,354  | 8,776  |   | 8,776                           |                      | 7,712   | 5,976  |
| Real estate residential                | 9,610   | 6,407  |   | 6,407                           |                      | 6,533   | 6,233  |
| Consumer installment loans             | 184   | 79   |   | 79                              |                      | 64  | 43   |
| <b>Total</b>                           | <b>\$ 26,380</b>                              | <b>\$ 17,590</b>                               | <b>\$</b>                                   | <b>\$ 17,590</b>                | <b>\$</b>            | <b>\$ 16,680</b>                                    | <b>\$ 13,834</b>                                   |

|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three Month<br>Average<br>Recorded<br>Investment | Twelve Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|--|---|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |  |   |
| <b>As of December 31, 2013:</b>        |   |  |   |                                 |                      |  |   |
| Commercial, financial & agricultural   | \$ 19   | \$ 11  | \$  | \$ 11                           | \$                   | \$ 1   | \$  |
| Real estate construction & development | 542   | 325  |   | 325                             |                      | 25   | 6   |
| Real estate commercial & farmland      | 2,673   | 1,653  |   | 1,653                           |                      | 126  | 32  |
| Real estate residential                | 7,712   | 4,658  |   | 4,658                           |                      | 354  | 90  |
| Consumer installment loans             | 20  | 12   |   | 12                              |                      | 1  |   |
| <b>Total</b>                           | <b>\$ 10,996</b>                              | <b>\$ 6,659</b>                                | <b>\$</b>                                   | <b>\$ 6,659</b>                 | <b>\$</b>            | <b>\$ 507</b>                                    | <b>\$ 128</b>                                     |

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The following is a summary of information pertaining to covered impaired loans:

|  | As of and For the Period Ended |                      |                       |
|--|--------------------------------|----------------------|-----------------------|
|  | September 30,<br>2014          | December 31,<br>2013 | September 30,<br>2013 |
|  | (Dollars in Thousands)         |                      |                       |
| Nonaccrual loans   | \$ 39,283                      | \$ 69,152            | \$ 74,911             |
| Troubled debt restructurings not included above              | 22,757                         | 22,243               | 21,184                |
| <b>Total impaired loans</b>                                  | <b>\$ 62,040</b>               | <b>\$ 91,395</b>     | <b>\$ 96,095</b>      |
| Quarter-to-date interest income recognized on impaired loans | \$ 176                         | \$ 175               | \$ 9                  |
| Year-to-date interest income recognized on impaired loans    | \$ 1,115                       | \$ 968               | \$ 793                |
| Quarter-to-date foregone interest income on impaired loans   | \$                             | \$ 44                | \$ 44                 |
| Year-to-date foregone interest income on impaired loans      | \$ 94                          | \$ 330               | \$ 286                |

The following table presents an analysis of information pertaining to impaired covered loans as of September 30, 2014, December 31, 2013 and September 30, 2013:

|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three Month<br>Average<br>Recorded<br>Investment | Nine Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|--|---|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |  |   |
| <b>As of September 30, 2014:</b>       |   |  |   |                                 |                      |  |   |
| Commercial, financial & agricultural   | \$ 11,356                                     | \$ 8,467                                       | \$  | \$ 8,467                        | \$                   | \$ 10,367  | \$ 9,511  |
| Real estate construction & development | 13,268  | 11,920   |   | 11,920                          |                      | 11,484   | 14,760  |
| Real estate commercial & farmland      | 26,624  | 23,118   |   | 23,118                          |                      | 23,562   | 29,904  |
| Real estate residential                | 20,331  | 18,430   |   | 18,430                          |                      | 19,112   | 21,456  |
| Consumer installment loans             | 134   | 105  |   | 105                             |                      | 116  | 177   |
| <b>Total</b>                           | <b>\$ 71,713</b>                              | <b>\$ 62,040</b>                               | <b>\$</b>                                   | <b>\$ 62,040</b>                | <b>\$</b>            | <b>\$ 64,641</b>                                 | <b>\$ 75,808</b>                                |

|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three<br>Month<br>Average<br>Recorded<br>Investment | Twelve Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|---|---|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |   |   |
| <b>As of December 31, 2013:</b>        |   |  |   |                                 |                      |   |   |
| Commercial, financial & agricultural   | \$ 9,680                                      | \$ 7,270                                       | \$  | \$ 7,270                        | \$                   | \$ 7,577  | \$ 8,696  |
| Real estate construction & development | 20,915  | 18,037   |   | 18,037                          |                      | 19,464  | 21,794  |
| Real estate commercial & farmland      | 46,612  | 40,749   |   | 40,749                          |                      | 42,014  | 51,584  |
| Real estate residential                | 29,089  | 24,998   |   | 24,998                          |                      | 24,345  | 28,452  |
| Consumer installment loans             | 394   | 341  |   | 341                             |                      | 346   | 304   |
| <b>Total</b>                           | <b>\$ 106,690</b>                             | <b>\$ 91,395</b>                               | <b>\$</b>                                   | <b>\$ 91,395</b>                | <b>\$</b>            | <b>\$ 93,745</b>                                    | <b>\$ 110,830</b>                                 |

|  | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Three<br>Month<br>Average<br>Recorded<br>Investment | Nine<br>Month<br>Average<br>Recorded<br>Investment |
|--|---|--|---|---------------------------------|----------------------|---|--|
| (Dollars in Thousands)                 |   |  |   |                                 |                      |   |  |
| <b>As of September 30, 2013:</b>       |   |  |   |                                 |                      |   |  |
| Commercial, financial & agricultural   | \$ 10,645                                     | \$ 7,884                                       | \$  | \$ 7,884                        | \$                   | \$ 8,327  | \$ 9,052   |
| Real estate construction & development | 25,401  | 20,890   |   | 20,890                          |                      | 21,860  | 22,734   |
| Real estate commercial & farmland      | 51,105  | 43,279   |   | 43,279                          |                      | 48,558  | 54,292   |
| Real estate residential                | 28,078  | 23,692   |   | 23,692                          |                      | 24,810  | 29,316   |
| Consumer installment loans             | 404   | 350  |   | 350                             |                      | 318   | 295  |
| <b>Total</b>                           | <b>\$ 115,633</b>                             | <b>\$ 96,095</b>                               | <b>\$</b>                                   | <b>\$ 96,095</b>                | <b>\$</b>            | <b>\$ 103,872</b>                                   | <b>\$ 115,689</b>                                  |

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**Credit Quality Indicators**

The Company uses a nine category risk grading system to assign a risk grade to each loan in the portfolio. Every loan is assigned a risk rating, with the exception of credit card receivables and overdraft protection loans which are treated as pools and assigned a risk rating. All relationships greater than \$1.0 million and the majority of relationships greater than \$250,000 are reviewed annually by the Bank's independent internal loan review department or an independent third party loan review. The following is a description of the general characteristics of the grades:

*Grade 10 Prime Credit* This grade represents loans to the Company's most creditworthy borrowers or loans that are secured by cash or cash equivalents.

*Grade 15 Good Credit* This grade includes loans that exhibit one or more characteristics better than that of a *Satisfactory Credit*. Generally, the debt service coverage and borrower's liquidity is materially better than required by the Company's loan policy.

*Grade 20 Satisfactory Credit* This grade is assigned to loans of borrowers who exhibit satisfactory credit histories, contain acceptable loan structures and demonstrate the ability to repay.

*Grade 23 Performing, Under-Collateralized Credit* This grade is assigned to loans that are currently performing and supported by adequate financial information that reflects repayment capacity but exhibit a loan-to-value ratio greater than 110%, based on a documented collateral valuation.

*Grade 25 Minimum Acceptable Credit* This grade includes loans which exhibit all the characteristics of a *Satisfactory Credit*, but warrant more than a normal level of banker supervision due to (i) circumstances which elevate the risks of performance (such as start-up operations, untested management, heavy leverage and interim losses); (ii) adverse, extraordinary events that have affected, or could affect, the borrower's cash flow, financial condition, ability to continue operating profitability or refinancing (such as death of principal, fire and divorce); (iii) loans that require more than the normal servicing requirements (such as any type of construction financing, acquisition and development loans, accounts receivable or inventory loans and floor plan loans); (iv) existing technical exceptions which raise some doubts about the Bank's perfection in its collateral position or the continued financial capacity of the borrower; or (v) improvements in formerly criticized borrowers, which may warrant banker supervision.

*Grade 30 Other Asset Especially Mentioned* This grade includes loans that exhibit potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

*Grade 40 Substandard* This grade represents loans which are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These assets exhibit a well-defined weakness or are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. These weaknesses may be characterized by past due performance, operating losses or questionable collateral values.

*Grade 50 Doubtful* This grade includes loans which exhibit all of the characteristics of a substandard loan with the added provision that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable.

*Grade 60 Loss* This grade is assigned to loans which are considered uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This classification does not mean that the loss has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing it off.



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The following table presents the loan portfolio, excluding purchased non-covered and covered loans, by risk grade as of September 30, 2014.

| Risk Grade             | Commercial, financial & agricultural | Real estate - construction development | Real estate - commercial & farmland | Real estate - residential | Consumer installment loans | Other    | Total        |
|------------------------|--------------------------------------|--|-------------------------------------|---------------------------|----------------------------|----------|--------------|
| (Dollars in Thousands) |                                      |  |                                     |                           |                            |          |              |
| 10                     | \$ 114,298                           | \$ 171                                 | \$ 251                              | \$ 479                    | \$ 6,287                   | \$       | \$ 121,486   |
| 15                     | 29,665                               | 4,114                                  | 136,303                             | 51,508                    | 1,124                      |          | 222,714      |
| 20                     | 110,337                              | 50,427                                 | 478,551                             | 241,457                   | 17,700                     | 9,583    | 908,055      |
| 23                     | 186                                  | 9,292                                  | 9,574                               | 9,469                     | 305                        |          | 28,826       |
| 25                     | 73,251                               | 83,245                                 | 217,226                             | 105,635                   | 4,842                      |          | 484,199      |
| 30                     | 3,438                                | 1,781                                  | 16,217                              | 10,060                    | 254                        |          | 31,750       |
| 40                     | 3,608                                | 5,285                                  | 23,950                              | 17,907                    | 890                        |          | 51,640       |
| 50                     |                                      |  | 88                                  |                           |                            |          | 88           |
| 60                     |                                      |  |                                     |                           | 1                          |          | 1            |
| Total                  | \$ 334,783                           | \$ 154,315                             | \$ 882,160                          | \$ 436,515                | \$ 31,403                  | \$ 9,583 | \$ 1,848,759 |

The following table presents the loan portfolio, excluding purchased non-covered and covered loans, by risk grade as of December 31, 2013.

| Risk Grade             | Commercial, financial & agricultural | Real estate - construction development | Real estate - commercial & farmland | Real estate - residential | Consumer installment loans | Other     | Total        |
|------------------------|--------------------------------------|--|-------------------------------------|---------------------------|----------------------------|-----------|--------------|
| (Dollars in Thousands) |                                      |  |                                     |                           |                            |           |              |
| 10                     | \$ 66,983                            | \$                                     | \$ 265                              | \$ 419                    | \$ 6,714                   | \$        | \$ 74,381    |
| 15                     | 24,789                               | 4,655                                  | 147,157                             | 52,335                    | 1,276                      |           | 230,212      |
| 20                     | 93,852                               | 45,195                                 | 431,790                             | 165,339                   | 18,619                     | 18,256    | 773,051      |
| 23                     | 127                                  | 8,343                                  | 10,219                              | 12,641                    | 274                        |           | 31,604       |
| 25                     | 50,373                               | 78,736                                 | 181,645                             | 103,427                   | 6,310                      |           | 420,491      |
| 30                     | 2,111                                | 2,876                                  | 11,849                              | 13,558                    | 197                        |           | 30,591       |
| 40                     | 6,011                                | 6,566                                  | 25,398                              | 19,153                    | 859                        |           | 57,987       |
| 50                     | 127                                  |  |                                     | 10                        |                            |           | 137          |
| 60                     |                                      |  |                                     |                           |                            |           |              |
| Total                  | \$ 244,373                           | \$ 146,371                             | \$ 808,323                          | \$ 366,882                | \$ 34,249                  | \$ 18,256 | \$ 1,618,454 |

The following table presents the loan portfolio, excluding purchased non-covered and covered loans, by risk grade as of September 30, 2013:

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| Risk<br>Grade | Commercial,<br>financial<br>&<br>agricultural | Real estate<br>-<br>construction &<br>development | Real estate -<br>commercial &<br>farmland | Real estate -<br>residential | Consumer<br>installment loans | Other     | Total        |
|---------------|---|---|---|------------------------------|-------------------------------|-----------|--------------|
|               | (Dollars in Thousands)                        |   |   |                              |                               |           |              |
| 10            | \$ 65,033                                     | \$  | \$ 278                                    | \$ 420                       | \$ 7,028                      | \$        | \$ 72,759    |
| 15            | 20,668  | 5,080   | 147,355                                   | 56,464                       | 1,243                         |           | 230,810      |
| 20            | 89,216  | 37,765  | 421,669                                   | 142,186                      | 19,691                        | 20,627    | 731,154      |
| 23            | 97  | 7,085   | 10,054                                    | 13,275                       | 218                           |           | 30,729       |
| 25            | 60,407  | 72,942  | 183,371                                   | 109,604                      | 7,034                         |           | 433,358      |
| 30            | 3,019   | 2,264   | 12,089                                    | 11,427                       | 153                           |           | 28,952       |
| 40            | 6,326   | 7,141   | 24,333                                    | 22,534                       | 936                           |           | 61,270       |
| 50            | 225   |   |   | 10                           |                               |           | 235          |
| 60            |   |   |   |                              |                               |           |              |
| Total         | \$ 244,991                                    | \$ 132,277  | \$ 799,149                                | \$ 355,920                   | \$ 36,303                     | \$ 20,627 | \$ 1,589,267 |

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The following table presents the purchased non-covered loan portfolio by risk grade as of September 30, 2014:

| <b>Risk Grade</b>             | <b>Commercial, financial &amp; agricultural</b> | <b>Real estate - construction development</b> | <b>Real estate - commercial farmland</b> | <b>Real estate - residential</b> | <b>Consumer installment loans</b> | <b>Other</b> | <b>Total</b>      |
|-------------------------------|---|---|--|----------------------------------|-----------------------------------|--------------|-------------------|
| <b>(Dollars in Thousands)</b> |   |   |  |                                  |                                   |              |                   |
| 10                            | \$ 3,187  | \$  | \$                                       | \$ 292                           | \$ 486                            | \$           | \$ 3,965          |
| 15                            | 5,023   | 447   | 14,136                                   | 15,336                           | 519                               |              | 35,461            |
| 20                            | 11,230  | 12,345  | 90,915                                   | 64,178                           | 2,034                             |              | 180,702           |
| 23                            | 8   |   |  | 1,208                            |                                   |              | 1,216             |
| 25                            | 16,467  | 38,426  | 167,458                                  | 175,313                          | 2,065                             |              | 399,729           |
| 30                            | 1,494   | 2,164   | 9,300                                    | 7,071                            | 19                                |              | 20,048            |
| 40                            | 668   | 6,880   | 14,981                                   | 9,915                            | 121                               |              | 32,565            |
| 50                            |   |   |  | 34                               | 4                                 |              | 38                |
| 60                            |   |   |  |                                  |                                   |              |                   |
| <b>Total</b>                  | <b>\$ 38,077</b>                                | <b>\$ 60,262</b>                              | <b>\$ 296,790</b>                        | <b>\$ 273,347</b>                | <b>\$ 5,248</b>                   | <b>\$</b>    | <b>\$ 673,724</b> |

The following table presents the purchased non-covered loan portfolio by risk grade as of December 31, 2013:

| <b>Risk Grade</b>             | <b>Commercial, financial &amp; agricultural</b> | <b>Real estate - construction development</b> | <b>Real estate - commercial farmland</b> | <b>Real estate - residential</b> | <b>Consumer installment loans</b> | <b>Other</b> | <b>Total</b>      |
|-------------------------------|---|---|--|----------------------------------|-----------------------------------|--------------|-------------------|
| <b>(Dollars in Thousands)</b> |   |   |  |                                  |                                   |              |                   |
| 10                            | \$ 1,865  | \$  | \$                                       | \$ 289                           | \$ 451                            | \$           | \$ 2,605          |
| 15                            | 4,606   | 7   | 12,998                                   | 16,160                           | 703                               |              | 34,474            |
| 20                            | 5,172   | 3,960   | 43,802                                   | 34,576                           | 1,383                             |              | 88,893            |
| 23                            |   |   |  |                                  |                                   |              |                   |
| 25                            | 19,638  | 20,733  | 102,260                                  | 129,923                          | 1,888                             |              | 274,442           |
| 30                            | 576   | 1,760   | 9,554                                    | 10,878                           | 194                               |              | 22,962            |
| 40                            | 284   | 4,716   | 11,284                                   | 9,025                            | 68                                |              | 25,377            |
| 50                            |   |   |  |                                  |                                   |              |                   |
| 60                            |   |   |  |                                  |                                   |              |                   |
| <b>Total</b>                  | <b>\$ 32,141</b>                                | <b>\$ 31,176</b>                              | <b>\$ 179,898</b>                        | <b>\$ 200,851</b>                | <b>\$ 4,687</b>                   | <b>\$</b>    | <b>\$ 448,753</b> |

There were no purchased non-covered loans as of September 30, 2013.

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The following table presents the covered loan portfolio by risk grade as of September 30, 2014:

| Risk<br>Grade          | Commercial,<br>financial<br>&<br>agricultural | Real estate<br>-<br>construction &<br>development | Real estate -<br>commercial &<br>farmland | Real estate -<br>residential | Consumer<br>installment loans | Other | Total      |
|------------------------|---|---|---|------------------------------|-------------------------------|-------|------------|
| (Dollars in Thousands) |   |   |   |                              |                               |       |            |
| 10                     | \$  | \$  | \$  | \$                           | \$                            | \$    | \$         |
| 15                     |   | 2   | 795                                       | 531                          |                               |       | 1,328      |
| 20                     | 1,302   | 3,380   | 33,200                                    | 15,957                       | 71                            |       | 53,910     |
| 23                     | 145   | 547   | 14,640                                    | 5,815                        |                               |       | 21,147     |
| 25                     | 5,687   | 11,725  | 89,201                                    | 35,344                       | 41                            |       | 141,998    |
| 30                     | 4,827   | 3,006   | 8,808                                     | 8,649                        | 43                            |       | 25,333     |
| 40                     | 10,584  | 9,096   | 33,922                                    | 16,149                       | 122                           |       | 69,873     |
| 50                     |   |   |   |                              |                               |       |            |
| 60                     |   |   |   |                              |                               |       |            |
| Total                  | \$ 22,545                                     | \$ 27,756   | \$ 180,566                                | \$ 82,445                    | \$ 277                        | \$    | \$ 313,589 |

The following table presents the covered loan portfolio by risk grade as of December 31, 2013:

| Risk<br>Grade          | Commercial,<br>financial<br>&<br>agricultural | Real estate -<br>construction &<br>development | Real estate -<br>commercial &<br>farmland | Real estate -<br>residential | Consumer<br>installment loans | Other | Total      |
|------------------------|---|--|---|------------------------------|-------------------------------|-------|------------|
| (Dollars in Thousands) |   |  |   |                              |                               |       |            |
| 10                     | \$  | \$   | \$  | \$                           | \$                            | \$    | \$         |
| 15                     |   | 16   | 1,048                                     | 638                          |                               |       | 1,702      |
| 20                     | 2,184   | 8,549  | 34,674                                    | 21,363                       | 193                           |       | 66,963     |
| 23                     | 134   | 1,085  | 17,037                                    | 4,748                        | 51                            |       | 23,055     |
| 25                     | 7,508   | 9,611  | 101,657                                   | 38,427                       | 235                           |       | 157,438    |
| 30                     | 5,125   | 2,006  | 21,297                                    | 6,979                        | 17                            |       | 35,424     |
| 40                     | 11,599  | 21,912   | 48,738                                    | 23,018                       | 388                           |       | 105,655    |
| 50                     |   |  |   |                              |                               |       |            |
| 60                     |   |  |   |                              |                               |       |            |
| Total                  | \$ 26,550                                     | \$ 43,179                                      | \$ 224,451                                | \$ 95,173                    | \$ 884                        | \$    | \$ 390,237 |

The following table presents the covered loan portfolio by risk grade as of September 30, 2013:

| Risk<br>Grade | Commercial,<br>financial<br>&<br>agricultural | Real estate<br>-<br>construction &<br>development | Real estate -<br>commercial &<br>farmland | Real estate -<br>residential | Consumer<br>installment loans | Other | Total |
|---------------|---|---|---|------------------------------|-------------------------------|-------|-------|
|---------------|---|---|---|------------------------------|-------------------------------|-------|-------|

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agricultural development

(Dollars in Thousands)

| 10    | \$        | \$        | \$         | \$         | \$     | \$ | \$         |
|-------|-----------|-----------|------------|------------|--------|----|------------|
| 15    |           | 22        | 1,098      | 641        |        |    | 1,761      |
| 20    | 2,697     | 11,347    | 34,252     | 22,545     | 208    |    | 71,049     |
| 23    | 135       | 1,080     | 16,708     | 2,902      | 51     |    | 20,876     |
| 25    | 7,609     | 7,360     | 108,886    | 39,632     | 250    |    | 163,737    |
| 30    | 1,485     | 5,505     | 24,790     | 9,196      | 14     |    | 40,990     |
| 40    | 15,842    | 25,388    | 51,352     | 26,230     | 424    |    | 119,236    |
| 50    |           |           |            |            |        |    |            |
| 60    |           |           |            |            |        |    |            |
| Total | \$ 27,768 | \$ 50,702 | \$ 237,086 | \$ 101,146 | \$ 947 | \$ | \$ 417,649 |

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**Troubled Debt Restructurings**

The restructuring of a loan is considered a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. Concessions may include interest rate reductions to below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. The Company has exhibited the greatest success for rehabilitation of a loan by a reduction in the rate alone (maintaining the amortization of the debt) or a combination of a rate reduction and the forbearance of previously past due interest or principal. This has most typically been evidenced in certain commercial real estate loans whereby a disruption in the borrower's cash flow resulted in an extended past due status, of which the borrower was unable to catch up completely as the cash flow of the property ultimately stabilized at a level lower than its original level. A reduction in rate, coupled with a forbearance of unpaid principal and/or interest, allowed the net cash flows to service the debt under the modified terms.

The Company's policy requires a restructure request to be supported by a current, well-documented credit evaluation of the borrower's financial condition and a collateral evaluation that is no older than six months from the date of the restructure. Key factors of that evaluation include the documentation of current, recurring cash flows, support provided by the guarantor(s) and the current valuation of the collateral. If the appraisal on file is older than six months, an evaluation must be made as to the continued reasonableness of the valuation. For certain income-producing properties, current rent rolls and/or other income information can be utilized to support the appraisal valuation, when coupled with documented cap rates within our markets and a physical inspection of the collateral to validate the current condition.

The Company's policy states in the event a loan has been identified as a troubled debt restructuring, it should be assigned a grade of substandard and placed on nonaccrual status until such time that the borrower has demonstrated the ability to service the loan payments based on the restructured terms generally defined as six months of satisfactory payment history. Missed payments under the original loan terms are not considered under the new structure; however, subsequent missed payments are considered non-performance and are not considered toward the six month required term of satisfactory payment history. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment, approved by the Company's Senior Credit Officer.

In the normal course of business, the Company renews loans with a modification of the interest rate or terms that are not deemed as troubled debt restructurings because the borrower is not experiencing financial difficulty. The Company modified loans in the first nine months of 2014 and 2013 totaling \$8.0 million and \$17.0 million, respectively, under such parameters. In addition, the Company offers consumer loan customers an annual skip-a-pay program that is based on certain qualifying parameters and not based on financial difficulties. The Company does not treat these as troubled debt restructurings.

As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company had a balance of \$20.5 million, \$20.9 million and \$20.2 million, respectively, in troubled debt restructurings, excluding purchased non-covered and covered loans. The Company has recorded \$4.4 million, \$2.1 million and \$2.1 million in previous charge-offs on such loans at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. The Company's balance in the allowance for loan losses allocated to such troubled debt restructurings was \$2.2 million, \$2.1 million and \$1.7 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. At September 30, 2014, the Company did not have any commitments to lend additional funds to debtors whose terms have been modified in troubled restructurings.

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During the three and nine month periods ending September 30, 2014, the Company modified loans as troubled debt restructurings with principal balances of \$763,000 and \$2.4 million, respectively. These modifications impacted the Company's allowance for loan losses by \$49,000 and \$203,000, respectively, for the three and nine month periods ended September 30, 2014. Troubled debt restructurings with an outstanding balance of \$528,000 at June 30, 2014 defaulted during the three months ended September 30, 2014 and these defaults did not have a material impact on the Company's allowance for loan loss. Troubled debt restructurings with an outstanding balance of \$1.3 million at December 31, 2013 defaulted during the first nine months of 2014 and these defaults did not have a material impact on the Company's allowance for loan loss.

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The following table presents the amount of troubled debt restructurings by loan class, excluding purchased non-covered and covered loans, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Loan class:                            | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Commercial, financial & agricultural   | 4                     | \$ 257                | 4                         | \$ 507                |
| Real estate construction & development | 11                    | 1,917                 | 4                         | 196                   |
| Real estate commercial & farmland      | 21                    | 7,080                 | 2                         | 1,672                 |
| Real estate residential                | 43                    | 7,973                 | 10                        | 759                   |
| Consumer installment                   | 9                     | 34                    | 12                        | 93                    |
| Total                                  | 88                    | \$ 17,261             | 32                        | \$ 3,227              |

| <i>As of December 31, 2013</i>         | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Loan class:                            | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Commercial, financial & agricultural   | 4                     | \$ 515                | 3                         | \$ 525                |
| Real estate construction & development | 8                     | 1,896                 | 2                         | 32                    |
| Real estate commercial & farmland      | 17                    | 6,913                 | 4                         | 2,273                 |
| Real estate residential                | 37                    | 7,818                 | 8                         | 834                   |
| Consumer installment                   | 6                     | 72                    | 3                         | 19                    |
| Total                                  | 72                    | \$ 17,214             | 20                        | \$ 3,683              |

| <i>As of September 30, 2013</i>        | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Loan class:                            | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Commercial, financial & agricultural   | 4                     | \$ 521                | 3                         | \$ 533                |
| Real estate construction & development | 8                     | 1,926                 | 1                         | 29                    |
| Real estate commercial & farmland      | 16                    | 6,693                 | 3                         | 1,858                 |
| Real estate residential                | 35                    | 7,871                 | 7                         | 704                   |
| Consumer installment                   | 1                     | 13                    | 2                         | 26                    |
| Total                                  | 64                    | \$ 17,024             | 16                        | \$ 3,150              |

As of September 30, 2014, the Company had a balance of \$583,000 in troubled debt restructurings included in purchased non-covered loans. The Company did not have any troubled debt restructurings included in purchased non-covered loans as of December 31, 2013 and September 30, 2013. The Company has not recorded any previous charge-offs on such loans at September 30, 2014. At September 30, 2014, the Company did not have any commitments to lend additional funds to debtors whose terms have been modified in troubled restructurings.

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The following table presents the amount of troubled debt restructurings by loan class of purchased non-covered loans, classified separately as accrual and non-accrual at September 30, 2014:

| <i>As of September 30, 2014</i>      |                            | Accruing Loans |                           | Non-Accruing Loans |                           |
|--------------------------------------|----------------------------|----------------|---------------------------|--------------------|---------------------------|
| Loan class:                          |                            | #              | Balance<br>(in thousands) | #                  | Balance<br>(in thousands) |
| Commercial, financial & agricultural |                            |                | \$                        |                    | \$                        |
| Real estate                          | construction & development | 1              | 305                       |                    |                           |
| Real estate                          | commercial & farmland      |                |                           |                    |                           |
| Real estate                          | residential                | 4              | 275                       | 2                  | 247                       |
| Consumer installment                 |                            | 1              | 3                         |                    |                           |
| Total                                |                            | 6              | \$ 583                    | 2                  | \$ 247                    |

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As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company had a balance of \$25.0 million, \$27.3 million and \$28.4 million, respectively, in troubled debt restructurings included in covered loans. The Company has recorded \$2.1 million, \$1.6 million and \$3.7 million in previous charge-offs on such loans at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. At September 30, 2014, the Company did not have any commitments to lend additional funds to debtors whose terms have been modified in troubled restructurings.

The following table presents the amount of troubled debt restructurings by loan class of covered loans, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        |     | Accruing Loans |                | Non-Accruing Loans |                |
|--|-----|----------------|----------------|--------------------|----------------|
|  |     |                | Balance        |                    | Balance        |
| Loan class:                            | #   |                | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   | 1   | \$             | 26             | 1                  | \$ 3           |
| Real estate construction & development | 3   |                | 3,024          | 3                  | 56             |
| Real estate commercial & farmland      | 15  |                | 8,501          | 6                  | 1,225          |
| Real estate residential                | 94  |                | 11,202         | 13                 | 965            |
| Consumer installment                   | 1   |                | 4              |                    |                |
| Total                                  | 114 | \$             | 22,757         | 23                 | \$ 2,249       |

| <i>As of December 31, 2013</i>         |     | Accruing Loans |                | Non-Accruing Loans |                |
|--|-----|----------------|----------------|--------------------|----------------|
|  |     |                | Balance        |                    | Balance        |
| Loan class:                            | #   |                | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   | 1   | \$             | 13             | 5                  | \$ 71          |
| Real estate construction & development | 3   |                | 3,256          | 4                  | 52             |
| Real estate commercial & farmland      | 13  |                | 7,255          | 5                  | 3,946          |
| Real estate residential                | 83  |                | 11,719         | 8                  | 942            |
| Consumer installment                   |     |                |                | 2                  | 10             |
| Total                                  | 100 | \$             | 22,243         | 24                 | \$ 5,021       |

| <i>As of September 30, 2013</i>        |    | Accruing Loans |                | Non-Accruing Loans |                |
|--|----|----------------|----------------|--------------------|----------------|
|  |    |                | Balance        |                    | Balance        |
| Loan class:                            | #  |                | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   | 1  | \$             | 12             | 3                  | \$ 40          |
| Real estate construction & development | 5  |                | 4,308          | 4                  | 690            |
| Real estate commercial & farmland      | 11 |                | 6,200          | 7                  | 4,805          |
| Real estate residential                | 79 |                | 10,461         | 11                 | 1,874          |
| Consumer installment                   |    |                |                | 1                  | 5              |
| Total                                  | 96 | \$             | 20,981         | 26                 | \$ 7,414       |



**Table of Contents****Allowance for Loan Losses**

The allowance for loan losses represents an allowance for probable incurred losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on non-accruing, past due and other loans that management believes might be potentially impaired or warrant additional attention. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent auditors and regulatory authorities, the Company further segregates the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. Certain reviewed loans are assigned specific allowances when a review of relevant data determines that a general allocation is not sufficient or when the review affords management the opportunity to adjust the amount of exposure in a given credit. In establishing allowances, management considers historical loan loss experience but adjusts this data with a significant emphasis on current loan quality trends, current economic conditions and other factors in the markets where the Company operates. Factors considered include, among others, current valuations of real estate in the Company's markets, unemployment rates, the effect of weather conditions on agricultural related entities and other significant local economic events.

The Company has developed a methodology for determining the adequacy of the allowance for loan losses which is monitored by the Company's Chief Credit Officer. Procedures provide for the assignment of a risk rating for every loan included in the total loan portfolio, with the exception of certain mortgage loans serviced at a third party, mortgage warehouse lines and overdraft protection loans which are treated as pools for risk rating purposes. The risk rating schedule provides nine ratings of which five ratings are classified as pass ratings and four ratings are classified as criticized ratings. Each risk rating is assigned a percentage factor to be applied to the loan balance to determine the adequate amount of reserve. All relationships greater than \$1.0 million and the majority of relationships greater than \$250,000 are reviewed annually by the Bank's independent internal loan review department or an independent third party loan review firm. As a result of these loan reviews, certain loans may be identified as having deteriorating credit quality. Other loans that surface as problem loans may also be assigned specific reserves. Past due loans are assigned risk ratings based on the number of days past due. The calculation of the allowance for loan losses, including underlying data and assumptions, is reviewed regularly by the Company's Chief Financial Officer and the independent internal loan review department.

Loan losses are charged against the allowance when management believes the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. Consumer loans are charged-off in accordance with the Federal Financial Institutions Examination Council's (FFIEC) Uniform Retail Credit Classification and Account Management Policy. Commercial loans are charged-off when they are deemed uncollectible, which usually involves a triggering event within the collection effort. If the loan is collateral dependent, the loss is more easily identified and is charged-off when it is identified, usually based upon receipt of an appraisal. However, when a loan has guarantor support, the Company may carry the estimated loss as a reserve against the loan while collection efforts with the guarantor are pursued. If, after collection efforts with the guarantor are complete, the deficiency is still considered uncollectible, the loss is charged-off and any further collections are treated as recoveries. In all situations, when a loan is downgraded to an Asset Quality Rating of 60 (Loss per the regulatory guidance), the uncollectible portion is charged-off.

During the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013, the Company recorded provision for loan loss expense of \$685,000, \$1.5 million and \$1.3 million, respectively, to account for losses where the initial estimate of cash flows was found to be excessive on loans acquired in FDIC-assisted transactions. During the nine months ended September 30, 2014, the Company recorded provision for loan loss expense of \$4,000 to account for losses where the initial estimate of cash flows was found to be excessive on purchased, non-covered loans. Charge-offs on purchased loans, both covered and non-covered, are

recorded when impairment is recorded. Provision expense for covered loans is recorded net of the indemnification by the FDIC loss-share agreements.

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The following table details activity in the allowance for loan losses by portfolio segment for the periods indicated. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

|  | Commercial,<br>financial<br>&<br>agricultural | Real<br>estate<br>construction<br>development | Real estate<br>commercial &<br>farmland | Real estate<br>residential | Consumer<br>installment<br>loans<br>and<br>other | Purchased<br>non-covered<br>loans | Covered<br>loans | Total     |
|--|---|---|---|----------------------------|--|-----------------------------------|------------------|-----------|
| (Dollars in Thousands)                               |   |   |   |                            |  |                                   |                  |           |
| <b>Three months ended September 30, 2014:</b>        |   |   |   |                            |  |                                   |                  |           |
| <b>Balance,<br/>June 30, 2014</b>                    | \$ 2,185                                      | \$ 5,431                                      | \$ 8,317                                | \$ 5,166                   | \$ 1,155   | \$                                | \$               | \$ 22,254 |
| Provision for<br>loan losses                         | 540   | 63  | 1,237                                   | 595                        | (862)  | 4                                 | 92               | 1,669     |
| Loans charged<br>off                                 | (191)   | (296)   | (953)                                   | (406)                      | (129)  | (4)                               | (376)            | (2,355)   |
| Recoveries of<br>loans previously<br>charged off     | 47  | 96  | 31                                      | 52                         | 134  |                                   | 284              | 644       |
| <b>Balance,<br/>September 30,<br/>2014</b>           | \$ 2,581                                      | \$ 5,294                                      | \$ 8,632                                | \$ 5,407                   | \$ 298   | \$                                | \$               | \$ 22,212 |
| <b>Nine months ended September 30, 2014:</b>         |   |   |   |                            |  |                                   |                  |           |
| <b>Balance,<br/>January 1,<br/>2014</b>              | \$ 1,823                                      | \$ 5,538                                      | \$ 8,393                                | \$ 6,034                   | \$ 589   | \$                                | \$               | \$ 22,377 |
| Provision for<br>loan losses                         | 1,627   | (26)  | 2,311                                   | 529                        | (370)  | 4                                 | 685              | 4,760     |
| Loans charged<br>off                                 | (1,099)                                       | (518)   | (2,255)                                 | (1,339)                    | (343)  | (4)                               | (1,514)          | (7,072)   |
| Recoveries of<br>loans previously<br>charged off     | 230   | 300   | 183                                     | 183                        | 422  |                                   | 829              | 2,147     |
| <b>Balance,<br/>September 30,<br/>2014</b>           | \$ 2,581                                      | \$ 5,294                                      | \$ 8,632                                | \$ 5,407                   | \$ 298   | \$                                | \$               | \$ 22,212 |
| <b>Period-end amount allocated to:</b>               |   |   |   |                            |  |                                   |                  |           |
| Loans<br>individually<br>evaluated for<br>impairment | \$ 611  | \$ 540  | \$ 1,682                                | \$ 1,272                   | \$   | \$                                | \$               | \$ 4,105  |

|   |       |       |       |       |     |  |  |        |
|---|-------|-------|-------|-------|-----|--|--|--------|
| Loans collectively evaluated for impairment | 1,970 | 4,754 | 6,950 | 4,135 | 298 |  |  | 18,107 |
|---|-------|-------|-------|-------|-----|--|--|--------|

**Ending balance** \$ 2,581 \$ 5,294 \$ 8,632 \$ 5,407 \$ 298 \$ \$ \$ 22,212

**Loans:**

|                                       |          |          |           |           |    |    |    |           |
|---------------------------------------|----------|----------|-----------|-----------|----|----|----|-----------|
| Individually evaluated for impairment | \$ 1,549 | \$ 3,078 | \$ 17,129 | \$ 11,860 | \$ | \$ | \$ | \$ 33,616 |
|---------------------------------------|----------|----------|-----------|-----------|----|----|----|-----------|

|                                       |         |         |         |         |        |         |         |           |
|---------------------------------------|---------|---------|---------|---------|--------|---------|---------|-----------|
| Collectively evaluated for impairment | 333,234 | 151,237 | 865,031 | 424,655 | 40,986 | 581,723 | 142,128 | 2,538,994 |
|---------------------------------------|---------|---------|---------|---------|--------|---------|---------|-----------|

|   |  |  |  |  |  |        |         |         |
|---|--|--|--|--|--|--------|---------|---------|
| Acquired with deteriorated credit quality |  |  |  |  |  | 92,001 | 171,461 | 263,462 |
|---|--|--|--|--|--|--------|---------|---------|

**Ending balance** \$ 334,783 \$ 154,315 \$ 882,160 \$ 436,515 \$ 40,986 \$ 673,724 \$ 313,589 \$ 2,836,072

**Table of Contents**

|  | Commercial,<br>financial &<br>agricultural | Real<br>estate<br>& construction<br>development | Real<br>estate<br>commercial &<br>farmland | Real estate<br>& residential | Consumer<br>installment<br>loans<br>and<br>Other | Purchased<br>non-covered<br>loans | Covered<br>loans | Total        |
|--|--|---|--|------------------------------|--|-----------------------------------|------------------|--------------|
| (Dollars in Thousands)                               |  |   |  |                              |  |                                   |                  |              |
| <b>Twelve months ended December 31, 2013:</b>        |  |   |  |                              |  |                                   |                  |              |
| <b>Balance,<br/>January 1,<br/>2013</b>              | \$ 2,439                                   | \$ 5,343  | \$ 9,157                                   | \$ 5,898                     | \$ 756   | \$                                | \$               | \$ 23,593    |
| Provision for<br>loan losses                         | 711  | 1,742   | 2,777                                      | 4,463                        | 254  |                                   | 1,539            | 11,486       |
| Loans charged<br>off                                 | (1,759)                                    | (2,020)   | (3,571)                                    | (5,215)                      | (719)  |                                   | (1,539)          | (14,823)     |
| Recoveries of<br>loans previously<br>charged off     | 432  | 473   | 30   | 888                          | 298  |                                   |                  | 2,121        |
| <b>Balance,<br/>December 31,<br/>2013</b>            | \$ 1,823                                   | \$ 5,538  | \$ 8,393                                   | \$ 6,034                     | \$ 589   | \$                                | \$               | \$ 22,377    |
| <b>Period-end amount allocated to:</b>               |  |   |  |                              |  |                                   |                  |              |
| Loans<br>individually<br>evaluated for<br>impairment | \$ 356                                     | \$ 407  | \$ 1,427                                   | \$ 1,395                     | \$   | \$                                | \$               | \$ 3,585     |
| Loans<br>collectively<br>evaluated for<br>impairment | 1,467                                      | 5,131   | 6,966                                      | 4,639                        | 589  |                                   |                  | 18,792       |
| <b>Ending balance</b>                                | \$ 1,823                                   | \$ 5,538  | \$ 8,393                                   | \$ 6,034                     | \$ 589   | \$                                | \$               | \$ 22,377    |
| <b>Loans:</b>  |  |   |  |                              |  |                                   |                  |              |
| Individually<br>evaluated for<br>impairment          | \$ 3,457                                   | \$ 3,581  | \$ 15,240                                  | \$ 16,925                    | \$   | \$                                | \$               | \$ 39,203    |
| Collectively<br>evaluated for<br>impairment          | 240,916                                    | 142,790   | 793,083                                    | 349,957                      | 52,505   | 381,588                           | 173,190          | 2,134,029    |
| Acquired with<br>deteriorated<br>credit quality      |  |   |  |                              |  | 67,165                            | 217,047          | 284,212      |
| <b>Ending balance</b>                                | \$ 244,373                                 | \$ 146,371                                      | \$ 808,323                                 | \$ 366,882                   | \$ 52,505  | \$ 448,753                        | \$ 390,237       | \$ 2,457,444 |

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|   | Commercial,<br>financial &<br>agricultural | Real<br>estate<br>& construction<br>development | Real<br>estate<br>commercial &<br>farmland | Real estate<br>residential | Consumer<br>installments<br>loans and<br>Other | Purchased<br>non-<br>covered<br>loans | Covered<br>loans | Total     |
|---|--|---|--|----------------------------|--|---------------------------------------|------------------|-----------|
| (Dollars in Thousands)                        |  |   |  |                            |  |                                       |                  |           |
| <b>Three months ended September 30, 2013:</b> |  |   |  |                            |  |                                       |                  |           |
| <b>Balance, June 30, 2013</b>                 | \$ 2,951                                   | \$ 5,642  | \$ 8,797                                   | \$ 6,360                   | \$ 467   | \$                                    | \$               | \$ 24,217 |
| Provision for loan losses                     | (107)                                      | 601   | 1,212                                      | 626                        | 117  |                                       | 471              | 2,920     |
| Loans charged off                             | (482)                                      | (367)   | (1,080)                                    | (1,323)                    | (205)  |                                       | (471)            | (3,928)   |
| Recoveries of loans previously charged off    | 212  | 84  | 5  | 291                        | 53   |                                       |                  | 645       |
| <b>Balance, September 30, 2013</b>            | \$ 2,574                                   | \$ 5,960  | \$ 8,934                                   | \$ 5,954                   | \$ 432   | \$                                    | \$               | \$ 23,854 |
| <b>Nine months ended September 30, 2013:</b>  |  |   |  |                            |  |                                       |                  |           |
| <b>Balance, January 1, 2013</b>               | \$ 2,439                                   | \$ 5,343  | \$ 9,157                                   | \$ 5,898                   | \$ 756   | \$                                    | \$               | \$ 23,593 |
| Provision for loan losses                     | 1,011                                      | 2,127   | 2,632                                      | 2,966                      | 11   |                                       | 1,261            | 10,008    |
| Loans charged off                             | (1,216)                                    | (1,598)   | (2,873)                                    | (3,430)                    | (576)  |                                       | (1,261)          | (10,954)  |
| Recoveries of loans previously charged off    | 340  | 88  | 18   | 520                        | 241  |                                       |                  | 1,207     |
| <b>Balance, September 30, 2013</b>            | \$ 2,574                                   | \$ 5,960  | \$ 8,934                                   | \$ 5,954                   | \$ 432   | \$                                    | \$               | \$ 23,854 |
| <b>Period-end amount allocated to:</b>        |  |   |  |                            |  |                                       |                  |           |
| Loans individually evaluated for impairment   | \$ 741                                     | \$ 682  | \$ 1,997                                   | \$ 1,429                   | \$   | \$                                    | \$               | \$ 4,849  |
| Loans collectively evaluated for impairment   | 1,833                                      | 5,278   | 6,937                                      | 4,525                      | 432  |                                       |                  | 19,005    |
| <b>Ending balance</b>                         | \$ 2,574                                   | \$ 5,960  | \$ 8,934                                   | \$ 5,954                   | \$ 432   | \$                                    | \$               | \$ 23,854 |
| <b>Loans:</b>                                 |  |   |  |                            |  |                                       |                  |           |
| Individually evaluated for impairment         | \$ 3,657                                   | \$ 3,524  | \$ 14,605                                  | \$ 16,919                  | \$   | \$                                    | \$               | \$ 38,705 |
| Collectively evaluated for impairment         | 241,334                                    | 128,753   | 784,544                                    | 339,001                    | 56,930   |                                       | 186,060          | 1,736,622 |

|   |            |            |            |            |           |    |            |              |
|---|------------|------------|------------|------------|-----------|----|------------|--------------|
| Acquired with<br>deteriorated credit<br>quality |            |            |            |            |           |    | 231,589    | 231,589      |
| <b>Ending balance</b>                           | \$ 244,991 | \$ 132,277 | \$ 799,149 | \$ 355,920 | \$ 56,930 | \$ | \$ 417,649 | \$ 2,006,916 |

**Table of Contents****NOTE 5 ASSETS ACQUIRED IN FDIC-ASSISTED ACQUISITIONS**

From October 2009 through July 2012, the Company participated in ten FDIC-assisted acquisitions whereby the Company purchased certain failed institutions out of the FDIC's receivership. These institutions include the following:

| <b>Bank Acquired</b>               | <b>Location:</b>     | <b>Branches:</b> | <b>Date Acquired</b> |
|------------------------------------|----------------------|------------------|----------------------|
| American United Bank ( AUB )       | Lawrenceville, Ga.   | 1                | October 23, 2009     |
| United Security Bank ( USB )       | Sparta, Ga.          | 2                | November 6, 2009     |
| Satilla Community Bank ( SCB )     | St. Marys, Ga.       | 1                | May 14, 2010         |
| First Bank of Jacksonville ( FBJ ) | Jacksonville, Fl.    | 2                | October 22, 2010     |
| Tifton Banking Company ( TBC )     | Tifton, Ga.          | 1                | November 12, 2010    |
| Darby Bank & Trust ( DBT )         | Vidalia, Ga.         | 7                | November 12, 2010    |
| High Trust Bank ( HTB )            | Stockbridge, Ga.     | 2                | July 15, 2011        |
| One Georgia Bank ( OGB )           | Midtown Atlanta, Ga. | 1                | July 15, 2011        |
| Central Bank of Georgia ( CBG )    | Ellaville, Ga.       | 5                | February 24, 2012    |
| Montgomery Bank & Trust ( MBT )    | Ailey, Ga.           | 2                | July 6, 2012         |

The determination of the initial fair values of loans at the acquisition date and the initial fair values of the related FDIC indemnification assets involves a high degree of judgment and complexity. The carrying values of the acquired loans and the FDIC indemnification assets reflect management's best estimate of the fair value of each of these assets as of the date of acquisition. However, the amount that the Company realizes on these assets could differ materially from the carrying values reflected in the financial statements included in this report, based upon the timing and amount of collections on the acquired loans in future periods. Because of the loss-sharing agreements with the FDIC on these assets, the Company does not expect to incur any significant losses. To the extent the actual values realized for the acquired loans are different from the estimates, the indemnification assets will generally be affected in an offsetting manner due to the loss-sharing support from the FDIC.

FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ( ASC 310 ), applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. ASC 310 prohibits carrying over or creating an allowance for loan losses upon initial recognition for loans which fall under the scope of this statement. At the acquisition dates, a majority of these loans were valued based on the liquidation value of the underlying collateral because the future cash flows are primarily based on the liquidation of underlying collateral. There was no allowance for credit losses established related to these ASC 310 loans at the acquisition dates, based on the provisions of this statement. Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected. If the expected cash flows expected to be collected increases, then the Company adjusts the amount of accretable discount recognized on a prospective basis over the loan's remaining life. If the expected cash flows expected to be collected decreases, then the Company records a provision for loan loss in its consolidated statement of operations.

At September 30, 2014, the Company's FDIC loss-sharing receivable totaled \$38.2 million, which is comprised of \$21.5 million in indemnification asset (for reimbursements associated with anticipated losses in future quarters) and \$16.7 million in current charge-offs and expenses already incurred but not yet submitted for reimbursement.

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The following table summarizes components of all covered assets at September 30, 2014, December 31, 2013 and September 30, 2013 and their origin:

|   |            | <b>Less:<br/>Fair<br/>value<br/>adjustments</b> | <b>Total<br/>covered<br/>loans</b> | <b>OREO</b> | <b>Less:<br/>Fair<br/>value<br/>adjustments</b> | <b>Total<br/>covered<br/>OREO</b> | <b>Total<br/>covered<br/>assets</b> | <b>FDIC<br/>loss-share<br/>receivable</b> |
|---|------------|---|------------------------------------|-------------|---|-----------------------------------|-------------------------------------|---|
| <b><u>As of<br/>September 30,<br/>2014:</u></b> |            |   |                                    |             |   |                                   |                                     |   |
| AUB   | \$ 8,902   | \$  | \$ 8,902                           | \$ 666      | \$  | \$ 666                            | \$ 9,568                            | \$ 882                                    |
| USB   | 13,576     | 351   | 13,225                             | 2,134       | 48  | 2,086                             | 15,311                              | (439)                                     |
| SCB   | 28,534     | 789   | 27,745                             | 2,665       | 308   | 2,357                             | 30,102                              | 1,855                                     |
| FBJ   | 22,421     | 2,346   | 20,075                             | 1,578       | 90  | 1,488                             | 21,563                              | 2,138                                     |
| DBT   | 75,683     | 8,531   | 67,152                             | 9,804       | 1,024   | 8,780                             | 75,932                              | 9,337                                     |
| TBC   | 25,577     | 1,465   | 24,112                             | 3,552       | 394   | 3,158                             | 27,270                              | 2,542                                     |
| HTB   | 54,317     | 5,761   | 48,556                             | 3,477       | 1,239   | 2,238                             | 50,794                              | 7,152                                     |
| OGB   | 48,889     | 4,160   | 44,729                             | 2,244       | 39  | 2,205                             | 46,934                              | 5,803                                     |
| CBG   | 67,273     | 8,180   | 59,093                             | 7,195       | 1,290   | 5,905                             | 64,998                              | 8,963                                     |
| Total   | \$ 345,172 | \$ 31,583                                       | \$ 313,589                         | \$ 33,315   | \$ 4,432  | \$ 28,883                         | \$ 342,472                          | \$ 38,233                                 |

|  |            | <b>Less:<br/>Fair<br/>value<br/>adjustments</b> | <b>Total<br/>covered<br/>loans</b> | <b>OREO</b> | <b>Less:<br/>Fair<br/>value<br/>adjustments</b> | <b>Total<br/>covered<br/>OREO</b> | <b>Total<br/>covered<br/>assets</b> | <b>FDIC<br/>loss-share<br/>receivable</b> |
|--|------------|---|------------------------------------|-------------|---|-----------------------------------|-------------------------------------|---|
| <b><u>As of<br/>December 31,<br/>2013:</u></b> |            |   |                                    |             |   |                                   |                                     |   |
| AUB  | \$ 15,787  | \$ 231  | \$ 15,556                          | \$ 4,264    | \$  | \$ 4,264                          | \$ 19,820                           | \$ 1,452                                  |
| USB  | 18,504     | 1,427   | 17,077                             | 2,865       | 141   | 2,724                             | 19,801                              | 889                                       |
| SCB  | 34,637     | 1,483   | 33,154                             | 3,461       | 303   | 3,158                             | 36,312                              | 3,175                                     |
| FBJ  | 25,891     | 3,730   | 22,161                             | 1,880       | 242   | 1,638                             | 23,799                              | 3,689                                     |
| DBT  | 105,157    | 17,819  | 87,338                             | 17,023      | 1,282   | 15,741                            | 103,079                             | 18,724                                    |
| TBC  | 32,590     | 2,354   | 30,236                             | 4,844       | 745   | 4,099                             | 34,335                              | 3,721                                     |
| HTB  | 67,126     | 7,359   | 59,767                             | 6,374       | 2,304   | 4,070                             | 63,837                              | 9,325                                     |
| OGB  | 58,512     | 5,067   | 53,445                             | 7,506       | 2,984   | 4,522                             | 57,967                              | 9,645                                     |
| CBG  | 85,118     | 13,615  | 71,503                             | 7,610       | 1,933   | 5,677                             | 77,180                              | 14,821                                    |
| Total  | \$ 443,322 | \$ 53,085                                       | \$ 390,237                         | \$ 55,827   | \$ 9,934  | \$ 45,893                         | \$ 436,130                          | \$ 65,441                                 |

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|  |            | Less:<br>Fair<br>value<br>adjustments | Total<br>covered<br>loans | OREO      | Less:<br>Fair<br>value<br>adjustments | Total<br>covered<br>OREO | Total<br>covered<br>assets | FDIC loss-share<br>receivable |
|--|------------|---------------------------------------|---------------------------|-----------|---------------------------------------|--------------------------|----------------------------|-------------------------------|
| <b>As of<br/>September 30,<br/>2013:</b> |            |                                       |                           |           |                                       |                          |                            |                               |
| AUB                                      | \$ 19,336  | \$ 915                                | \$ 18,421                 | \$ 3,338  | \$ 3                                  | \$ 3,335                 | \$ 21,756                  | \$ 3,704                      |
| USB                                      | 21,168     | 1,665                                 | 19,503                    | 3,066     | 139                                   | 2,927                    | 22,430                     | 2,796                         |
| SCB                                      | 35,555     | 1,902                                 | 33,653                    | 5,348     | 429                                   | 4,919                    | 38,572                     | 4,020                         |
| FBJ                                      | 27,222     | 3,965                                 | 23,257                    | 1,582     | 170                                   | 1,412                    | 24,669                     | 4,990                         |
| DBT                                      | 116,685    | 21,739                                | 94,946                    | 19,720    | 1,639                                 | 18,081                   | 113,027                    | 23,955                        |
| TBC                                      | 35,588     | 2,573                                 | 33,015                    | 5,912     | 843                                   | 5,069                    | 38,084                     | 4,315                         |
| HTB                                      | 70,156     | 8,273                                 | 61,883                    | 6,998     | 2,445                                 | 4,553                    | 66,436                     | 11,065                        |
| OGB                                      | 63,794     | 6,766                                 | 57,028                    | 9,921     | 3,918                                 | 6,003                    | 63,031                     | 9,458                         |
| CBG                                      | 92,755     | 16,812                                | 75,943                    | 8,299     | 2,046                                 | 6,253                    | 82,196                     | 17,460                        |
| Total                                    | \$ 482,259 | \$ 64,610                             | \$ 417,649                | \$ 64,184 | \$ 11,632                             | \$ 52,552                | \$ 470,201                 | \$ 81,763                     |

On the dates of acquisition, the Company estimated the future cash flows on each individual loan and made the necessary adjustments to reflect the asset at fair value. At each quarter end subsequent to the acquisition dates, the Company revises the estimates of future cash flows based on current information and makes the necessary adjustments to carrying value. Amounts reflected in the Company's statement of earnings are net of indemnification provided under loss share agreements with the FDIC. The adjustments are performed on a loan-by-loan basis and have resulted in the following adjustments for the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013:

| Total Amounts  | September 30,<br>2014         | December 31,<br>2013         | September 30,<br>2013         |
|--|-------------------------------|------------------------------|-------------------------------|
| (Dollars in Thousands)   |                               |                              |                               |
| Adjustments needed where the Company's initial estimate of cash flows were underestimated: (recorded with a reclassification from non-accretable difference to accretable discount to be accreted into income over remaining term of the loan) | \$ 16,070                     | \$ 51,003                    | \$ 50,703                     |
| Adjustments needed where the Company's initial estimate of cash flows were overstated: (recorded through a provision for loan losses)  | 3,425                         | 7,695                        | 6,305                         |
| <b>Amounts reflected in the Company's Statement of Operations</b>  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
| (Dollars in Thousands)   |                               |                              |                               |
| Adjustments needed where the Company's initial estimate of cash flows were underestimated: (recorded with a reclassification from non-accretable difference to accretable discount to be accreted into income over remaining term of the loan) | \$ 3,214                      | \$ 10,201                    | \$ 10,141                     |
|  | 685                           | 1,539                        | 1,261                         |

Adjustments needed where the Company's initial estimate of cash flows were overstated: (recorded through a provision for loan losses)

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A rollforward of covered loans with deterioration of credit quality for the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013 is shown below:

| <b>(Dollars in Thousands)</b>          | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1                     | \$ 217,047                    | \$ 282,737                   | \$ 282,737                    |
| Charge-offs, net of recoveries         | (8,099)                       | (35,306)                     | (30,371)                      |
| Additions due to acquisitions          |                               |                              |                               |
| Other (loan payments, transfers, etc.) | (37,487)                      | (30,384)                     | (20,777)                      |
| Ending balance                         | \$ 171,461                    | \$ 217,047                   | \$ 231,589                    |

A rollforward of covered loans without deterioration of credit quality for the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013 is shown below:

| <b>(Dollars in Thousands)</b>  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--------------------------------|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1             | \$ 173,190                    | \$ 228,602                   | \$ 228,602                    |
| Additions due to acquisitions  |                               |                              |                               |
| Loan payments, transfers, etc. | (31,062)                      | (55,412)                     | (42,316)                      |
| Ending balance                 | \$ 142,128                    | \$ 173,190                   | \$ 186,286                    |

The following is a summary of changes in the accretable discounts of covered loans during the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013:

| <b>(Dollars in Thousands)</b> | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|-------------------------------|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1            | \$ 25,493                     | \$ 16,698                    | \$ 16,698                     |
| Additions due to acquisitions |                               |                              |                               |
| Accretion                     | (20,822)                      | (42,208)                     | (36,552)                      |
| Other activity, net           | 16,070                        | 51,003                       | 50,703                        |
| Ending balance                | \$ 20,741                     | \$ 25,493                    | \$ 30,849                     |

The shared-loss agreements are subject to the servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the shared-loss agreements were recorded as an indemnification asset at their estimated fair values on the acquisition dates. As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company has recorded a clawback liability of \$5.9 million, \$5.0 million and \$5.0 million, respectively, which represents the obligation of the Company to reimburse the FDIC should actual losses be less than certain thresholds established in each loss share agreement. Changes in the FDIC shared-loss receivable for the nine months ended September 30, 2014, for the year ended December 31, 2013 and for the nine months ended September 30, 2013 are as

follows:

| <b>(Dollars in Thousands)</b>                                | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Balance, January 1   | \$ 65,441                     | \$ 159,724                   | \$ 159,724                    |
| Indemnification asset recorded in<br>acquisitions            |                               |                              |                               |
| Payments received from FDIC                                  | (18,509)                      | (68,822)                     | (58,240)                      |
| Effect of change in expected cash flows on<br>covered assets | (8,699)                       | (25,461)                     | (19,721)                      |
| Ending balance   | \$ 38,233                     | \$ 65,441                    | \$ 81,763                     |

**Table of Contents****NOTE 6 WEIGHTED AVERAGE SHARES OUTSTANDING**

Earnings per share have been computed based on the following weighted average number of common shares outstanding:

|  | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2014</b>   | <b>2013</b> | <b>2014</b>  | <b>2013</b> |
|  | <b>(Share Data in<br/>Thousands)</b>                |             | <b>(Share Data in<br/>Thousands)</b>               |             |
| Basic shares outstanding                   | 26,773  | 23,901      | 25,705   | 23,883      |
| Plus: Dilutive effect of ISOs              | 111   | 62          | 116  | 62          |
| Plus: Dilutive effect of Restricted grants | 277   | 353         | 278  | 353         |
| Diluted shares outstanding                 | 27,161  | 24,316      | 26,099   | 24,298      |

For the three month periods ended September 30, 2014 and 2013, the Company has excluded 112,000 and 289,000, respectively, potential common shares with strike prices that would cause them to be anti-dilutive. For the nine month periods ended September 30, 2014 and 2013, the Company has excluded 110,000 and 341,000, respectively, potential common shares with strike prices that would cause them to be anti-dilutive.

**NOTE 7 OTHER BORROWINGS**

The Company has, from time to time, utilized certain borrowing arrangements with various financial institutions to fund growth in earning assets or provide additional liquidity when appropriate spreads can be realized. At September 30, 2014, December 31, 2013 and September 30, 2014, there were \$147.4 million, \$194.6 million and \$5.0 million, respectively, outstanding borrowings with the Company's correspondent banks.

Details of other borrowings, including contractual interest rates and maturity dates are included in the following table:

| <b>(Dollars in Thousands)</b>  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Daily Rate Credit from Federal Home Loan Bank with a fixed interest rate of 0.36%  | \$ 75,000                     | \$                           | \$                            |
| Advance from Federal Home Loan Bank with a fixed interest rate of 0.16%, due October 24, 2014  | 25,000                        |                              |                               |
| Advance from Federal Home Loan Bank with a fixed interest rate of 0.17%, due January 24, 2014  |                               | 165,000                      |                               |
| Advances under revolving credit agreement with a regional bank with interest at 90-day LIBOR plus 3.50% (3.73% at September 30, 2014) due in August 2016, secured by subsidiary bank stock | 22,500                        |                              |                               |
| Advances under revolving credit agreement with a regional bank with interest at 90-day LIBOR plus 4.00% (4.24% and   |                               | 10,000                       | 5,000                         |

|  |                   |                   |                 |
|--|-------------------|-------------------|-----------------|
| 4.27% at December 31, 2013 and September 30, 2013) due in August 2016, secured by subsidiary bank stock  |                   |                   |                 |
| Advance from correspondent bank with a fixed interest rate of 4.50%, due November 27, 2017, secured by subsidiary bank loan receivable   | 4,909             |                   |                 |
| Subordinated debt issued by Prosperity Bank due June 2016 with an interest rate of 90-day LIBOR plus 1.60% (1.83% and 1.84% at September 30, 2014 and December 31, 2013)                     | 5,000             | 5,000             |                 |
| Subordinated debt issued by The Prosperity Banking Company due September 2016 with an interest rate of 90-day LIBOR plus 1.75% (1.98% and 1.99% at September 30, 2014 and December 31, 2013) | 15,000            | 14,572            |                 |
| <b>Total</b>   | <b>\$ 147,409</b> | <b>\$ 194,572</b> | <b>\$ 5,000</b> |

The advances from the Federal Home Loan Bank ( FHLB ) are collateralized by a blanket lien on all first mortgage loans and other specific loans in addition to FHLB stock. At September 30, 2014, \$320.8 million was available for borrowing on lines with the FHLB.

As of September 30, 2014, the Company maintained credit arrangements with various financial institutions to purchase federal funds up to \$60 million.

The Company also participates in the Federal Reserve discount window borrowings. At September 30, 2014, the Company had \$584.1 million of loans pledged at the Federal Reserve discount window and had \$425.1 million available for borrowing.

**Table of Contents****NOTE 8 COMMITMENTS**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as are used for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Company issues standby letters of credit, which are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and expire in decreasing amounts with varying terms. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held may include accounts receivable, inventory, property, plant and equipment, residential real estate and income-producing commercial properties.

The Company's commitments to extend credit and standby letters of credit are presented in the following table:

| <b>(Dollars in Thousands)</b>           | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|---|-------------------------------|------------------------------|-------------------------------|
| Commitments to extend credit            | \$ 332,808                    | \$ 257,195                   | \$ 208,303                    |
| Standby letters of credit               | \$ 9,168                      | \$ 7,665                     | \$ 6,954                      |
| Mortgage interest rate lock commitments | \$ 2,295                      | \$ 1,180                     | \$ 2,506                      |

**NOTE 9 ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income for the Company consists of changes in net unrealized gains and losses on investment securities available for sale and interest rate swap derivatives. The following tables present a summary of the accumulated other comprehensive income balances, net of tax, as of September 30, 2014 and 2013:

| <b>(Dollars in Thousands)</b> | <b>Unrealized Gain (Loss)<br/>on<br/>Derivatives</b> | <b>Unrealized Gain (Loss)<br/>on Securities</b> | <b>Accumulated Other<br/>Comprehensive Income<br/>(Loss)</b> |
|-------------------------------|--|---|--|
| Balance, January 1, 2014      | \$ 1,397   | \$ (1,691)                                      | \$ (294)   |

|   |        |          |          |
|---|--------|----------|----------|
| Reclassification for gains included in net income |        | (90)     | (90)     |
| Current year changes                              | (489)  | 4,847    | 4,358    |
| Balance, September 30, 2014                       | \$ 908 | \$ 3,066 | \$ 3,974 |

| (Dollars in Thousands)                            | Unrealized Gain (Loss) |                                      | Accumulated Other Comprehensive Income (Loss) |
|---|------------------------|--------------------------------------|---|
|   | on Derivatives         | Unrealized Gain (Loss) on Securities |   |
| Balance, January 1, 2013                          | \$ (23)                | \$ 6,630                             | \$ 6,607                                      |
| Reclassification for gains included in net income |                        | (111)                                | (111)   |
| Current year changes                              | 1,098                  | (8,125)                              | (7,027)                                       |
| Balance, September 30, 2013                       | \$ 1,075               | \$ (1,606)                           | \$ (531)                                      |

**Table of Contents****NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting standard for disclosures about the fair value of financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The Company has elected to record mortgage loans held-for-sale at fair value in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value, which are now recognized in earnings at the time of origination. Interest income on mortgage loans held-for-sale is recorded on an accrual basis in the consolidated statement of earnings and comprehensive income under the heading "Interest income—interest and fees on loans". The servicing value is included in the fair value of the Interest Rate Lock Commitments (IRLCs) with borrowers. The mark to market adjustments related to loans held-for-sale and the associated economic hedges are captured in mortgage banking activities. Net gains of \$1.1 million and \$2.1 million resulting from fair value changes of these mortgage loans were recorded in income during the three and nine month periods ending September 30, 2014, respectively. The amount does not reflect changes in fair values of related derivative instruments used to hedge exposure to market-related risks associated with these mortgage loans. The change in fair value of both mortgage loans held for sale and the related derivative instruments are recorded in "Mortgage banking activity" in the Consolidated Statements of Earnings and Comprehensive Income. The Company's valuation of mortgage loans held for sale incorporates an assumption for credit risk; however, given the short-term period that the Company holds these loans, valuation adjustments attributable to instrument-specific credit risk is nominal. Interest income on mortgage loans held for sale measured at fair value is accrued as it is earned based on contractual rates and is reflected in loan interest income on the Consolidated Statements of Earnings and Comprehensive Income.

The following table summarizes the difference between the fair value and the principal balance for mortgage loans held for sale measured at fair value as of September 30, 2014, December 31, 2013 and September 30, 2013:

|  | September 30,<br>2014  | December 31,<br>2013 | September 30,<br>2013 |
|--|------------------------|----------------------|-----------------------|
|  | (Dollars in Thousands) |                      |                       |
| Aggregate Fair Value of Mortgage Loans held for sale | \$ 110,059             | \$ 67,278            | \$ 69,634             |
| Aggregate Unpaid Principal Balance                   | \$ 105,882             | \$ 65,522            | \$ 67,406             |
| Past due loans of 90 days or more                    | \$                     | \$                   | \$                    |
| Nonaccrual loans                                     | \$                     | \$                   | \$                    |

The fair value hierarchy describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

**Cash and Due From Banks, Federal Funds Sold and Interest-Bearing Accounts:** The carrying amount of cash and due from banks, federal funds sold and interest-bearing accounts approximates fair value.

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**Investment Securities Available for Sale:** The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The Level 2 fair value pricing is provided by an independent third-party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

**Other Investments:** Federal Home Loan Bank ( FHLB ) stock is included in other investments at its original cost basis. It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

**Mortgage Loans Held for Sale:** The Company records mortgage loans held for sale at fair value. The fair value of mortgage loans held for sale is determined on outstanding commitments from third party investors in the secondary markets and is classified within Level 2 of the valuation hierarchy.

**Loans:** The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted expected future cash flows or underlying collateral values, where applicable. A loan is determined to be impaired if the Company believes it is probable that all principal and interest amounts due according to the terms of the loan will not be collected as scheduled. The fair value of impaired loans is determined in accordance with accounting standards and generally results in a specific reserve established through a charge to the provision for loan losses. Losses on impaired loans are charged to the allowance when management believes the uncollectability of a loan is confirmed. Management has determined that the majority of impaired loans are Level 3 assets due to the extensive use of market appraisals.

**Other Real Estate Owned:** The fair value of other real estate owned ( OREO ) is determined using certified appraisals that value the property at its highest and best uses by applying traditional valuation methods common to the industry. The Company does not hold any OREO for profit purposes and all other real estate is actively marketed for sale. In most cases, management has determined that additional write-downs are required beyond what is calculable from the appraisal to carry the property at levels that would attract buyers. Because this additional write-down is not based on observable inputs, management has determined that other real estate owned should be classified as Level 3.

**Covered Assets:** Covered assets include loans and other real estate owned on which the majority of losses would be covered by loss-sharing agreements with the Federal Deposit Insurance Corporation (the FDIC ). Management initially valued these assets at fair value using mostly unobservable inputs and, as such, has classified these assets as Level 3.

**FDIC Loss-Share Receivable:** The fair value of the FDIC loss-share receivable is based on the net present value of projected future cash flows expected to be received from the FDIC under the provision of the loss-share agreements using a discount rate that is based on current market rates.

**Accrued Interest Receivable/Payable:** The carrying amount of accrued interest receivable and accrued interest payable approximates fair value.

**Deposits:** The carrying amount of demand deposits, savings deposits and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently offered for certificates with similar maturities.

**Securities Sold under Agreements to Repurchase and Other Borrowings:** The carrying amount of variable rate borrowings and securities sold under repurchase agreements approximates fair value. The fair value of fixed rate other borrowings is estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar borrowing arrangements.

**Subordinated Deferrable Interest Debentures:** The fair value of the Company's variable rate trust preferred securities is based primarily upon discounted cash flows using rates for securities with similar terms and remaining maturities.

**Off-Balance-Sheet Instruments:** Because commitments to extend credit and standby letters of credit are typically made using variable rates and have short maturities, the carrying value and fair value are immaterial for disclosure.

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**Derivatives:** The Company has entered into derivative financial instruments to manage interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair value of the derivatives is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves derived from observable market interest rate curves).

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting any applicable credit enhancements such as collateral postings, thresholds, mutual puts and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself or the counterparty. However, as of September 30, 2014, December 31, 2013 and September 30, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuation in its entirety is classified in Level 2 of the fair value hierarchy.

The carrying amount and estimated fair value of the Company's financial instruments, not shown elsewhere in these financial statements, were as follows:

|  |                    | Fair Value Measurements at September 30, 2014 Using: |           |              |              |
|--|--------------------|--|-----------|--------------|--------------|
|  | Carrying<br>Amount | Level 1  | Level 2   | Level 3      | Total        |
|  |                    | (Dollars in Thousands)                               |           |              |              |
| <b>Financial assets:</b>                         |                    |  |           |              |              |
| Cash and due from banks                          | \$ 69,421          | \$ 69,421  | \$        | \$           | \$ 69,421    |
| Federal funds sold and interest-bearing accounts | \$ 40,165          | \$ 40,165  | \$        | \$           | \$ 40,165    |
| Loans, net                                       | \$ 2,778,026       | \$   | \$        | \$ 2,773,291 | \$ 2,773,291 |
| FDIC loss-share receivable                       | \$ 38,233          | \$   | \$        | \$ 21,397    | \$ 21,397    |
| Accrued interest receivable                      | \$ 17,171          | \$ 17,171  | \$        | \$           | \$ 17,171    |
| <b>Financial liabilities:</b>                    |                    |  |           |              |              |
| Deposits   | 3,373,119          |  | 3,374,055 |              | 3,374,055    |
| Securities sold under agreements to repurchase   | 32,351             | 32,351   |           |              | 32,351       |
| Other borrowings                                 | 147,409            |  | 147,409   |              | 147,409      |
| Accrued interest payable                         | 1,444              | 1,444  |           |              | 1,444        |
| Subordinated deferrable interest debentures      | 65,084             |  | 46,214    |              | 46,214       |



**Table of Contents****Fair Value Measurements at December 31, 2013  
Using:**

|  | Carrying<br>Amount     | Level 1    | Level 2   | Level 3      | Total        |
|--|------------------------|------------|-----------|--------------|--------------|
|  | (Dollars in Thousands) |            |           |              |              |
| Financial assets:                                |                        |            |           |              |              |
| Cash and due from banks                          | \$ 62,955              | \$ 62,955  | \$        | \$           | \$ 62,995    |
| Federal funds sold and interest-bearing accounts | \$ 204,984             | \$ 204,984 | \$        | \$           | \$ 204,984   |
| Loans, net                                       | \$ 2,392,521           | \$         | \$        | \$ 2,404,909 | \$ 2,404,909 |
| FDIC loss-share receivable                       | \$ 65,441              | \$         | \$        | \$ 61,317    | \$ 61,317    |
| Accrued interest receivable                      | \$ 15,071              | \$ 15,071  | \$        | \$           | \$ 15,071    |
| Financial liabilities:                           |                        |            |           |              |              |
| Deposits   | 2,999,231              |            | 3,000,061 |              | 3,000,061    |
| Securities sold under agreements to repurchase   | 83,516                 | 83,516     |           |              | 83,516       |
| Other borrowings                                 | 194,572                |            | 194,572   |              | 194,572      |
| Accrued interest payable                         | 1,431                  | 1,431      |           |              | 1,431        |
| Subordinated deferrable interest debentures      | 55,466                 |            | 36,277    |              | 36,277       |

**Fair Value Measurements at September 30, 2013  
Using:**

|  | Carrying<br>Amount     | Level 1   | Level 2   | Level 3      | Total        |
|--|------------------------|-----------|-----------|--------------|--------------|
|  | (Dollars in Thousands) |           |           |              |              |
| Financial assets:                                |                        |           |           |              |              |
| Cash and due from banks                          | \$ 53,516              | \$ 53,516 | \$        | \$           | \$ 53,516    |
| Federal funds sold and interest-bearing accounts | \$ 73,899              | \$ 73,899 | \$        | \$           | \$ 73,899    |
| Loans, net                                       | \$ 1,939,498           | \$        | \$        | \$ 1,912,634 | \$ 1,912,634 |
| FDIC loss-share receivable                       | \$ 81,763              | \$        | \$        | \$ 76,346    | \$ 76,346    |
| Accrued interest receivable                      | \$ 13,030              | \$ 13,030 | \$        | \$           | \$ 13,030    |
| Financial liabilities:                           |                        |           |           |              |              |
| Deposits   | 2,443,421              |           | 2,444,244 |              | 2,444,244    |
| Securities sold under agreements to repurchase   | 20,255                 | 20,255    |           |              | 20,255       |
| Accrued interest payable                         | 831                    | 831       |           |              | 831          |
| Subordinated Deferrable Interest Debentures      | 42,269                 |           | 23,331    |              | 23,331       |

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The following table presents the fair value measurements of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of September 30, 2014, December 31, 2013 and September 30, 2013 (dollars in thousands):

| <b>Fair Value Measurements on a Recurring Basis<br/>As of September 30, 2014</b> |                   |   |  |  |
|--|-------------------|---|--|--|
|  | <b>Fair Value</b> | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| U.S. government agencies   | \$ 14,460         | \$  | \$ 14,460  | \$   |
| State, county and municipal securities   | 137,635           |   | 137,635  |  |
| Corporate debt securities  | 10,965            |   | 8,465  | 2,500  |
| Mortgage-backed securities   | 366,449           | 10,273  | 356,176  |  |
| Mortgage loans held for sale   | 110,059           |   | 110,059  |  |
| IRLCs and forward contracts  | 2,295             |   | 2,295  |  |
| <b>Total recurring assets at fair value</b>                                      | <b>\$ 641,863</b> | <b>\$ 10,273</b>  | <b>\$ 629,090</b>  | <b>\$ 2,500</b>  |
| Derivative financial instruments   | \$ 807            | \$  | \$ 807   | \$   |
| <b>Total recurring liabilities at fair value</b>                                 | <b>\$ 807</b>     | <b>\$</b>   | <b>\$ 807</b>  | <b>\$</b>  |

| <b>Fair Value Measurements on a Recurring Basis<br/>As of December 31, 2013</b> |                   |   |  |  |
|---|-------------------|---|--|--|
|   | <b>Fair Value</b> | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| U.S. government agencies  | \$ 13,926         | \$  | \$ 13,926  | \$   |
| State, county and municipal securities  | 112,754           |   | 112,754  |  |
| Collateralized debt obligations   | 1,480             | 1,480   |  |  |
| Corporate debt securities   | 10,325            |   | 8,325  | 2,000  |
| Mortgage-backed securities  | 347,750           | 182,461   | 165,289  |  |
| Mortgage loans held for sale  | 67,278            |   | 67,278   |  |
| IRLCs and forward contracts   | 1,180             |   | 1,180  |  |
| <b>Total recurring assets at fair value</b>                                     | <b>\$ 554,693</b> | <b>\$ 183,941</b>   | <b>\$ 368,752</b>  | <b>\$ 2,000</b>  |
| Derivative financial instruments  | \$ 370            | \$  | \$ 370   | \$   |

|   |    |     |    |  |    |     |    |
|---|----|-----|----|--|----|-----|----|
| Total recurring liabilities at fair value | \$ | 370 | \$ |  | \$ | 370 | \$ |
|---|----|-----|----|--|----|-----|----|

**Fair Value Measurements on a Recurring Basis**

**As of September 30, 2013**

|  |                   | <b>Quoted Prices</b> |                    |                     |
|--|-------------------|----------------------|--------------------|---------------------|
|  |                   | <b>in Active</b>     | <b>Significant</b> | <b>Significant</b>  |
|  |                   | <b>Markets for</b>   | <b>Other</b>       | <b>Unobservable</b> |
|  |                   | <b>Identical</b>     | <b>Observable</b>  | <b>Inputs</b>       |
|  | <b>Fair Value</b> | <b>Assets</b>        | <b>Inputs</b>      | <b>Inputs</b>       |
|  |                   | <b>(Level 1)</b>     | <b>(Level 2)</b>   | <b>(Level 3)</b>    |
| U.S. government agencies                         | \$ 13,917         | \$                   | \$ 13,917          | \$                  |
| State, county and municipal securities           | 112,939           | 4,460                | 108,479            |                     |
| Corporate debt securities                        | 9,738             |                      | 7,738              | 2,000               |
| Mortgage-backed securities                       | 175,654           | 9,375                | 166,279            |                     |
| Mortgage loans held for sale                     | 69,634            |                      | 69,634             |                     |
| IRLCs and forward contracts                      | 2,506             |                      | 2,506              |                     |
| <b>Total recurring assets at fair value</b>      | <b>\$ 384,388</b> | <b>\$ 13,835</b>     | <b>\$ 368,553</b>  | <b>\$ 2,000</b>     |
| Derivative financial instruments                 | \$ 972            | \$                   | \$ 972             | \$                  |
| <b>Total recurring liabilities at fair value</b> | <b>\$ 972</b>     | <b>\$</b>            | <b>\$ 972</b>      | <b>\$</b>           |

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The following table is a presentation of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy as of September 30, 2014, December 31, 2013 and September 30, 2013 (dollars in thousands):

**Fair Value Measurements on a Nonrecurring Basis  
As of September 30, 2014**

|  | <b>Fair<br/>Value</b> | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level<br/>2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--|-----------------------|---|--|--|
| Impaired loans carried at fair value           | \$ 35,834             | \$  | \$   | \$ 35,834  |
| Other real estate owned                        | 35,320                |   |  | 35,320   |
| Purchased, non-covered other real estate owned | 13,660                |   |  | 13,660   |
| Covered other real estate owned                | 28,883                |   |  | 28,883   |
| Total nonrecurring assets at fair value        | \$ 113,697            | \$  | \$   | \$ 113,697   |

**Fair Value Measurements on a Nonrecurring Basis  
As of December 31, 2013**

|  | <b>Fair<br/>Value</b> | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level<br/>2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--|-----------------------|---|--|--|
| Impaired loans carried at fair value           | \$ 42,546             | \$  | \$   | \$ 42,546  |
| Other real estate owned                        | 33,351                |   |  | 33,351   |
| Purchased, non-covered other real estate owned | 4,276                 |   |  | 4,276  |
| Covered other real estate owned                | 45,893                |   |  | 45,893   |
| Total nonrecurring assets at fair value        | \$ 126,066            | \$  | \$   | \$ 126,066   |

**Fair Value Measurements on a Nonrecurring Basis  
As of September 30, 2013**

|   |                       | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level<br/>2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---|-----------------------|---|--|--|
|   | <b>Fair<br/>Value</b> |   |  |  |
| Impaired loans carried at fair value    | \$ 43,564             | \$  | \$   | \$ 43,564  |
| Other real estate owned                 | 39,978                |   |  | 39,978   |
| Covered other real estate owned         | 52,552                |   |  | 52,552   |
| Total nonrecurring assets at fair value | \$ 136,094            | \$  | \$   | \$ 136,094   |

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The inputs used to determine estimated fair value of impaired loans include market conditions, loan terms, underlying collateral characteristics and discount rates. The inputs used to determine fair value of other real estate owned, purchased non-covered other real estate owned and covered other real estate owned include market conditions, estimated marketing period or holding period, underlying collateral characteristics and discount rates.

For the nine months ended September 30, 2014 and 2013, there was not a change in the methods and significant assumptions used to estimate fair value.

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities as of September 30, 2014.

| Measurements                                  | Fair Value at September 30, 2014<br>(Dollars in Thousands) | Valuation Technique                              | Unobservable Inputs                              | Range           |
|---|--|--|--|-----------------|
| <b>Nonrecurring:</b>                          |  |  |  |                 |
| Impaired loans                                | \$ 35,834  | Third party appraisals and discounted cash flows | Collateral discounts and discount rates          | 4.00% - 90.00%  |
| Other real estate owned                       | \$ 35,320  | Third party appraisals                           | Collateral discounts and estimated costs to sell | 10.00% - 90.00% |
| Purchased non-covered other real estate owned | \$ 13,660  | Third party appraisals                           | Collateral discounts and estimated costs to sell | 22.00% - 94.00% |
| Covered real estate owned                     | \$ 28,883  | Third party appraisals                           | Collateral discounts and estimated costs to sell | 10.00% - 90.00% |
| <b>Recurring:</b>                             |  |  |  |                 |
| Investment securities available for sale      | \$ 2,500   | Discounted par values                            | Credit quality of underlying issuer              | 0.00%           |

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities as of December 31, 2013.

| Measurements                                  | Fair Value at December 31, 2013<br>(Dollars in Thousands) | Valuation Technique                              | Unobservable Inputs                              | Range           |
|---|---|--|--|-----------------|
| <b>Nonrecurring:</b>                          |   |  |  |                 |
| Impaired loans                                | \$ 42,546   | Third party appraisals and discounted cash flows | Collateral discounts and discount rates          | 4.00% - 75.00%  |
| Other real estate owned                       | \$ 33,351   | Third party appraisals                           | Collateral discounts and estimated costs to sell | 10.00% - 74.00% |
| Purchased, non-covered loans                  | \$ 448,753  | Third party appraisals and discounted cash flows | Collateral discounts and discount rates          | 1.00% - 40.00%  |
| Purchased non-covered other real estate owned | \$ 4,276  | Third party appraisals                           | Collateral discounts and estimated costs to sell | 15.00% - 63.00% |

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|  |            |  |  |                 |
|--|------------|--|--|-----------------|
| Covered loans                            |            | Third party appraisals and discounted cash flows | Collateral discounts                             |                 |
|  | \$ 390,237 |  | Discount rate                                    | 1.75% - 75.00%  |
| Covered real estate owned                |            | Third party appraisals                           | Collateral discounts and estimated costs to sell | 10.00% - 86.00% |
|  | \$ 45,893  |  |  |                 |
| Recurring:                               |            |  |  |                 |
| Investment securities available for sale |            | Discounted par values                            | Credit quality of underlying issuer              | 0.00%           |
|  | \$ 2,000   |  |  |                 |

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The following tables present selected financial information with respect to the Company's reportable business segments for the three- month periods ended September 30, 2014 and 2013:

|   | <b>Three Months Ended<br/>September 30, 2014</b> |                             |              | <b>Three Months Ended<br/>September 30, 2013</b> |                             |              |
|---|--|-----------------------------|--------------|--|-----------------------------|--------------|
|   | <b>Retail<br/>Banking</b>                        | <b>Mortgage<br/>Banking</b> | <b>Total</b> | <b>Retail<br/>Banking</b>                        | <b>Mortgage<br/>Banking</b> | <b>Total</b> |
|   | (Dollars in Thousands)                           |                             |              |  |                             |              |
| Net interest income                             | \$ 36,785  | \$ 2,347                    | \$ 39,132    | \$ 28,089  | \$ 1,231                    | \$ 29,320    |
| Provision for loan losses                       | 994  | 675                         | 1,669        | 2,920  |                             | 2,920        |
| Noninterest income                              | 10,766   | 7,135                       | 17,901       | 7,054  | 5,234                       | 12,288       |
| Noninterest expense:                            |  |                             |              |  |                             |              |
| Salaries and employee benefits                  | 15,817   | 4,409                       | 20,226       | 10,799   | 3,613                       | 14,412       |
| Equipment and occupancy expenses                | 4,301  | 368                         | 4,669        | 3,029  | 120                         | 3,149        |
| Data processing and telecommunications expenses | 3,622  | 306                         | 3,928        | 2,908  | 164                         | 30,72        |
| Other expenses                                  | 8,887  | 869                         | 9,756        | 7,473  | 643                         | 8,116        |
| Total noninterest expense                       | 32,627   | 5,952                       | 38,579       | 24,209   | 4,540                       | 28,749       |
| Income before income tax expense                | 13,930   | 2,855                       | 16,785       | 8,014  | 1,925                       | 9,939        |
| Income tax expense                              | 4,123  | 999                         | 5,122        | 2,588  | 674                         | 3,262        |
| Net income                                      | 9,807  | 1,856                       | 11,663       | 5,426  | 1,251                       | 6,677        |
| Less preferred stock dividends                  |  |                             |              | 443  |                             | 443          |
| Net income available to common shareholders     | \$ 9,807   | \$ 1,856                    | \$ 11,663    | \$ 4,983   | \$ 1,251                    | \$ 6,234     |
| Total assets                                    | \$ 3,772,050                                     | \$ 227,358                  | \$ 3,999,408 | \$ 2,707,200                                     | \$ 111,302                  | \$ 2,818,502 |
| Stockholders' equity                            | 309,904  | 43,926                      | 353,830      | 250,863  | 39,493                      | 290,356      |

The following tables present selected financial information with respect to the Company's reportable business segments for the nine- month periods ended September 30, 2014 and 2013:

|                     | <b>Nine Months Ended<br/>September 30, 2014</b> |                             |              | <b>Nine Months Ended<br/>September 30, 2013</b> |                             |              |
|---------------------|---|-----------------------------|--------------|---|-----------------------------|--------------|
|                     | <b>Retail<br/>Banking</b>                       | <b>Mortgage<br/>Banking</b> | <b>Total</b> | <b>Retail<br/>Banking</b>                       | <b>Mortgage<br/>Banking</b> | <b>Total</b> |
|                     | (Dollars in Thousands)                          |                             |              |   |                             |              |
| Net interest income | \$ 104,094                                      | \$ 4,786                    | \$ 108,880   | \$ 84,372                                       | \$ 2,762                    | \$ 87,134    |

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|   |           |          |           |           |          |           |
|---|-----------|----------|-----------|-----------|----------|-----------|
| Provision for loan losses                       | 4,085     | 675      | 4,760     | 10,008    |          | 10,008    |
| Noninterest income                              | 27,173    | 19,301   | 46,474    | 20,333    | 14,699   | 35,032    |
| Noninterest expense:                            |           |          |           |           |          |           |
| Salaries and employee benefits                  | 42,648    | 11,914   | 54,562    | 32,314    | 9,285    | 41,599    |
| Equipment and occupancy expenses                | 11,834    | 970      | 12,804    | 8,575     | 483      | 9,058     |
| Data processing and telecommunications expenses | 10,551    | 771      | 11,322    | 8,013     | 465      | 8,478     |
| Other expenses                                  | 27,452    | 2,996    | 30,448    | 22,807    | 2,379    | 25,186    |
| Total noninterest expense                       | 92,485    | 16,651   | 109,136   | 71,709    | 12,612   | 84,321    |
| Income before income tax expense                | 34,697    | 6,761    | 41,458    | 22,988    | 4,849    | 27,837    |
| Income tax expense                              | 10,949    | 2,366    | 13,315    | 7,500     | 1,697    | 9,197     |
| Net income                                      | 23,748    | 4,395    | 28,143    | 15,488    | 3,152    | 18,640    |
| Less preferred stock dividends                  | 286       |          | 286       | 1,326     |          | 1,326     |
| Net income available to common shareholders     | \$ 23,462 | \$ 4,395 | \$ 27,857 | \$ 14,162 | \$ 3,152 | \$ 17,314 |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Cautionary Note Regarding Any Forward-Looking Statements**

Certain of the statements made in this report are forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control and which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as may, will, anticipate, assume, show, indicate, would, believe, contemplate, expect, estimate, continue, plan, point to, project, predict, potential and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation, legislative and regulatory initiatives; additional competition in our markets; potential business strategies, including acquisitions or dispositions of assets or internal restructuring, that may be pursued by Ameris; state and federal banking regulations; changes in or application of environmental and other laws and regulations to which Ameris is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather, natural disasters and other catastrophic events; and other factors discussed in our filings with the Securities and Exchange Commission under the Exchange Act.

All written or oral forward-looking statements that are made by or are attributable to us are expressly qualified in their entirety by this cautionary notice. Our forward-looking statements apply only as of the date of this report or the respective date of the document from which they are incorporated herein by reference. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made, whether as a result of new information, future events or otherwise.

**Overview**

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of the Company as reflected in the unaudited consolidated balance sheet as of September 30, 2014 as compared to December 31, 2013 and operating results for the three-and nine-month periods ended September 30, 2014 and 2013. These comments should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes appearing elsewhere herein.

The following table sets forth unaudited selected financial data for the previous five quarters, which should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained in this Item 2.

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| <i>(in thousands, except share data, and per share data)</i> | <b>Third<br/>Quarter<br/>2014</b> | <b>Second<br/>Quarter<br/>2014</b> | <b>First<br/>Quarter<br/>2014</b> | <b>Fourth<br/>Quarter<br/>2013</b> | <b>Third<br/>Quarter<br/>2013</b> | <b>For Nine Months End<br/>September 30, 2014</b> | <b>For Nine Months End<br/>September 30, 2013</b> |
|--|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|---|---|
| <b>Income Statement:</b>                                     |                                   |                                    |                                   |                                    |                                   |   |   |
| Interest income  | \$ 39,132                         | \$ 35,264                          | \$ 34,484                         | \$ 29,051                          | \$ 29,320                         | \$ 108,880  | \$ 87,711   |
| Interest income (tax equivalent)                             | 39,608                            | 35,626                             | 34,808                            | 29,325                             | 29,542                            | 110,042   | 87,711  |
| Provision for loan losses                                    | 1,669                             | 1,365                              | 1,726                             | 1,478                              | 2,920                             | 4,760   | 10,000  |
| Interest income  | 17,901                            | 15,819                             | 12,754                            | 11,517                             | 12,288                            | 46,474  | 35,421  |
| Interest expense   | 38,579                            | 37,318                             | 33,239                            | 37,624                             | 28,749                            | 109,136   | 84,292  |
| Tax expense  | 5,122                             | 4,270                              | 3,923                             | 88                                 | 3,262                             | 13,315  | 9,900   |
| Preferred stock dividends                                    |                                   |                                    | 286                               | 412                                | 443                               | 286   | 1,105   |
| Income available to common shareholders                      | 11,663                            | 8,130                              | 8,064                             | 966                                | 6,234                             | 27,857  | 17,649  |
| <b>Balance Sheet:</b>  |                                   |                                    |                                   |                                    |                                   |   |   |
| Large loans held for sale                                    | \$ 83,751                         | \$ 54,517                          | \$ 49,397                         | \$ 65,683                          | \$ 61,249                         | \$ 62,506   | \$ 107,000  |
| Net of unearned income                                       | 1,795,059                         | 1,706,564                          | 1,639,672                         | 1,602,942                          | 1,564,311                         | 1,697,559   | 1,458,000   |
| Non-covered loans  | 688,452                           | 433,249                            | 441,138                           | 43,900                             |                                   | 538,802   |   |
| Large loans  | 324,498                           | 354,766                            | 379,460                           | 401,045                            | 427,482                           | 352,707   | 454,000   |
| Investment securities  | 525,739                           | 468,129                            | 462,343                           | 327,993                            | 312,541                           | 485,636   | 325,000   |
| Assets   | 3,489,563                         | 3,075,204                          | 3,091,546                         | 2,625,178                          | 2,439,771                         | 3,219,288   | 2,422,000   |
| Liabilities  | 3,969,893                         | 3,494,466                          | 3,521,588                         | 2,937,434                          | 2,806,799                         | 3,663,696   | 2,837,000   |
| Equity   | 3,382,810                         | 3,010,142                          | 2,975,305                         | 2,552,819                          | 2,439,150                         | 3,124,245   | 2,466,000   |
| Common shareholders equity                                   | 350,733                           | 309,696                            | 290,462                           | 248,429                            | 246,489                           | 319,435   | 249,000   |
| <b>End Balances:</b>   |                                   |                                    |                                   |                                    |                                   |   |   |
| Large loans held for sale                                    | \$ 110,059                        | \$ 81,491                          | \$ 51,693                         | \$ 67,278                          | \$ 69,634                         | \$ 110,059  | \$ 69,634   |
| Net of unearned income                                       | 1,848,759                         | 1,770,059                          | 1,695,382                         | 1,618,454                          | 1,589,267                         | 1,848,759   | 1,589,267   |
| Non-covered loans  | 673,724                           | 702,131                            | 437,269                           | 448,753                            |                                   | 673,724   |   |
| Large loans  | 313,589                           | 331,250                            | 372,694                           | 390,237                            | 417,649                           | 313,589   | 417,649   |
| Assets   | 3,515,805                         | 3,465,361                          | 3,062,428                         | 3,215,941                          | 2,462,697                         | 3,515,805   | 2,462,697   |
| Liabilities  | 3,999,408                         | 3,973,135                          | 3,487,984                         | 3,667,649                          | 2,818,502                         | 3,999,408   | 2,818,502   |
| Deposits   | 3,373,119                         | 3,389,035                          | 3,010,647                         | 2,999,231                          | 2,443,421                         | 3,373,119   | 2,443,421   |
| Common shareholders equity                                   | 353,830                           | 343,399                            | 300,030                           | 288,699                            | 262,418                           | 353,830   | 262,418   |
| <b>Common Share Data:</b>                                    |                                   |                                    |                                   |                                    |                                   |   |   |
| Shares per share basic                                       | \$ 0.44                           | \$ 0.32                            | \$ 0.32                           | \$ 0.04                            | \$ 0.26                           | \$ 1.08   | \$ 1.08   |
| Shares per share diluted                                     | 0.43                              | 0.32                               | 0.32                              | 0.04                               | 0.26                              | 1.07  | 1.07  |
| Book value per share   | 13.22                             | 12.83                              | 11.93                             | 11.50                              | 10.98                             | 13.22   | 11.50   |
| Period shares outstanding                                    | 26,774,402                        | 26,771,821                         | 25,159,073                        | 25,098,427                         | 23,907,509                        | 26,774,402  | 23,907,509  |
| Weighted average shares outstanding                          | 26,773,033                        | 25,180,665                         | 25,144,342                        | 24,021,447                         | 23,900,665                        | 25,705,313  | 23,882,000  |
| Weighted average shares outstanding                          | 27,160,886                        | 25,572,405                         | 25,573,320                        | 24,450,619                         | 24,315,821                        | 26,099,413  | 24,297,000  |
| <b>Market Price:</b>   |                                   |                                    |                                   |                                    |                                   |   |   |
| Closing price  | \$ 24.04                          | \$ 23.90                           | \$ 24.00                          | \$ 21.42                           | \$ 19.79                          | 24.04   | 19.79   |
| Closing price  | 21.00                             | 19.73                              | 19.86                             | 17.69                              | 17.35                             | 19.73   | 17.35   |
| Price for quarter  | 21.95                             | 21.56                              | 23.30                             | 21.11                              | 18.38                             | 21.95   | 18.38   |
| Daily trading volume   | 79,377                            | 79,038                             | 103,279                           | 94,636                             | 75,545                            | 87,019  | 60,000  |
| Price to book value  | 1.66                              | 1.68                               | 1.95                              | 1.84                               | 1.67                              | 1.66  | 1.67  |

**Finance Ratios:**

|                            |        |        |        |        |        |        |   |
|----------------------------|--------|--------|--------|--------|--------|--------|---|
| on average assets          | 1.17%  | 0.93%  | 0.96%  | 0.19%  | 0.94%  | 1.01%  |   |
| on average common          | 13.19% | 10.53% | 11.66% | 2.20%  | 10.75% | 10.73% | 1 |
| e loans to average         |        |        |        |        |        |        |   |
| s                          | 85.48% | 84.68% | 84.35% | 82.79% | 84.17% | 84.87% | 8 |
| e equity to average assets | 8.83%  | 8.86%  | 9.04%  | 9.41%  | 9.78%  | 8.94%  |   |
| erest margin (tax          |        |        |        |        |        |        |   |
| ent)                       | 4.50%  | 4.65%  | 4.57%  | 4.43%  | 4.80%  | 4.57%  |   |
| ncy ratio (tax equivalent) | 67.64% | 73.05% | 70.36% | 92.74% | 69.09% | 70.25% | 6 |

**Table of Contents****Results of Operations for the Three Months Ended September 30, 2014 and 2013*****Consolidated Earnings and Profitability***

Ameris reported net income available to common shareholders of \$11.7 million, or \$0.43 per diluted share, for the quarter ended September 30, 2014, compared to \$6.2 million, or \$0.26 per diluted share, for the same period in 2013. The Company's return on average assets and average shareholders' equity of 1.17% and 13.19%, respectively, in the third quarter of 2014, compared to 0.94% and 10.75%, respectively, in the third quarter of 2013. The Company's mortgage banking activities have had a significant impact on the overall financial results of the Company. Below is a more detailed analysis of the retail banking activities and mortgage banking activities of the Company during the third quarter of 2014 and 2013, respectively:

|  | Retail Banking | Mortgage Banking | Total     |
|--|----------------|------------------|-----------|
|  | (in thousands) |                  |           |
| For the three months ended September 30, 2014: |                |                  |           |
| Net interest income                            | \$ 36,785      | \$ 2,347         | \$ 39,132 |
| Provision for loan losses                      | 994            | 675              | 1,669     |
| Non-interest income                            | 10,766         | 7,135            | 17,901    |
| Non-interest expense                           |                |                  |           |
| Salaries and employee benefits                 | 15,817         | 4,409            | 20,226    |
| Occupancy                                      | 4,301          | 368              | 4,669     |
| Data processing                                | 3,622          | 306              | 3,928     |
| Other expenses                                 | 8,887          | 869              | 9,756     |
| Total non-interest expense                     | 32,627         | 5,952            | 38,579    |
| Income before income taxes                     | 13,930         | 2,855            | 16,785    |
| Income tax expense                             | 4,123          | 999              | 5,122     |
| Net income                                     | 9,807          | 1,856            | 11,663    |
| Preferred stock dividends                      |                |                  |           |
| Net income available to common shareholders    | \$ 9,807       | \$ 1,856         | \$ 11,663 |

|   | <b>Retail<br/>Banking</b> | <b>Mortgage<br/>Banking</b><br><i>(in thousands)</i> | <b>Total</b> |
|---|---------------------------|--|--------------|
| <b>For the three months ended September 30, 2013:</b> |                           |  |              |
| Net interest income                                   | \$ 28,089                 | \$ 1,231   | \$ 29,320    |
| Provision for loan losses                             | 2,920                     |  | 2,920        |
| Non-interest income                                   | 7,054                     | 5,234  | 12,288       |
| Non-interest expense                                  |                           |  |              |
| Salaries and employee benefits                        | 10,799                    | 3,613  | 14,412       |

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|   |          |          |          |
|---|----------|----------|----------|
| Occupancy                                   | 3,029    | 120      | 3,149    |
| Data processing                             | 2,908    | 164      | 3,072    |
| Other expenses                              | 7,473    | 643      | 8,116    |
| Total non-interest expense                  | 24,209   | 4,540    | 28,749   |
| Income before income taxes                  | 8,014    | 1,925    | 9,939    |
| Income tax expense                          | 2,588    | 674      | 3,262    |
| Net income                                  | 5,426    | 1,251    | 6,677    |
| Preferred stock dividends                   | 443      |          | 443      |
| Net income available to common shareholders | \$ 4,983 | \$ 1,251 | \$ 6,234 |

**Table of Contents****Net Interest Income and Margins**

The following tables set forth the amount of our interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for total interest-earning assets and total interest-bearing liabilities, net interest spread and net interest margin on average interest-earning assets. Federally tax-exempt income is presented on a taxable-equivalent basis assuming a 35% federal tax rate.

|  | Quarter Ended September 30, |  |                                |                    |  |                                |
|--|-----------------------------|--|--------------------------------|--------------------|--|--------------------------------|
|  | Average<br>Balance          | 2014<br>Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate Paid | Average<br>Balance | 2013<br>Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate Paid |
| <i>(in Thousands)</i>  |                             |  |                                |                    |  |                                |
| <b>ASSETS</b>  |                             |  |                                |                    |  |                                |
| Interest-earning assets:   |                             |  |                                |                    |  |                                |
| Loans  | \$ 2,891,760                | \$ 39,912                              | 5.48%                          | \$ 2,053,042       | \$ 29,733                              | 5.75%                          |
| Investment securities  | 533,948                     | 3,704                                  | 2.75                           | 320,305            | 2,195                                  | 2.72                           |
| Short-term assets  | 63,855                      | 47                                     | 0.29                           | 66,424             | 44                                     | 0.26                           |
| Total interest- earning assets   | 3,489,563                   | 43,663                                 | 4.96                           | 2,439,771          | 31,972                                 | 5.20                           |
| Noninterest-earning assets   | 480,330                     |  |                                | 367,028            |  |                                |
| Total assets   | \$ 3,969,893                |  |                                | \$ 2,806,799       |  |                                |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                 |                             |  |                                |                    |  |                                |
| Interest-bearing liabilities:  |                             |  |                                |                    |  |                                |
| Savings and interest-bearing demand deposits                               | \$ 1,760,108                | \$ 1,148                               | 0.26%                          | \$ 1,316,890       | \$ 883                                 | 0.27%                          |
| Time deposits  | 815,286                     | 1,392                                  | 0.68                           | 653,672            | 1,142                                  | 0.69                           |
| Other borrowings   | 47,346                      | 558                                    | 4.68                           | 1,739              | 20                                     | 4.56                           |
| FHLB advances  | 55,435                      | 51                                     | 0.36                           |                    |  |                                |
| Federal funds purchased and securities sold under agreements to repurchase | 44,316                      | 39                                     | 0.35                           | 18,446             | 26                                     | 0.56                           |
| Subordinated deferrable interest debentures                                | 64,953                      | 866                                    | 5.29                           | 42,269             | 358                                    | 3.36                           |
| Total interest-bearing liabilities   | 2,787,444                   | 4,054                                  | 0.58                           | 2,033,016          | 2,429                                  | 0.47                           |
| Demand deposits  | 807,416                     |  |                                | 468,588            |  |                                |
| Other liabilities  | 24,300                      |  |                                | 15,939             |  |                                |
| Stockholders equity  | 350,733                     |  |                                | 289,256            |  |                                |
| Total liabilities and stockholders equity                                  | \$ 3,969,893                |  |                                | \$ 2,806,799       |  |                                |

|                      |           |           |
|----------------------|-----------|-----------|
| Interest rate spread | 4.39%     | 4.73%     |
| Net interest income  | \$ 39,609 | \$ 29,543 |
| Net interest margin  | 4.50%     | 4.80%     |

On a tax equivalent basis, net interest income for the third quarter of 2014 was \$39.6 million, an increase of \$10.1 million compared to \$29.5 million reported in the same quarter in 2013. The higher net interest income is a result of the acquisition of Prosperity Bank during the fourth quarter of 2013 and the acquisition of Coastal Bank in the second quarter of 2014, along with steady yields on the loan portfolio and continued low rates in the Company's cost of funds. The Company's net interest margin decreased during the third quarter of 2014 to 4.50%, compared to 4.65% during the second quarter of 2014 and 4.80% reported in the third quarter of 2013.

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Total interest income, on a tax equivalent basis, during the third quarter of 2014 was \$43.7 million compared to \$32.0 million in the same quarter of 2013. Yields on earning assets fell slightly to 4.96%, compared to 5.20% reported in the third quarter of 2013. During the third quarter of 2014, loans comprised 82.9% of earning assets, compared to 84.1% in the same quarter of 2013. Increased lending activities have provided opportunities to grow the legacy loan portfolio. Yields on legacy loans decreased to 4.82% in the third quarter of 2014, compared to 5.36% in the same period of 2013. Covered loan yields declined from 7.65% in the third quarter of 2013 to 5.78% in the third quarter of 2014. The yield on purchased non-covered loans was 7.27% for the third quarter of 2014. Management anticipates improving economic conditions and increased loan demand will provide consistent interest income.

Total funding costs increased slightly to 0.45% in the third quarter of 2014, compared to 0.39% during the third quarter of 2013. The increase was driven by the increased cost of subordinated debentures acquired in the Prosperity and Coastal acquisitions. The average cost of subordinated debentures was 5.29% in the third quarter of 2014, compared to 3.37% in the third quarter of 2013. The subordinated debentures that are assumed in the acquisitions are recorded at fair value, which carries a current market rate higher than the Company's previous subordinated debentures.

Deposit costs decreased from 0.33% in the third quarter of 2013 to 0.30% in the third quarter of 2014, while non-deposit funding costs increased from 2.57% in the third quarter of 2013 to 2.83% in the third quarter of 2014. Continued shifts in the funding mix toward noninterest-bearing demand and other lower cost deposit categories were the primary reason for the decline in deposit costs. Ongoing efforts to maintain the percentage of funding from transaction deposits have succeeded such that non-CD deposits averaged 76.0% of total deposits in the third quarter of 2014, compared to 73.2% during the third quarter of 2013. Lower costs on deposits were realized due mostly to the lower rate environment and the Company's ability to rely less on higher priced CDs due to its larger than normal position in short-term assets. Further opportunity to realize savings on deposits exists but may be limited due to current costs. Average balances of interest bearing deposits and their respective costs for the third quarter of 2014 and 2013 are shown below:

| (Dollars in Thousands)           | September 30, 2014  |              | September 30, 2013  |              |
|----------------------------------|---------------------|--------------|---------------------|--------------|
|                                  | Average Balance     | Average Cost | Average Balance     | Average Cost |
| NOW                              | \$ 743,352          | 0.17%        | \$ 573,088          | 0.17%        |
| MMDA                             | 861,197             | 0.36%        | 639,304             | 0.38%        |
| Savings                          | 155,559             | 0.11%        | 104,498             | 0.11%        |
| Retail CDs < \$100,000           | 439,150             | 0.54%        | 290,771             | 0.55%        |
| Retail CDs > \$100,000           | 370,166             | 0.80%        | 349,931             | 0.72%        |
| Brokered CDs                     | 5,970               | 3.12%        | 12,970              | 3.09%        |
| <b>Interest-bearing deposits</b> | <b>\$ 2,575,394</b> | <b>0.39%</b> | <b>\$ 1,970,562</b> | <b>0.41%</b> |

***Provision for Loan Losses and Credit Quality***

The Company's provision for loan losses during the third quarter of 2014 amounted to \$1.7 million, compared to \$1.4 million in the second quarter of 2014 and \$2.9 million in the third quarter of 2013. Although the Company has experienced improving trends in criticized and classified assets for several quarters, provision for loan losses continues to be required to account for loan growth and continued devaluation of real estate collateral. At September 30, 2014, classified loans still accruing totaled \$43.5 million, compared to \$31.3 million at September 30,

2013. This increase is predominately due to the addition of classified loans in the Prosperity Bank and Coastal Bank acquisitions. Non-accrual loans, excluding purchased non-covered and covered loans, totaled \$22.8 million at September 30, 2014, a 28.1% decrease from \$31.7 million reported at the end of the third quarter of 2013. Nonaccrual purchased non-covered loans totaled \$17.0 million at September 30, 2014. There were no nonaccrual purchased non-covered loans at the end of the third quarter of 2013.

At September 30, 2014, other real estate owned (excluding purchased non-covered and covered OREO) totaled \$35.3 million, compared to \$35.4 million at June 30, 2014 and \$38.0 million at September 30, 2013. Management regularly assesses the valuation of OREO through periodic reappraisal and through inquiries received in the marketing process. The Company has found that with a marketing window of six to twelve months, the liquidation of properties occurs between 85% and 100% of current book value. Certain properties, mostly raw land and subdivision lots, have extended marketing periods because of excessive inventory and record low home building activity. At the end of the third quarter of 2014, total non-performing assets were 2.22% of total assets, compared to 2.00% at December 31, 2013 and 2.47% at September 30, 2013. This increase is due to the Prosperity Bank and Coastal Bank acquisitions completed in the fourth quarter of 2013 and second quarter of 2014, respectively. Management continues to aggressively identify and resolve problem assets while seeking quality credits to grow the loan portfolio.

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Net charge-offs on loans during the third quarter of 2014 were \$1.6 million, or 0.35% of loans on an annualized basis, compared to \$2.8 million, or 0.70% of loans, in the third quarter of 2013. The Company's allowance for loan losses at September 30, 2014 was \$22.2 million, or 1.20% of loans (excluding purchased non-covered and covered loans), compared to \$23.9 million, or 1.50% of loans (excluding purchased non-covered and covered loans), at September 30, 2013.

***Noninterest Income***

Total non-interest income for the third quarter of 2014 was \$17.9 million, compared to \$12.3 million in the third quarter of 2013. Income from mortgage related activities continued to increase as a result of the Company's increased number of mortgage bankers and higher levels of production. Service charges on deposit accounts in the third quarter of 2014 increased to \$6.7 million, compared to \$4.9 million in the third quarter of 2013. This increase was driven by the growth of core accounts through the acquisition of Prosperity Bank during the fourth quarter of 2013 and Coastal Bank during the second quarter of 2014, along with higher balances in accounts subject to service charges.

***Noninterest Expense***

Total non-interest expenses for the third quarter of 2014 increased to \$38.6 million, compared to \$28.7 million in the same quarter in 2013. Increases in noninterest expenses were primarily the result of the acquisition of Prosperity Bank during the fourth quarter of 2013, the acquisition of Coastal Bank in the second quarter of 2014 and additional expenses related to increases in mortgage volume. Salaries and benefits increased \$5.8 million when compared to the third quarter of 2013. Occupancy and equipment expense increased during the quarter from \$3.1 million in the third quarter of 2013 to \$4.7 million in the third quarter of 2014. Data processing and telecommunications expenses increased to \$3.9 million for the third quarter of 2014 from \$3.1 million for the same period in 2013. Credit resolution related expenses, including problem loan and OREO expense and OREO write-downs and losses, increased to \$3.2 million in the third quarter of 2014, compared to \$3.0 million in the third quarter of 2013.

***Income Taxes***

Income tax expense is influenced by the amount of taxable income, the amount of tax-exempt income and the amount of non-deductible expenses. For the third quarter of 2014, the Company reported income tax expense of \$5.1 million, compared to \$3.3 million in the same period of 2013. The Company's effective tax rate for the three months ending September 30, 2014 and 2013 was 30.5% and 32.8%, respectively.

**Table of Contents****Results of Operations for the Nine Months Ended September 30, 2014 and 2013**

Ameris reported net income available to common shareholders of \$27.9 million, or \$1.07 per diluted share, for the nine months ended September 30, 2014, compared to \$17.3 million, or \$0.71 per diluted share, for the same period in 2013. The Company's mortgage banking activities have had a significant impact on the overall financial results of the Company. Below is a more detailed analysis of the retail banking activities and mortgage banking activities of the Company during the first nine months of 2014 and 2013, respectively:

|   | Retail Banking | Mortgage Banking | Total      |
|---|----------------|------------------|------------|
|   | (in thousands) |                  |            |
| For the nine months ended September 30, 2014: |                |                  |            |
| Net interest income                           | \$ 104,094     | \$ 4,786         | \$ 108,880 |
| Provision for loan losses                     | 4,085          | 675              | 4,760      |
| Non-interest income                           | 27,173         | 19,301           | 46,474     |
| Non-interest expense                          |                |                  |            |
| Salaries and employee benefits                | 42,648         | 11,914           | 54,562     |
| Occupancy                                     | 11,834         | 970              | 12,804     |
| Data processing                               | 10,551         | 771              | 11,322     |
| Other expenses                                | 27,452         | 2,996            | 30,448     |
| Total non-interest expense                    | 92,485         | 16,651           | 109,136    |
| Income before income taxes                    | 34,697         | 6,761            | 41,458     |
| Income tax expense                            | 10,949         | 2,366            | 13,315     |
| Net income                                    | 23,748         | 4,395            | 28,143     |
| Preferred stock dividends                     | 286            |                  | 286        |
| Net income available to common shareholders   |                |                  |            |
|   | \$ 23,462      | \$ 4,395         | \$ 27,857  |

|   | Retail Banking | Mortgage Banking | Total     |
|---|----------------|------------------|-----------|
|   | (in thousands) |                  |           |
| For the nine months ended September 30, 2013: |                |                  |           |
| Net interest income                           | \$ 84,372      | \$ 2,762         | \$ 87,134 |
| Provision for loan losses                     | 10,008         |                  | 10,008    |
| Non-interest income                           | 20,333         | 14,699           | 35,032    |
| Non-interest expense                          |                |                  |           |
| Salaries and employee benefits                | 32,314         | 9,285            | 41,599    |
| Occupancy                                     | 8,575          | 483              | 9,058     |
| Data processing                               | 8,013          | 465              | 8,478     |
| Other expenses                                | 22,807         | 2,379            | 25,186    |

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|   |           |          |           |
|---|-----------|----------|-----------|
| Total non-interest expense                  | 71,709    | 12,612   | 84,321    |
| Income before income taxes                  | 22,988    | 4,849    | 27,837    |
| Income tax expense                          | 7,500     | 1,697    | 9,197     |
| Net income                                  | 15,488    | 3,152    | 18,640    |
| Preferred stock dividends                   | 1,326     |          | 1,326     |
| Net income available to common shareholders | \$ 14,162 | \$ 3,152 | \$ 17,314 |

***Interest Income***

Interest income, on a tax equivalent basis, for the nine months ended September 30, 2014 was \$120.8 million, an increase of \$25.5 million when compared to \$95.3 million for the same period in 2013. Average earning assets for the nine-month period increased \$796.5 million to \$3.22 billion as of September 30, 2014, compared to \$2.42 billion as of September 30, 2013. The increase in average earning assets is due to the Prosperity Bank acquisition completed in December 2013 and the Coastal Bank acquisition completed in June 2014. Yield on average earning assets was 5.02% for the nine months ended September 30, 2014, compared to 5.26% in the first nine months of 2013.

***Interest Expense***

Total interest expense for the nine months ended September 30, 2014 amounted to \$10.8 million, reflecting a \$3.4 million increase from the \$7.4 million expense recorded in the same period of 2013. During the nine-month period ended September 30, 2014, the Company's funding costs increased slightly to 0.43% from 0.39% reported in 2013. Deposit costs decreased to 0.30% during the nine month period ended September 30, 2014, compared to 0.34% during the same period in 2013. Total non-deposit funding costs increased from 2.28% during the first nine months of 2013 to 2.66% during the first nine months of 2014.

**Table of Contents****Net Interest Income**

The following tables set forth the amount of our interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for total interest-earning assets and total interest-bearing liabilities, net interest spread and net interest margin on average interest-earning assets. Federally tax-exempt income is presented on a taxable-equivalent basis assuming a 35% federal tax rate.

|  | Nine Months Ended September 30, |                              |                         |                 |                              |                         |
|--|---------------------------------|------------------------------|-------------------------|-----------------|------------------------------|-------------------------|
|  | Average Balance                 | 2014 Interest Income/Expense | Average Yield/Rate Paid | Average Balance | 2013 Interest Income/Expense | Average Yield/Rate Paid |
| <i>(in Thousands)</i>  |                                 |                              |                         |                 |                              |                         |
| <b>ASSETS</b>  |                                 |                              |                         |                 |                              |                         |
| Interest-earning assets:   |                                 |                              |                         |                 |                              |                         |
| Loans  | \$ 2,651,574                    | \$ 110,138                   | 5.55%                   | \$ 2,017,007    | \$ 88,602                    | 5.87%                   |
| Investment securities  | 493,736                         | 10,515                       | 2.85                    | 332,585         | 6,582                        | 2.65                    |
| Short-term assets  | 73,978                          | 176                          | 0.32                    | 73,194          | 158                          | 0.29                    |
| Total interest-earning assets  | 3,219,288                       | 120,829                      | 5.02                    | 2,422,786       | 95,342                       | 5.26                    |
| Noninterest-earning assets   | 444,408                         |                              |                         | 414,972         |                              |                         |
| Total assets   | \$ 3,663,696                    |                              |                         | \$ 2,837,758    |                              |                         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                |                                 |                              |                         |                 |                              |                         |
| Interest-bearing liabilities:  |                                 |                              |                         |                 |                              |                         |
| Savings and interest-bearing demand deposits                               | \$ 1,645,535                    | \$ 3,208                     | 0.26%                   | \$ 1,313,569    | \$ 2,570                     | 0.26%                   |
| Time deposits  | 760,203                         | 3,720                        | 0.65                    | 676,025         | 3,764                        | 0.74                    |
| Other borrowings   | 37,607                          | 1,381                        | 4.91                    | 586             | 20                           | 4.56                    |
| FHLB advances  | 50,751                          | 114                          | 0.30                    |                 |                              |                         |
| Federal funds purchased and securities sold under agreements to repurchase | 47,099                          | 123                          | 0.35                    | 22,024          | 94                           | 0.57                    |
| Subordinated deferrable interest debentures                                | 58,647                          | 2,240                        | 5.11                    | 42,269          | 991                          | 3.13                    |
| Total interest-bearing liabilities   | 2,599,842                       | 10,786                       | 0.55                    | 2,054,473       | 7,439                        | 0.48                    |
| Demand deposits  | 718,505                         |                              |                         | 476,419         |                              |                         |
| Other liabilities  | 17,812                          |                              |                         | 19,762          |                              |                         |
| Stockholders' equity   | 327,537                         |                              |                         | 287,104         |                              |                         |
| Total liabilities and stockholders' equity                                 | \$ 3,663,696                    |                              |                         | \$ 2,837,758    |                              |                         |

|                      |            |           |
|----------------------|------------|-----------|
| Interest rate spread | 4.46%      | 4.78%     |
| Net interest income  | \$ 110,043 | \$ 87,903 |
| Net interest margin  | 4.57%      | 4.85%     |

For the year-to-date period ending September 30, 2014, the Company reported \$110.1 million of net interest income on a tax equivalent basis, compared to \$87.96 million of net interest income for the same period in 2013. The average balance of earning assets increased 32.9%, from \$2.4 billion during the first nine months of 2013 to \$3.2 billion during the first nine months of 2014. The Company's net interest margin decreased to 4.57% in the nine month period ending September 30, 2014, compared to 4.85% in the same period in 2013.

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**Table of Contents*****Provision for Loan Losses***

The provision for loan losses decreased to \$4.8 million for the nine months ended September 30, 2014, compared to \$10.0 million in the same period in 2013. Non-performing assets (excluding covered assets) totaled \$88.8 million at September 30, 2014, compared to \$69.7 million at September 30, 2013. The majority of the increase is due to the Prosperity acquisition in the fourth quarter of 2013. Non-performing assets as a percent of total assets decreased from 2.47% at September 30, 2013 to 2.22% at September 30, 2014. For the nine-month period ended September 30, 2014, the Company had net charge-offs totaling \$4.2 million, compared to \$8.5 million for the same period in 2013. Annualized net charge-offs as a percentage of loans (excluding purchased non-covered and covered loans) decreased to 0.31% during the first nine months of 2014, compared to 0.71% during the first nine months of 2013.

***Noninterest Income***

Non-interest income for the first nine months of 2014 was \$46.5 million, compared to \$35.0 million in the same period in 2013. Service charges on deposit accounts increased approximately \$3.6 million to \$18.1 million in the first nine months of 2014, compared to \$14.5 million in the same period in 2013. This increase was driven by the growth of core accounts through the acquisition of Prosperity Bank during the fourth quarter of 2013 and Coastal Bank during the second quarter of 2014, along with higher balances in accounts subject to service charges. Income from mortgage banking activity increased from \$14.7 million in the first nine months of 2013 to \$19.5 million in the first nine months of 2014, due to an increased number of mortgage bankers and higher levels of production.

***Noninterest Expense***

Total operating expenses for the first nine months of 2014 increased to \$109.1 million, compared to \$84.3 million in the same period in 2013. During the first nine months of 2014, the Company recorded \$3.3 million of merger charges related to the Coastal acquisition. Other increases in noninterest expenses were primarily the result of the acquisition of Prosperity Bank during the fourth quarter of 2013, the acquisition of Coastal Bank during the second quarter of 2014 and additional expenses related to increases in mortgage volume. Salaries and benefits increased \$13.0 million when compared to the first nine months of 2013. Occupancy and equipment expenses for the first nine months of 2014 amounted to \$12.8 million, representing an increase of \$3.7 million from the same period in 2013. Data processing and telecommunications expenses increased from \$8.5 million in the first nine months of 2013 to \$11.3 million in the first nine months of 2014. Credit resolution related expenses, including problem loan and OREO expense and OREO write-downs and losses, decreased to \$8.2 million in the first nine months of 2014, compared to \$10.2 million in the first nine months of 2013.

***Income Taxes***

In the first nine months of 2014, the Company recorded income tax expense of \$13.3 million, compared to \$9.2 million in the same period of 2013. The Company's effective tax rate for the nine months ended September 30, 2014 and 2013 was 32.1% and 33.0%, respectively.

**Financial Condition as of September 30, 2014****Securities**

Debt securities with readily determinable fair values are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income, net of the related deferred tax effect. Equity securities, including restricted equity securities, are classified as other

investments and are recorded at cost.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses.

In determining whether other-than-temporary impairment losses exist, management considers: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) 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.

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Substantially all of the unrealized losses on debt securities are related to changes in interest rates and do not affect the expected cash flows of the issuer or underlying collateral. All unrealized losses are considered temporary because each security carries an acceptable investment grade and the Company does not intend to sell these investment securities at an unrealized loss position at September 30, 2014, and it is more likely than not that the Company will not be required to sell these securities prior to recovery or maturity. Therefore, at September 30, 2014, these investments are not considered impaired on an other-than temporary basis.

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The following table illustrates certain information regarding the Company's investment portfolio with respect to yields, sensitivities and expected cash flows over the next twelve months assuming constant prepayments and maturities:

|                                | <b>Book Value</b> | <b>Fair Value</b> | <b>Yield</b> | <b>Modified Duration</b> | <b>Estimated Cash Flows 12 months</b> |
|--------------------------------|-------------------|-------------------|--------------|--------------------------|---------------------------------------|
| Dollars in Thousands           |                   |                   |              |                          |                                       |
| <b>September 30, 2014:</b>     |                   |                   |              |                          |                                       |
| U.S. government agencies       | \$ 14,951         | \$ 14,460         | 1.85%        | 5.22                     | \$                                    |
| State and municipal securities | 134,641           | 137,635           | 4.05%        | 6.11                     | 5,892                                 |
| Corporate debt securities      | 10,801            | 10,965            | 6.401%       | 7.38                     | 1,250                                 |
| Mortgage-backed securities     | 364,399           | 366,449           | 2.47%        | 3.95                     | 60,567                                |
| <b>Total debt securities</b>   | <b>\$ 524,792</b> | <b>\$ 529,509</b> | <b>2.94%</b> | <b>4.61</b>              | <b>\$ 67,709</b>                      |
| <b>September 30, 2013:</b>     |                   |                   |              |                          |                                       |
| U.S. government agencies       | \$ 14,945         | \$ 13,917         | 1.85%        | 5.91                     | \$                                    |
| State and municipal securities | 112,643           | 112,939           | 3.62%        | 5.58                     | 5,104                                 |
| Corporate debt securities      | 10,314            | 9,738             | 6.51%        | 7.14                     |                                       |
| Mortgage-backed securities     | 176,818           | 175,654           | 2.67%        | 4.05                     | 27,818                                |
| <b>Total debt securities</b>   | <b>\$ 314,720</b> | <b>\$ 312,248</b> | <b>3.11%</b> | <b>4.79</b>              | <b>\$ 32,922</b>                      |

**Loans and Allowance for Loan Losses**

At September 30, 2014, gross loans outstanding (including mortgage loans held for sale and purchased non-covered and covered loans) were \$2.95 billion, an increase from \$2.52 billion reported at December 31, 2013 and \$2.08 billion reported at September 30, 2013. Legacy loans (excluding purchased non-covered and covered loans) increased \$230.3 million, from \$1.62 billion at December 31, 2013 to \$1.85 billion at September 30, 2014. Purchased non-covered loans increased \$225.0 million, from \$448.8 million at December 31, 2013 to \$673.7 million at September 30, 2014. Covered loans decreased \$76.6 million, from \$390.2 million at December 31, 2013 to \$313.6 million at September 30, 2014.

The Company regularly monitors the composition of the loan portfolio to evaluate the adequacy of the allowance for loan losses in light of the impact that changes in the economic environment may have on the loan portfolio. The Company focuses on the following loan categories: (1) commercial, financial and agricultural; (2) residential real estate; (3) commercial and farmland real estate; (4) construction and development related real estate; and (5) consumer. The Company's management has strategically located its branches in select markets in south and southeast Georgia, north Florida, southeast Alabama and throughout South Carolina to take advantage of the growth in these areas.

The Company's risk management processes include a loan review program designed to evaluate the credit risk in the loan portfolio and ensure credit grade accuracy. Through the loan review process, the Company conducts (1) a loan portfolio summary analysis, (2) charge-off and recovery analysis, (3) trends in accruing problem loan analysis, and (4) problem and past due loan analysis. This analysis process serves as a tool to assist management in assessing the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans classified as substandard

are loans which are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. These assets exhibit a well-defined weakness or are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. These weaknesses may be characterized by past due performance, operating losses and/or questionable collateral values. Loans classified as doubtful are those loans that have characteristics similar to substandard loans but have an increased risk of loss. Loans classified as loss are those loans which are considered uncollectible and are in the process of being charged-off.

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The provision for loan losses is based on management's evaluation of the size and composition of the loan portfolio, the level of non-performing and past due loans, historical trends of charged-off loans and recoveries, prevailing economic conditions and other factors management deems appropriate. The Company's management has established an allowance for loan losses which it believes is adequate for the probable incurred losses in the loan portfolio. Based on a credit evaluation of the loan portfolio, management presents a monthly review of the allowance for loan losses to the Company's Board of Directors. The review that management has developed primarily focuses on risk by evaluating individual loans in certain risk categories. These categories have also been established by management and take the form of loan grades. By grading the loan portfolio in this manner the Company's management is able to effectively evaluate the portfolio by risk, which management believes is the most effective way to analyze the loan portfolio and thus analyze the adequacy of the allowance for loan losses.

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The allowance for loan losses is established by examining (1) the large classified loans, nonaccrual loans and loans considered impaired and evaluating them individually to determine the specific reserve allocation, and (2) the remainder of the loan portfolio to allocate a portion of the allowance based on past loss experience and the economic conditions for the particular loan category. The Company also considers other factors such as changes in lending policies and procedures; changes in national, regional, and/or local economic and business conditions; changes in the nature and volume of the loan portfolio; changes in the experience, ability and depth of either the bank president or lending staff; changes in the volume and severity of past due and classified loans; changes in the quality of the Company's corporate loan review system; and other factors management deems appropriate.

For the nine-month period ended September 30, 2014, the Company recorded net charge-offs totaling \$4.2 million, compared to \$8.5 million for the period ended September 30, 2013. The provision for loan losses for the nine months ended September 30, 2014 decreased to \$4.8 million, compared to \$10.0 million during the nine-month period ended September 30, 2013. At the end of the third quarter of 2014, the allowance for loan losses totaled \$22.2 million, or 1.20% of total legacy loans, compared to \$22.4 million, or 1.38% of total legacy loans, at December 31, 2013 and \$23.9 million, or 1.50% of total legacy loans, at September 30, 2013. The decrease in the allowance for loan losses as a percentage of non-covered loans reflects the improving credit quality trends in the loan portfolio and the reduced annualized charge-offs as a percentage of average loans ratio.

The following table presents an analysis of the allowance for loan losses for the nine months ended September 30, 2014 and 2013:

| <b>(Dollars in Thousands)</b>                               | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> |
|---|-------------------------------|-------------------------------|
| Balance of allowance for loan losses at beginning of period | \$ 22,377                     | \$ 23,593                     |
| Provision charged to operating expense                      | 4,071                         | 8,747                         |
| Charge-offs:  |                               |                               |
| Commercial, financial and agricultural                      | 1,099                         | 1,216                         |
| Real estate residential                                     | 1,339                         | 3,430                         |
| Real estate commercial and farmland                         | 2,255                         | 2,873                         |
| Real estate construction and development                    | 518                           | 1,598                         |
| Consumer installment  | 343                           | 576                           |
| Other   |                               |                               |
| Total charge-offs   | 5,554                         | 9,693                         |
| Recoveries:   |                               |                               |
| Commercial, financial and agricultural                      | 230                           | 340                           |
| Real estate residential                                     | 183                           | 520                           |
| Real estate commercial and farmland                         | 183                           | 18                            |
| Real estate construction and development                    | 300                           | 88                            |
| Consumer installment  | 422                           | 241                           |
| Other   |                               |                               |
| Total recoveries  | 1,318                         | 1,207                         |

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|  |           |           |
|--|-----------|-----------|
| Net charge-offs  | 4,236     | 8,486     |
| Balance of allowance for loan losses at end of period                                | \$ 22,212 | \$ 23,854 |
| Net annualized charge-offs as a percentage of average loans                          | 0.31%     | 0.71%     |
| Allowance for loan losses as a percentage of period end loans net of purchased loans | 1.20%     | 1.50%     |

**Assets Covered by Loss-Sharing Agreements with the FDIC**

Loans that were acquired in FDIC-assisted transactions that are covered by the loss-sharing agreements with the FDIC ( covered loans ) totaled \$313.6 million, \$390.2 million and \$417.6 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. OREO that is covered by the loss-sharing agreements with the FDIC totaled \$28.9 million, \$45.9 million and \$52.6 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. The loss-sharing agreements are subject to the servicing procedures as specified in the agreements with the FDIC. The expected reimbursements under the loss-sharing agreements were recorded as an indemnification asset at their estimated fair value on the acquisition dates. The FDIC loss-share receivable reported at September 30, 2014, December 31, 2013 and September 30, 2013 was \$38.2 million, \$65.4 million and \$81.8 million, respectively. Of the \$38.2 million FDIC loss-sharing receivable at September 30, 2014, \$21.5 million is in indemnification asset (for reimbursements associated with anticipated losses in future quarters) and \$16.7 million is current charge-offs and expenses already incurred but not yet submitted for reimbursement.

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The Bank initially recorded the loans at their fair values, taking into consideration certain credit quality, risk and liquidity marks. The Company believes its estimation of credit risk and its adjustments to the carrying balances of the acquired loans is adequate. If the Company determines that a loan or group of loans has deteriorated from its initial assessment of fair value, a reserve for loan losses will be established to account for that difference. During the nine months ended September 30, 2014, the year ended December 31, 2013 and the nine months ended September 30, 2013, the Company recorded provision for loan loss expense of \$685,000, \$1.5 million and \$1.3 million, respectively, net of the FDIC loss share receivable, to account for losses where the initial estimate of cash flows was found to be excessive on loans acquired in FDIC-assisted transactions. If the Company determines that a loan or group of loans has improved from its initial assessment of fair value, then the increase in cash flows over those expected at the acquisition date is recognized as interest income prospectively, with an associated write off of the remaining indemnification asset over the shorter of the life of the loan or the loss share agreement.

Covered loans are shown below according to loan type as of the end of the periods shown:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 22,545                     | \$ 26,550                    | \$ 27,768                     |
| Real estate construction and development | 27,756                        | 43,179                       | 50,702                        |
| Real estate commercial and farmland      | 180,566                       | 224,451                      | 237,086                       |
| Real estate residential                  | 82,445                        | 95,173                       | 101,146                       |
| Consumer installment                     | 277                           | 884                          | 947                           |
|  | <b>\$ 313,589</b>             | <b>\$ 390,237</b>            | <b>\$ 417,649</b>             |

**Purchased Non-Covered Assets**

Loans that were acquired in transactions that are not covered by the loss-sharing agreements with the FDIC ( purchased non-covered loans ) totaled \$673.7 million and \$448.8 million at September 30, 2014 and December 31, 2013, respectively. The Company did not have any purchased non-covered loans at September 30, 2013. OREO that was acquired in transactions and are not covered by the loss-sharing agreements with the FDIC totaled \$13.7 million and \$4.3 million at September 30, 2014 and December 31, 2013, respectively. The Company did not have any purchased non-covered OREO at September 30, 2013.

The Bank initially recorded the loans at their fair values, taking into consideration certain credit quality, risk and liquidity marks. The Company believes its estimation of credit risk and its adjustments to the carrying balances of the acquired loans is adequate. If the Company determines that a loan or group of loans has deteriorated from its initial assessment of fair value, a reserve for loan losses will be established to account for that difference. During the nine months ended September 30, 2014, the Company recorded provision for loan loss expense of \$4,000 to account for losses where the initial estimate of cash flows was found to be excessive on purchased non-covered loans. The Company did not have any provision for loan loss expense during the twelve months ended December 31, 2013 related to purchased non-covered loans. If the Company determines that a loan or group of loans has improved from its initial assessment of fair value, then the increase in cash flows over those expected at the acquisition date is recognized as interest income prospectively.

Purchased non-covered loans are shown below according to loan type as of the end of the periods shown:

| <b>(Dollars in Thousands)</b>            | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Commercial, financial and agricultural   | \$ 38,077                     | \$ 32,141                    | \$                            |
| Real estate construction and development | 60,262                        | 31,176                       |                               |
| Real estate commercial and farmland      | 296,790                       | 179,898                      |                               |
| Real estate residential                  | 273,347                       | 200,851                      |                               |
| Consumer installment                     | 5,248                         | 4,687                        |                               |
|  | \$ 673,724                    | \$ 448,753                   | \$                            |

**Table of Contents****Non-Performing Assets**

Non-performing assets include nonaccrual loans, accruing loans contractually past due 90 days or more, repossessed personal property and other real estate owned. Loans are placed on nonaccrual status when management has concerns relating to the ability to collect the principal and interest and generally when such loans are 90 days or more past due. Management performs a detailed review and valuation assessment of impaired loans on a quarterly basis and recognizes losses when permanent impairment is identified. A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. When a loan is placed on nonaccrual status, any interest previously accrued but not collected is reversed against current income.

As of September 30, 2014, nonaccrual loans (excluding purchased non-covered and covered loans) totaled \$22.8 million, a decrease of approximately \$6.4 million since December 31, 2013. The decrease in nonaccrual loans is due to the success in the foreclosure and resolution process and a significant slowdown in the formation of new problem credits. Nonaccrual purchased non-covered loans totaled \$17.0 million, an increase of approximately \$10.3 million since December 31, 2013 due to the Coastal acquisition. Total non-performing assets as a percentage of total assets were 2.22%, 2.00% and 2.47% at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

Non-performing assets at September 30, 2014, December 31, 2013 and September 30, 2013 were as follows:

| <b>(Dollars in Thousands)</b>  | <b>September 30,<br/>2014</b> | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Total nonaccrual loans (excluding purchased non-covered and covered loans) | \$ 22,810                     | \$ 29,203                    | \$ 31,720                     |
| Nonaccrual purchased non-covered loans                                     | 17,007                        | 6,659                        |                               |
| Accruing loans delinquent 90 days or more                                  |                               |                              |                               |
| Foreclosed assets (excluding purchased assets)                             | 35,320                        | 33,351                       | 37,978                        |
| Purchased, non-covered other real estate owned                             | 13,660                        | 4,276                        |                               |
| Total non-performing assets  | \$ 88,797                     | \$ 73,489                    | \$ 69,698                     |

**Table of Contents****Troubled Debt Restructurings**

The restructuring of a loan is considered a troubled debt restructuring if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession. The following table presents the amount of troubled debt restructurings by loan class, excluding purchased non-covered and covered loans, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        |    | <b>Accruing Loans</b> |  | <b>Non-Accruing Loans</b> |                |
|--|----|-----------------------|--|---------------------------|----------------|
|  |    | <b>Balance</b>        |  | <b>Balance</b>            |                |
| Loan class:                            | #  | (in thousands)        |  | #                         | (in thousands) |
| Commercial, financial & agricultural   | 4  | \$ 257                |  | 4                         | \$ 507         |
| Real estate construction & development | 11 | 1,917                 |  | 4                         | 196            |
| Real estate commercial & farmland      | 21 | 7,080                 |  | 2                         | 1,672          |
| Real estate residential                | 43 | 7,973                 |  | 10                        | 759            |
| Consumer installment                   | 9  | 34                    |  | 12                        | 93             |
| Total                                  | 88 | \$ 17,261             |  | 32                        | \$ 3,227       |

| <i>As of December 31, 2013</i>         |    | <b>Accruing Loans</b> |  | <b>Non-Accruing Loans</b> |                |
|--|----|-----------------------|--|---------------------------|----------------|
|  |    | <b>Balance</b>        |  | <b>Balance</b>            |                |
| Loan class:                            | #  | (in thousands)        |  | #                         | (in thousands) |
| Commercial, financial & agricultural   | 4  | \$ 515                |  | 3                         | \$ 525         |
| Real estate construction & development | 8  | 1,896                 |  | 2                         | 32             |
| Real estate commercial & farmland      | 17 | 6,913                 |  | 4                         | 2,273          |
| Real estate residential                | 37 | 7,818                 |  | 8                         | 834            |
| Consumer installment                   | 6  | 72                    |  | 3                         | 19             |
| Total                                  | 72 | \$ 17,214             |  | 20                        | \$ 3,683       |

| <i>As of September 30, 2013</i>        |    | <b>Accruing Loans</b> |  | <b>Non-Accruing Loans</b> |                |
|--|----|-----------------------|--|---------------------------|----------------|
|  |    | <b>Balance</b>        |  | <b>Balance</b>            |                |
| Loan class:                            | #  | (in thousands)        |  | #                         | (in thousands) |
| Commercial, financial & agricultural   | 4  | \$ 521                |  | 3                         | \$ 533         |
| Real estate construction & development | 8  | 1,926                 |  | 1                         | 29             |
| Real estate commercial & farmland      | 16 | 6,693                 |  | 3                         | 1,858          |
| Real estate residential                | 35 | 7,871                 |  | 7                         | 704            |
| Consumer installment                   | 1  | 13                    |  | 2                         | 26             |
| Total                                  | 64 | \$ 17,024             |  | 16                        | \$ 3,150       |



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The following table presents the amount of troubled debt restructurings by loan class, excluding purchased non-covered and covered loans, classified separately as those currently paying under restructured terms and those that have defaulted (defined as 30 days past due) under restructured terms at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        | <b>Loans Currently<br/>Paying<br/>Under Restructured<br/>Terms</b> |                       | <b>Loans that have<br/>Defaulted<br/>Under Restructured<br/>Terms</b> |                       |
|--|--|-----------------------|---|-----------------------|
|  | #  | <b>Balance</b>        | #   | <b>Balance</b>        |
|  |  | <i>(in thousands)</i> |   | <i>(in thousands)</i> |
| Loan class:                            |  |                       |   |                       |
| Commercial, financial & agricultural   | 6  | \$ 271                | 2   | \$ 493                |
| Real estate construction & development | 9  | 1,881                 | 6   | 232                   |
| Real estate commercial & farmland      | 19   | 6,811                 | 4   | 1,941                 |
| Real estate residential                | 37   | 6,919                 | 16  | 1,813                 |
| Consumer installment                   | 7  | 29                    | 14  | 98                    |
| Total                                  | 78   | \$ 15,911             | 42  | \$ 4,577              |

| <i>As of December 31, 2013</i>         | <b>Loans Currently<br/>Paying<br/>Under Restructured<br/>Terms</b> |                       | <b>Loans that have<br/>Defaulted<br/>Under Restructured<br/>Terms</b> |                       |
|--|--|-----------------------|---|-----------------------|
|  | #  | <b>Balance</b>        | #   | <b>Balance</b>        |
|  |  | <i>(in thousands)</i> |   | <i>(in thousands)</i> |
| Loan class:                            |  |                       |   |                       |
| Commercial, financial & agricultural   | 4  | \$ 515                | 3   | \$ 525                |
| Real estate construction & development | 8  | 1,896                 | 2   | 32                    |
| Real estate commercial & farmland      | 16   | 6,396                 | 5   | 2,789                 |
| Real estate residential                | 32   | 6,699                 | 13  | 1,953                 |
| Consumer installment                   | 7  | 90                    | 2   | 2                     |
| Total                                  | 67   | \$ 15,596             | 25  | \$ 5,301              |

| <i>As of September 30, 2013</i>        | <b>Loans Currently<br/>Paying<br/>Under Restructured<br/>Terms</b> |                       | <b>Loans that have<br/>Defaulted<br/>Under Restructured<br/>Terms</b> |                       |
|--|--|-----------------------|---|-----------------------|
|  | #  | <b>Balance</b>        | #   | <b>Balance</b>        |
|  |  | <i>(in thousands)</i> |   | <i>(in thousands)</i> |
| Loan class:                            |  |                       |   |                       |
| Commercial, financial & agricultural   | 3  | \$ 508                | 4   | \$ 546                |
| Real estate construction & development | 6  | 1,881                 | 3   | 74                    |
| Real estate commercial & farmland      | 14   | 6,550                 | 5   | 2,001                 |

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|                         |    |           |    |          |
|-------------------------|----|-----------|----|----------|
| Real estate residential | 31 | 7,282     | 11 | 1,293    |
| Consumer installment    | 2  | 37        | 1  | 2        |
| Total                   | 56 | \$ 16,258 | 24 | \$ 3,916 |

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The following table presents the amount of troubled debt restructurings, excluding purchased non-covered and covered loans, by types of concessions made, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>          | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Type of concession:                      | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Forbearance of interest                  | 13                    | \$ 2,197              | 1                         | \$ 31                 |
| Forgiveness of principal                 | 6                     | 2,426                 |                           |                       |
| Rate reduction only                      | 17                    | 7,350                 | 4                         | 509                   |
| Rate reduction, forbearance of interest  | 35                    | 3,390                 | 23                        | 2,619                 |
| Rate reduction, forbearance of principal | 17                    | 1,898                 | 3                         | 39                    |
| Rate reduction, payment modification     |                       |                       | 1                         | 29                    |
| <b>Total</b>                             | <b>88</b>             | <b>\$ 17,261</b>      | <b>32</b>                 | <b>\$ 3,227</b>       |

| <i>As of December 31, 2013</i>           | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Type of concession:                      | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Forbearance of interest                  | 10                    | \$ 2,170              | 2                         | \$ 97                 |
| Forgiveness of principal                 | 3                     | 1,467                 | 1                         | 145                   |
| Payment modification only                | 1                     | 280                   | 1                         | 88                    |
| Rate reduction only                      | 14                    | 7,069                 | 3                         | 913                   |
| Rate reduction, forbearance of interest  | 26                    | 3,252                 | 12                        | 2,411                 |
| Rate reduction, forbearance of principal | 18                    | 2,976                 |                           |                       |
| Rate reduction, payment modification     |                       |                       | 1                         | 29                    |
| <b>Total</b>                             | <b>72</b>             | <b>\$ 17,214</b>      | <b>20</b>                 | <b>\$ 3,683</b>       |

| <i>As of September 30, 2013</i>          | <b>Accruing Loans</b> |                       | <b>Non-Accruing Loans</b> |                       |
|--|-----------------------|-----------------------|---------------------------|-----------------------|
|  |                       | <b>Balance</b>        |                           | <b>Balance</b>        |
| Type of concession:                      | #                     | <i>(in thousands)</i> | #                         | <i>(in thousands)</i> |
| Forbearance of interest                  | 9                     | \$ 2,135              | 2                         | \$ 101                |
| Forgiveness of principal                 | 3                     | 1,479                 | 1                         | 145                   |
| Payment modification only                | 2                     | 370                   |                           |                       |
| Rate reduction only                      | 14                    | 7,146                 | 2                         | 496                   |
| Rate reduction, forbearance of interest  | 18                    | 2,878                 | 10                        | 2,379                 |
| Rate reduction, forbearance of principal | 18                    | 3,016                 |                           |                       |
| Rate reduction, payment modification     |                       |                       | 1                         | 29                    |
| <b>Total</b>                             | <b>64</b>             | <b>\$ 17,024</b>      | <b>16</b>                 | <b>\$ 3,150</b>       |



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The following table presents the amount of troubled debt restructurings, excluding purchased non-covered and covered loans, by collateral types, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i> | <b>Accruing Loans</b> |                                   | <b>Non-Accruing Loans</b> |                                   |
|---------------------------------|-----------------------|-----------------------------------|---------------------------|-----------------------------------|
|                                 | <b>#</b>              | <b>Balance<br/>(in thousands)</b> | <b>#</b>                  | <b>Balance<br/>(in thousands)</b> |
| Collateral type:                |                       |                                   |                           |                                   |
| Warehouse                       | 6                     | \$ 944                            |                           | \$                                |
| Raw land                        | 5                     | 1,258                             | 1                         | 29                                |
| Agricultural land               | 2                     | 373                               |                           |                                   |
| Hotel & motel                   | 3                     | 2,062                             |                           |                                   |
| Office                          | 4                     | 1,639                             |                           |                                   |
| Retail, including strip centers | 5                     | 1,700                             | 2                         | 1,672                             |
| 1-4 family residential          | 50                    | 8,638                             | 14                        | 943                               |
| Church                          | 1                     | 362                               |                           |                                   |
| Automobile/equipment/inventory  | 11                    | 47                                | 14                        | 540                               |
| Unsecured                       | 1                     | 238                               | 1                         | 43                                |
| <b>Total</b>                    | <b>88</b>             | <b>\$ 17,261</b>                  | <b>32</b>                 | <b>\$ 3,227</b>                   |

| <i>As of December 31, 2013</i>  | <b>Accruing Loans</b> |                                   | <b>Non-Accruing Loans</b> |                                   |
|---------------------------------|-----------------------|-----------------------------------|---------------------------|-----------------------------------|
|                                 | <b>#</b>              | <b>Balance<br/>(in thousands)</b> | <b>#</b>                  | <b>Balance<br/>(in thousands)</b> |
| Collateral type:                |                       |                                   |                           |                                   |
| Warehouse                       | 4                     | \$ 1,346                          | 2                         | \$ 592                            |
| Raw land                        | 11                    | 2,345                             | 2                         | 32                                |
| Hotel & motel                   | 3                     | 2,185                             |                           |                                   |
| Office                          | 4                     | 1,909                             |                           |                                   |
| Retail, including strip centers | 4                     | 1,095                             | 2                         | 1,680                             |
| 1-4 family residential          | 36                    | 7,747                             | 9                         | 852                               |
| Life insurance policy           | 1                     | 250                               |                           |                                   |
| Automobile/equipment/inventory  | 8                     | 92                                | 4                         | 479                               |
| Unsecured                       | 1                     | 245                               | 1                         | 48                                |
| <b>Total</b>                    | <b>72</b>             | <b>\$ 17,214</b>                  | <b>20</b>                 | <b>\$ 3,683</b>                   |

| <i>As of September 30, 2013</i> | <b>Accruing Loans</b> |                                   | <b>Non-Accruing Loans</b> |                                   |
|---------------------------------|-----------------------|-----------------------------------|---------------------------|-----------------------------------|
|                                 | <b>#</b>              | <b>Balance<br/>(in thousands)</b> | <b>#</b>                  | <b>Balance<br/>(in thousands)</b> |
| Collateral type:                |                       |                                   |                           |                                   |
| Warehouse                       | 3                     | \$ 1,065                          | 1                         | \$ 176                            |
| Raw land                        | 3                     | 1,337                             | 1                         | 29                                |
| Agricultural land               | 2                     | 380                               |                           |                                   |
| Hotel & motel                   | 3                     | 2,219                             |                           |                                   |

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|                                 |    |           |    |          |
|---------------------------------|----|-----------|----|----------|
| Office                          | 4  | 1,924     |    |          |
| Retail, including strip centers | 4  | 1,105     | 2  | 1,682    |
| 1-4 family residential          | 40 | 8,460     | 7  | 704      |
| Life insurance policy           | 1  | 250       |    |          |
| Automobile/equipment/inventory  | 3  | 36        | 4  | 509      |
| Unsecured                       | 1  | 248       | 1  | 50       |
| Total                           | 64 | \$ 17,024 | 16 | \$ 3,150 |

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As of September 30, 2014, the Company had a balance of \$583,000 in troubled debt restructurings included in purchased non-covered loans. The Company did not have any troubled debt restructurings included in purchased non-covered loans as of December 31, 2013 and September 30, 2013. The following table presents the amount of troubled debt restructurings by loan class of purchased non-covered loans, classified separately as accrual and non-accrual at September 30, 2014:

| <i>As of September 30, 2014</i>        |   | Accruing Loans |  | Non-Accruing Loans |                |
|--|---|----------------|--|--------------------|----------------|
|  |   | Balance        |  | Balance            |                |
| Loan class:                            | # | (in thousands) |  | #                  | (in thousands) |
| Commercial, financial & agricultural   |   | \$             |  |                    | \$             |
| Real estate construction & development | 1 | 305            |  |                    |                |
| Real estate commercial & farmland      |   |                |  |                    |                |
| Real estate residential                | 4 | 275            |  | 2                  | 247            |
| Consumer installment                   | 1 | 3              |  |                    |                |
| Total                                  | 6 | \$ 583         |  | 2                  | \$ 247         |

The following table presents the amount of troubled debt restructurings by loan class of purchased non-covered loans, classified separately as those currently paying under restructured terms and those that have defaulted (defined as 30 days past due) under restructured terms at September 30, 2014:

| <i>As of September 30, 2014</i>        |   | Loans Currently Paying Under Restructured Terms |  | Loans that have Defaulted Under Restructured Terms |                |
|--|---|---|--|--|----------------|
|  |   | Balance   |  | Balance  |                |
| Loan class:                            | # | (in thousands)                                  |  | #  | (in thousands) |
| Commercial, financial & agricultural   |   | \$  |  |  | \$             |
| Real estate construction & development | 1 | 305   |  |  |                |
| Real estate commercial & farmland      |   |   |  |  |                |
| Real estate residential                | 4 | 275   |  | 2  | 247            |
| Consumer installment                   | 1 | 3   |  |  |                |
| Total                                  | 6 | \$ 583  |  | 2  | \$ 247         |

The following table presents the amount of troubled debt restructurings included in purchased non-covered loans, by types of concessions made, classified separately as accrual and non-accrual at September 30, 2014:

| <i>As of September 30, 2014</i> |   | Accruing Loans |  | Non-Accruing Loans |                |
|---------------------------------|---|----------------|--|--------------------|----------------|
|                                 |   | Balance        |  | Balance            |                |
| Type of Concession:             | # | (in thousands) |  | #                  | (in thousands) |
| Forbearance of Interest         | 2 | \$ 67          |  |                    | \$             |

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|   |   |        |   |        |
|---|---|--------|---|--------|
| Rate Reduction Only                     | 2 | 361    | 1 | 26     |
| Rate Reduction, Forbearance of Interest | 2 | 155    | 1 | 221    |
| Total                                   | 6 | \$ 583 | 2 | \$ 247 |

The following table presents the amount of troubled debt restructurings included in covered loans, by collateral types, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i> | Accruing Loans |                           | Non-Accruing Loans |                           |
|---------------------------------|----------------|---------------------------|--------------------|---------------------------|
|                                 | #              | Balance<br>(in thousands) | #                  | Balance<br>(in thousands) |
| Collateral type:                |                |                           |                    |                           |
| 1-4 Family Residential          | 5              | \$ 580                    | 2                  | \$ 247                    |
| Automobile/Equipment/Inventory  | 1              | 3                         |                    |                           |
| Total                           | 6              | \$ 583                    | 2                  | \$ 247                    |

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As of September 30, 2014, December 31, 2013 and September 30, 2013, the Company had a balance of \$25.0 million, \$9.1 million and \$28.4 million, respectively, in troubled debt restructurings included in covered loans. The following table presents the amount of troubled debt restructurings by loan class of covered loans, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Loan class:                            | #              | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   | 1              | \$ 26          | 1                  | \$ 3           |
| Real estate construction & development | 3              | 3,024          | 3                  | 56             |
| Real estate commercial & farmland      | 15             | 8,501          | 6                  | 1,225          |
| Real estate residential                | 94             | 11,202         | 13                 | 965            |
| Consumer installment                   | 1              | 4              |                    |                |
| Total                                  | 114            | \$ 22,757      | 23                 | \$ 2,249       |

| <i>As of December 31, 2013</i>         | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Loan class:                            | #              | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   |                | \$             | 2                  | \$ 67          |
| Real estate construction & development |                |                | 1                  | 16             |
| Real estate commercial & farmland      | 4              | 579            | 1                  | 134            |
| Real estate residential                | 72             | 7,830          | 6                  | 464            |
| Consumer installment                   |                |                | 1                  | 5              |
| Total                                  | 76             | \$ 8,409       | 11                 | \$ 686         |

| <i>As of September 30, 2013</i>        | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Loan class:                            | #              | (in thousands) | #                  | (in thousands) |
| Commercial, financial & agricultural   | 1              | \$ 12          | 3                  | \$ 40          |
| Real estate construction & development | 5              | 4,308          | 4                  | 690            |
| Real estate commercial & farmland      | 11             | 6,200          | 7                  | 4,805          |
| Real estate residential                | 79             | 10,461         | 11                 | 1,874          |
| Consumer installment                   |                |                | 1                  | 5              |
| Total                                  | 96             | \$ 20,981      | 26                 | \$ 7,414       |

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The following table presents the amount of troubled debt restructurings by loan class of covered loans, classified separately as those currently paying under restructured terms and those that have defaulted under restructured terms at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>        | Loans Currently Paying<br>Under Restructured<br>Terms |                | Loans that have Defaulted<br>Under Restructured Terms |                |
|--|---|----------------|---|----------------|
|  | #   | Balance        | #   | Balance        |
|  |   | (in thousands) |   | (in thousands) |
| Loan class:                            |   |                |   |                |
| Commercial, financial & agricultural   | 2   | \$ 29          |   | \$             |
| Real estate construction & development | 4   | 3,050          | 2   | 29             |
| Real estate commercial & farmland      | 18  | 9,279          | 3   | 447            |
| Real estate residential                | 86  | 10,168         | 21  | 2,000          |
| Consumer installment                   | 1   | 4              |   |                |
| Total                                  | 111   | \$ 22,530      | 26  | \$ 2,476       |

| <i>As of December 31, 2013</i>         | Loans Currently Paying<br>Under Restructured<br>Terms |                | Loans that have<br>Defaulted<br>Under Restructured<br>Terms |                |
|--|---|----------------|---|----------------|
|  | #   | Balance        | #   | Balance        |
|  |   | (in thousands) |   | (in thousands) |
| Loan class:                            |   |                |   |                |
| Commercial, financial & agricultural   | 1   | \$ 27          | 1   | \$ 40          |
| Real estate construction & development | 1   | 16             |   |                |
| Real estate commercial & farmland      | 5   | 713            |   |                |
| Real estate residential                | 58  | 5,830          | 20  | 2,463          |
| Consumer installment                   | 1   | 6              |   |                |
| Total                                  | 66  | \$ 6,592       | 21  | \$ 2,503       |

| <i>As of September 30, 2013</i>        | Loans Currently Paying<br>Under Restructured<br>Terms |                | Loans that have<br>Defaulted<br>Under Restructured<br>Terms |                |
|--|---|----------------|---|----------------|
|  | #   | Balance        | #   | Balance        |
|  |   | (in thousands) |   | (in thousands) |
| Loan class:                            |   |                |   |                |
| Commercial, financial & agricultural   | 2   | \$ 12          | 2   | \$ 40          |
| Real estate construction & development | 7   | 4,331          | 2   | 667            |
| Real estate commercial & farmland      | 14  | 6,419          | 4   | 4,586          |
| Real estate residential                | 72  | 10,042         | 18  | 2,293          |
| Consumer installment                   | 1   | 5              |   |                |

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|       |    |    |        |    |    |       |
|-------|----|----|--------|----|----|-------|
| Total | 96 | \$ | 20,809 | 26 | \$ | 7,586 |
|-------|----|----|--------|----|----|-------|

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The following table presents the amount of troubled debt restructurings included in covered loans, by types of concessions made, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i>          | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Type of Concession:                      | #              | (in thousands) | #                  | (in thousands) |
| Forbearance of Interest                  | 2              | \$ 1,548       | 4                  | \$ 116         |
| Forbearance of Principal                 |                |                | 8                  | 228            |
| Rate Reduction Only                      | 97             | 17,404         | 5                  | 760            |
| Rate Reduction, Forbearance of Interest  | 6              | 490            | 4                  | 241            |
| Rate Reduction, Forbearance of Principal | 9              | 3,315          | 1                  | 89             |
| Rate Reduction, payment modification     |                |                | 1                  | 815            |
| Total                                    | 114            | \$ 22,757      | 23                 | \$ 2,249       |

| <i>As of December 31, 2013</i>           | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Type of Concession:                      | #              | (in thousands) | #                  | (in thousands) |
| Rate Reduction Only                      | 68             | \$ 7,510       | 6                  | \$ 457         |
| Rate Reduction, Forbearance of Interest  | 3              | 88             | 4                  | 96             |
| Rate Reduction, Forbearance of Principal | 5              | 811            | 1                  | 133            |
| Total                                    | 76             | \$ 8,409       | 11                 | \$ 686         |

| <i>As of September 30, 2013</i>          | Accruing Loans |                | Non-Accruing Loans |                |
|--|----------------|----------------|--------------------|----------------|
|  |                | Balance        |                    | Balance        |
| Type of Concession:                      | #              | (in thousands) | #                  | (in thousands) |
| Forbearance of Interest                  | 1              | \$ 24          | 6                  | \$ 1,189       |
| Rate Reduction Only                      | 84             | 17,409         | 10                 | 1,463          |
| Rate Reduction, Forbearance of Interest  | 3              | 89             | 6                  | 1,299          |
| Rate Reduction, Forbearance of Principal | 7              | 2,605          | 4                  | 3,463          |
| Rate reduction, payment modification     | 1              | 854            |                    |                |
| Total                                    | 96             | \$ 20,981      | 26                 | \$ 7,414       |

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The following table presents the amount of troubled debt restructurings included in covered loans, by collateral types, classified separately as accrual and non-accrual at September 30, 2014, December 31, 2013 and September 30, 2013:

| <i>As of September 30, 2014</i> | Accruing Loans |                  | Non-Accruing Loans |                 |
|---------------------------------|----------------|------------------|--------------------|-----------------|
|                                 |                | Balance          |                    | Balance         |
| Collateral type:                | #              | (in thousands)   | #                  | (in thousands)  |
| Warehouse                       | 2              | \$ 1,548         | 2                  | \$ 309          |
| Raw Land                        | 1              | 376              | 3                  | 63              |
| Hotel & Motel                   | 6              | 4,635            |                    |                 |
| Office                          | 1              | 480              | 2                  | 883             |
| Retail, including Strip Centers | 7              | 4,332            | 1                  | 10              |
| 1-4 Family Residential          | 96             | 11,361           | 14                 | 981             |
| Automobile/Equipment/Inventory  |                |                  | 1                  | 3               |
| Unsecured                       | 1              | 25               |                    |                 |
| <b>Total</b>                    | <b>114</b>     | <b>\$ 22,757</b> | <b>23</b>          | <b>\$ 2,249</b> |

| <i>As of December 31, 2013</i>  | Accruing Loans |                 | Non-Accruing Loans |                |
|---------------------------------|----------------|-----------------|--------------------|----------------|
|                                 |                | Balance         |                    | Balance        |
| Collateral type:                | #              | (in thousands)  | #                  | (in thousands) |
| Raw Land                        |                | \$              | 1                  | \$ 16          |
| Hotel & Motel                   | 1              | 172             |                    |                |
| Retail, including Strip Centers | 2              | 283             | 1                  | 134            |
| 1-4 Family Residential          | 73             | 7,954           | 7                  | 469            |
| Automobile/Equipment/Inventory  |                |                 | 2                  | 67             |
| <b>Total</b>                    | <b>76</b>      | <b>\$ 8,409</b> | <b>11</b>          | <b>\$ 686</b>  |

| <i>As of September 30, 2013</i> | Accruing Loans |                  | Non-Accruing Loans |                 |
|---------------------------------|----------------|------------------|--------------------|-----------------|
|                                 |                | Balance          |                    | Balance         |
| Collateral type:                | #              | (in thousands)   | #                  | (in thousands)  |
| Warehouse                       |                | \$               | 1                  | \$ 377          |
| Raw Land                        | 1              | 357              | 2                  | 672             |
| Hotel & Motel                   | 6              | 5,104            | 1                  | 159             |
| Office                          | 1              | 855              | 1                  | 82              |
| Retail, including Strip Centers | 6              | 3,882            | 3                  | 4,147           |
| 1-4 Family Residential          | 81             | 10,771           | 15                 | 1,937           |
| Automobile/Equipment/Inventory  |                |                  | 3                  | 40              |
| Unsecured                       | 1              | 12               |                    |                 |
| <b>Total</b>                    | <b>96</b>      | <b>\$ 20,981</b> | <b>26</b>          | <b>\$ 7,414</b> |



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**Commercial Lending Practices**

On December 12, 2006, the Federal Bank Regulatory Agencies released guidance on *Concentration in Commercial Real Estate Lending*. This guidance defines commercial real estate ( CRE ) loans as loans secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property, excluding owner occupied properties (loans for which 50% or more of the source of repayment is derived from the ongoing operations and activities conducted by the party, or affiliate of the party, who owns the property) or the proceeds of the sale, refinancing or permanent financing of the property. Loans for owner occupied CRE are generally excluded from the CRE guidance.

The CRE guidance is applicable when either:

- (1) total loans for construction, land development, and other land, net of owner occupied loans, represent 100% or more of a bank's total risk-based capital; or
- (2) total loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land, net of owner occupied loans, represent 300% or more of a bank's total risk-based capital.

Banks that are subject to the CRE guidance criteria are required to implement enhanced strategic planning, CRE underwriting policies, risk management and internal controls, portfolio stress testing, risk exposure limits, and other policies, including management compensation and incentives, to address the CRE risks. Higher allowances for loan losses and capital levels may also be appropriate.

As of September 30, 2014, the Company exhibited a concentration in the CRE loan category based on Federal Reserve Call codes. The primary risks of CRE lending are:

- (1) within CRE loans, construction and development loans are somewhat dependent upon continued strength in demand for residential real estate, which is reliant on favorable real estate mortgage rates and changing population demographics;
- (2) on average, CRE loan sizes are generally larger than non-CRE loan types; and
- (3) certain construction and development loans may be less predictable and more difficult to evaluate and monitor.

The following table outlines CRE loan categories and CRE loans as a percentage of total loans as of September 30, 2014 and December 31, 2013. The loan categories and concentrations below are based on Federal Reserve Call codes and include purchased on-covered and covered loans:

| (Dollars in Thousands)             | September 30, 2014 |                  | December 31, 2013 |                  |
|------------------------------------|--------------------|------------------|-------------------|------------------|
|                                    | Balance            | % of Total Loans | Balance           | % of Total Loans |
| Construction and development loans | \$ 242,333         | 9%               | \$ 220,726        | 9%               |
| Multi-family loans                 | 70,868             | 3%               | 67,607            | 3%               |
| Nonfarm non-residential loans      | 1,288,648          | 45%              | 1,145,065         | 46%              |
| <b>Total CRE Loans</b>             | 1,601,849          | 57%              | 1,433,398         | 58%              |
| All other loan types               | 1,234,223          | 43%              | 1,024,046         | 42%              |
| <b>Total Loans</b>                 | \$ 2,836,072       | 100%             | \$ 2,457,444      | 100%             |

The following table outlines the percentage of total CRE loans, net owner occupied loans to total risk-based capital, and the Company's internal concentration limits as of September 30, 2014 and December 31, 2013:

|                              | Internal Limit | September 30, 2014 Actual | December 31, 2013 Actual |
|------------------------------|----------------|---------------------------|--------------------------|
| Construction and development | 100%           | 69%                       | 70%                      |
| Commercial real estate       | 300%           | 236%                      | 232%                     |

#### Short-Term Investments

The Company's short-term investments are comprised of federal funds sold and interest-bearing balances. At September 30, 2014, the Company's short-term investments were \$40.2 million, compared to \$205.0 million and \$73.9 million at December 31, 2013 and September 30, 2013, respectively. The decrease in short-term investments during the first nine months of 2014 is mostly due to the Company's repayment of other borrowings that were recorded in the Prosperity acquisition. At September 30, 2014, \$39.7 million of the balance was comprised of interest-bearing balances, the majority of which were at the Federal Reserve Bank of Atlanta.

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**Derivative Instruments and Hedging Activities**

The Company had a cash flow hedge that matures September 15, 2020 with a notional amount of \$37.1 million at September 30, 2014, December 31, 2013 and September 30, 2013 for the purpose of converting the variable rate on the junior subordinated debentures to a fixed rate of 4.11%. The fair value of these instruments amounted to a liability of approximately \$807,000, \$370,000 and \$972,000 at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. The Company also had forward contracts and IRLCs to hedge changes in the value of the mortgage inventory due to changes in market interest rates. The fair value of these instruments amounted to an asset with a fair value of approximately \$2.3 million, \$1.2 million and \$2.5 million at September 30, 2014, December 31, 2013 and September 30, 2013, respectively. No material hedge ineffectiveness from cash flow hedges was recognized in the statement of earnings. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

**Capital**

Capital management consists of providing equity to support both current and anticipated future operations. The Company is subject to capital adequacy requirements imposed by the Federal Reserve Board (the "FRB") and the Georgia Department of Banking and Finance (the "GDBF"), and the Bank is subject to capital adequacy requirements imposed by the FDIC and the GDBF.

The FRB, the FDIC and the GDBF have adopted risk-based capital requirements for assessing bank holding company and bank capital adequacy. These standards define and establish minimum capital requirements in relation to assets and off-balance sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks and to account for off-balance sheet exposure. The regulatory capital standards are defined by the following three key measurements:

- a) The Leverage Ratio is defined as Tier 1 capital to average assets. To be considered adequately capitalized under this measurement, a bank must maintain a leverage ratio greater than or equal to 4.00%. For a bank to be considered well capitalized, it must maintain a leverage ratio greater than or equal to 5.00%.
- b) The Core Capital Ratio is defined as Tier 1 capital to total risk weighted assets. To be considered adequately capitalized under this measurement, a bank must maintain a core capital ratio greater than or equal to 4.00%. For a bank to be considered well capitalized, it must maintain a core capital ratio greater than or equal to 6.00%.
- c) The Total Capital Ratio is defined as total capital to total risk weighted assets. To be considered adequately capitalized under this measurement, a bank must maintain a total capital ratio greater than or equal to 8.00%. For a bank to be considered well capitalized, it must maintain a total capital ratio greater than or equal to 10.00%.

As of September 30, 2014, under the regulatory capital standards, the Bank was considered well capitalized under all capital measurements. On July 2, 2013, the FRB adopted a new regulatory capital framework as a part of the Basel III regulatory capital reforms. Management currently believes that Ameris will be in compliance with the revised capital requirements when they become applicable to the Company on January 1, 2015. The following table sets forth the

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regulatory capital ratios of Ameris at September 30, 2014, December 31, 2013 and September 30, 2013:

|  | September 30,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |
|--|-----------------------|----------------------|-----------------------|
| <b>Leverage Ratio</b> (tier 1 capital to average assets)           |                       |                      |                       |
| <b>Consolidated</b>  | 8.83%                 | 11.33%               | 11.73%                |
| <b>Ameris Bank</b>   | 9.67                  | 11.93                | 11.65                 |
| <b>Core Capital Ratio</b> (tier 1 capital to risk weighted assets) |                       |                      |                       |
| <b>Consolidated</b>  | 12.47                 | 14.35                | 18.25                 |
| <b>Ameris Bank</b>   | 13.66                 | 15.06                | 18.13                 |
| <b>Total Capital Ratio</b> (total capital to risk weighted assets) |                       |                      |                       |
| <b>Consolidated</b>  | 13.27                 | 15.32                | 19.50                 |
| <b>Ameris Bank</b>   | 14.46                 | 16.03                | 19.38                 |

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**Capital Purchase Program**

On November 21, 2008, the Company, pursuant to the Capital Purchase Program established in connection with the Troubled Asset Relief Program, issued and sold to the U.S. Treasury, for an aggregate cash purchase price of \$52 million, (i) 52,000 shares (the Preferred Shares) of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share, and (ii) a ten-year warrant (the Warrant) to purchase up to 679,443 shares of our common stock at an exercise price of \$11.48 per share. On June 14, 2012, the Preferred Shares were sold by the Treasury through a registered public offering. On August 22, 2012, the Company repurchased the Warrant from the Treasury for \$2.67 million. In December 2012, the Company repurchased 24,000 outstanding Preferred Shares, and in March 2014, the Company redeemed the remaining 28,000 outstanding Preferred Shares.

**Interest Rate Sensitivity and Liquidity**

The Company's primary market risk exposures are credit risk, interest rate risk, and to a lesser degree, liquidity risk. The Bank operates under an Asset Liability Management Policy approved by the Company's Board of Directors and the Asset and Liability Committee (the ALCO Committee). The policy outlines limits on interest rate risk in terms of changes in net interest income and changes in the net market values of assets and liabilities over certain changes in interest rate environments. These measurements are made through a simulation model which projects the impact of changes in interest rates on the Bank's assets and liabilities. The policy also outlines responsibility for monitoring interest rate risk, and the process for the approval, implementation and monitoring of interest rate risk strategies to achieve the Bank's interest rate risk objectives.

The ALCO Committee is comprised of senior officers of Ameris and two outside members of the Company's Board of Directors. The ALCO Committee makes all strategic decisions with respect to the sources and uses of funds that may affect net interest income, including net interest spread and net interest margin. The objective of the ALCO Committee is to identify the interest rate, liquidity and market value risks of the Company's balance sheet and use reasonable methods approved by the Company's Board of Directors and executive management to minimize those identified risks.

The normal course of business activity exposes the Company to interest rate risk. Interest rate risk is managed within an overall asset and liability framework for the Company. The principal objectives of asset and liability management are to predict the sensitivity of net interest spreads to potential changes in interest rates, control risk and enhance profitability. Funding positions are kept within predetermined limits designed to properly manage risk and liquidity. The Company employs sensitivity analysis in the form of a net interest income simulation to help characterize the market risk arising from changes in interest rates. In addition, fluctuations in interest rates usually result in changes in the fair market value of the Company's financial instruments, cash flows and net interest income. The Company's interest rate risk position is managed by the ALCO Committee.

The Company uses a simulation modeling process to measure interest rate risk and evaluate potential strategies. Interest rate scenario models are prepared using software created and licensed from an outside vendor. The Company's simulation includes all financial assets and liabilities. Simulation results quantify interest rate risk under various interest rate scenarios. Management then develops and implements appropriate strategies. The ALCO Committee has determined that an acceptable level of interest rate risk would be for net interest income to decrease no more than 5.00% given a change in selected interest rates of 200 basis points over any 24-month period.

Liquidity management involves the matching of the cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs, and the ability of the Company to manage those requirements. The Company strives to maintain an

adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-bearing liabilities so that the balance it has in short-term investments at any given time will adequately cover any reasonably anticipated immediate need for funds. Additionally, the Bank maintains relationships with correspondent banks, which could provide funds on short notice, if needed. The Company has invested in FHLB stock for the purpose of establishing credit lines with the FHLB. The credit availability to the Bank is equal to 20% of the Bank's total assets as reported on the most recent quarterly financial information submitted to the regulators subject to the pledging of sufficient collateral. At September 30, 2014, December 31, 2013 and September 30, 2013, there were \$147.4 million, \$194.6 million and \$5.0 million, respectively, outstanding borrowings with the Company's correspondent banks.

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The following liquidity ratios compare certain assets and liabilities to total deposits or total assets:

|  | September 30,<br>2014 | June 30,<br>2014 | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Investment securities available for sale to total deposits | 15.70%                | 15.80%           | 15.17%            | 16.21%               | 12.78%                |
| Loans (net of unearned income) to total deposits           | 84.08%                | 82.72%           | 83.22%            | 81.94%               | 82.14%                |
| Interest-earning assets to total assets                    | 87.91%                | 87.22%           | 87.80%            | 87.68%               | 87.38%                |
| Interest-bearing deposits to total deposits                | 75.79%                | 76.67%           | 76.79%            | 77.71%               | 80.54%                |

The liquidity resources of the Company are monitored continuously by the ALCO Committee and on a periodic basis by state and federal regulatory authorities. As determined under guidelines established by these regulatory authorities, the Company's and the Bank's liquidity ratios at September 30, 2014 were considered satisfactory. The Company is aware of no events or trends likely to result in a material change in liquidity.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exposed only to U.S. dollar interest rate changes, and, accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of the investment portfolio as held for trading. The Company's hedging activities are part of the Company's program to manage interest rate sensitivity. At September 30, 2014, the Company had one effective LIBOR rate swap with a notional amount of \$37.1 million. The LIBOR rate swap exchanges fixed rate payments of 4.15% for floating rate payments based on the three month LIBOR and matures December 2018. The Company also had forward contracts with a fair value of approximately \$2.3 million at September 30, 2014 to hedge changes in the value of the mortgage inventory due to changes in market interest rates. Finally, the Company has no exposure to foreign currency exchange rate risk, commodity price risk and other market risks.

Interest rates play a major part in the net interest income of a financial institution. The sensitivity to rate changes is known as interest rate risk. The repricing of interest-earning assets and interest-bearing liabilities can influence the changes in net interest income. As part of the Company's asset/liability management program, the timing of repriced assets and liabilities is referred to as gap management.

The Company uses simulation analysis to monitor changes in net interest income due to changes in market interest rates. The simulation of rising, declining and flat interest rate scenarios allows management to monitor and adjust interest rate sensitivity to minimize the impact of market interest rate swings. The analysis of the impact on net interest income over a twelve-month period is subjected to a gradual and shock 200 basis point increase or decrease in market rates on net interest income and is monitored on a quarterly basis.

Additional information required by Item 305 of Regulation S-K is set forth under Part I, Item 2 of this report.

**Item 4. Controls and Procedures.**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act), as of the end of the period covered by this report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange

Act. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective.

During the quarter ended September 30, 2014, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Nothing to report with respect to the period covered by this report.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed in Item 1A. of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits required to be furnished with this report are listed on the exhibit index attached hereto.

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**SIGNATURE**

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

Date: November 7, 2014

**AMERIS BANCORP**

/s/ Dennis J. Zember Jr.  
Dennis J. Zember Jr., Executive Vice President and  
Chief Financial Officer (duly authorized signatory  
and principal accounting and financial officer)

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | Articles of Incorporation of Ameris Bancorp, as amended (incorporated by reference to Exhibit 2.1 to Ameris Bancorp's Regulation A Offering Statement on Form 1-A filed with the Commission on August 14, 1987).  |
| 3.2                | Amendment to Amended Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.1.1 to Ameris Bancorp's Form 10-K filed with the Commission on March 28, 1996).  |
| 3.3                | Amendment to Amended Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 4.3 to Ameris Bancorp's Registration Statement on Form S-4 filed with the Commission on July 17, 1996).  |
| 3.4                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.5 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 25, 1998).   |
| 3.5                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.7 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 26, 1999).   |
| 3.6                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.9 to Ameris Bancorp's Annual Report on Form 10-K filed with the Commission on March 31, 2003).   |
| 3.7                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on December 1, 2005).   |
| 3.8                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on November 21, 2008).  |
| 3.9                | Articles of Amendment to the Articles of Incorporation of Ameris Bancorp (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on June 1, 2011).   |
| 3.10               | Amended and Restated Bylaws of Ameris Bancorp (incorporated by reference to Exhibit 3.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on March 14, 2005).  |
| 10.1               | First Amendment to Loan Agreement dated as of September 26, 2014 by and between Ameris Bancorp and NexBank SSB (incorporated by reference to Exhibit 10.1 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on September 29, 2014).        |
| 10.2               | Amended and Restated Revolving Promissory Note dated as of September 26, 2014 issued by Ameris Bancorp to NexBank SSB (incorporated by reference to Exhibit 10.2 to Ameris Bancorp's Current Report on Form 8-K filed with the Commission on September 29, 2014). |
| 31.1               | Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Executive Officer.  |

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- 31.2 Rule 13a-14(a)/15d-14(a) Certification by the Company's Chief Financial Officer.
- 32.1 Section 1350 Certification by the Company's Chief Executive Officer.
- 32.2 Section 1350 Certification by the Company's Chief Financial Officer.
- 101 The following financial statements from Ameris Bancorp's Form 10-Q for the quarter ended September 30, 2014, formatted as interactive data files in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Earnings and Comprehensive Income; (iii) Consolidated Statements of Changes in Stockholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.