SOUTH STATE Corp
Form 10-K
February 27, 2015

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2014**

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from to**
**Commission file number 001-12669**

# SOUTH STATE CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **South Carolina**<br>(State or other jurisdiction of incorporation or organization) | **57-0799315**<br>(I.R.S. Employer Identification No.) |
| **520 Gervais Street**<br>**Columbia, South Carolina**<br>(Address of principal executive offices) | **29201**<br>(Zip Code) |

**(800) 277-2175**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common stock, $2.50 par value per share | The NASDAQ Global Select Market℠ |

Securities registered pursuant to Section 12 (g) of the Act: **None**.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý.

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 ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | | | |
|---|---|---|---|
| Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The aggregate market value of the voting stock of the registrant held by non-affiliates was $1,427,741,000 based on the closing sale price of $61.00 per share on June 30, 2014. For purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of common stock outstanding as of February 26, 2015 was 24,156,759.

**Documents Incorporated by Reference**

Portions of the Registrant's Definitive Proxy Statement for its 2015 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10 - 14 of this form 10-K.

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**South State Corporation**
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(1) All or portions of this item are incorporated by reference to the Registrant's Definitive Proxy Statement for its 2015 Annual Meeting of Shareholders.

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**Forward-Looking Statements**

*The disclosures set forth in this Report are qualified by Part I, Item 1A. Risk Factors and the section captioned "Forward-Looking Statements" in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.*

## PART I

### Item 1. Business.

South State Corporation (formerly First Financial Holdings, Inc. (July 26, 2013 - June 30, 2014) and SCBT Financial Corporation (February 20, 2004 - July 26, 2013)), headquartered in Columbia, South Carolina, is a bank holding company incorporated in 1985 under the laws of South Carolina. We provide a wide range of banking services and products to our customers through our wholly-owned bank subsidiary, South State Bank (formerly SCBT) (the "Bank"), a South Carolina-chartered commercial bank that opened for business in 1934. The Bank operates Minis & Co., Inc. and First Southeast 401k Fiduciaries, both wholly owned registered investment advisors, and First Southeast Investor Services, a wholly-owned limited service broker-dealer. We do not engage in any significant operations other than the ownership of our banking subsidiary.

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

The Company is a legal entity separate and distinct from the Bank. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operation and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. The Company's operating revenues and net income are derived primarily from cash dividends received from our Bank.

Our Bank provides a full range of retail and commercial banking services, mortgage lending services, trust and investment services, and consumer finance loans through financial centers in South Carolina, North Carolina, northeast Georgia, coastal Georgia. At December 31, 2014, we had approximately $7.8 billion in assets, $5.7 billion in loans, $6.5 billion in deposits, $984.9 million in shareholders' equity, and a market capitalization of approximately $1.6 billion.

We began operating in 1934 in Orangeburg, South Carolina and have maintained our ability to provide superior customer service while also leveraging our size to offer many products more common to larger banks. We have pursued a growth strategy that relies on organic growth supplemented by the acquisition of select financial institutions or branches in certain market areas.

In recent years, we have continued to grow the business under our guiding principles of soundness, profitability and growth. Below are highlights of our expansion efforts over the past three years:

On July 26, 2013, the Company completed the business combination wherein First Financial Holdings, Inc. ("FFHI"), of Charleston, South Carolina, a bank holding company, merged into the Company, and the Company also changed its name from "SCBT Financial Corporation" to "First Financial Holdings, Inc." First Federal Bank merged into the Bank. The remaining subsidiaries became subsidiaries of the Bank, which included First Southeast 401k Fiduciaries, a wholly-owned registered investment advisor, and First Southeast Investor Services, a wholly-owned broker-dealer.

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On December 13, 2012, the Company completed the business combination wherein The Savannah Bancorp, Inc. ("Savannah"), of Savannah, Georgia, a bank holding company, merged into the Company, and The Savannah Bank, N.A., and Bryan Bank and Trust merged into the Bank and Minis & Company, Inc., a registered investment advisory firm became a wholly-owned subsidiary of the Bank.

On April 24, 2012, the Company completed the business combination wherein the Peoples Bancorporation, Inc. ("Peoples"), of Easley, South Carolina, a bank holding company, merged into the Company, and its bank subsidiaries, The Peoples National Bank ("PNB"), Bank of Anderson ("BOA"), and Seneca National Bank ("SNB") merged into the Bank.

Our principal executive offices are located at 520 Gervais Street, Columbia, South Carolina 29201. Our mailing address at this facility is Post Office Box 1030, Columbia, South Carolina 29202 and our telephone number is (800) 277-2175.

**Available Information**

We provide our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") on our website at www.southstatebank.com. These filings are made accessible as soon as reasonably practicable after they have been filed electronically with the Securities and Exchange Commission (the "SEC"). These filings are also accessible on the SEC's website at www.sec.gov. In addition, we make available under the Investor Relations section on our website (www.southstatebank.com) the following: (i) Corporate Governance Guidelines, (ii) Code of Ethics, which applies to our directors and all employees, and (iii) the charters of the Audit, Compensation, Executive, Wealth Management and Trust, Risk, and Corporate Governance & Nominating Committees of our board of directors. These materials are available to the general public on our website free of charge. Printed copies of these materials are also available free of charge to shareholders who request them in writing. Please address your request to: Financial Management Division, South State Corporation, 520 Gervais Street, Columbia, South Carolina 29201. Statements of beneficial ownership of equity securities filed by directors, officers, and 10% or greater shareholders under Section 16 of the Exchange Act are also available through our website, www.southstatebank.com. The information on our website is not incorporated by reference into this report.

**Territory Served and Competition**

We serve customers and conduct our business from 127 financial centers in 19 South Carolina counties, four North Carolina counties, ten northeast Georgia counties, and two coastal Georgia counties. We compete in the highly competitive banking and financial services industry. Our profitability depends principally on our ability to effectively compete in the markets in which we conduct business. We expect competition in the industry to continue to increase as a result of consolidation among banking and financial services firms. Competition may further intensify as additional companies enter the markets where we conduct business and we enter mature markets in accordance with our expansion strategy.

We experience strong competition from both bank and non-bank competitors in certain markets. Broadly speaking, we compete with national banks, super-regional banks, smaller community banks, and non-traditional internet-based banks. We compete for deposits and loans with commercial banks, and credit unions. In addition, we compete with other financial intermediaries and investment alternatives such as mortgage companies, credit card issuers, leasing companies, finance companies, money market mutual funds, brokerage firms, governmental and corporation bonds, and other securities firms. Many of these non-bank competitors are not subject to the same regulatory oversight, affording them a

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competitive advantage in some instances. In many cases, our competitors have substantially greater resources and offer certain services that we are unable to provide to our customers.

We encounter strong competition in making loans and attracting deposits. We compete with other financial institutions to offer customers competitive interest rates on deposit accounts, competitive interest rates charged on loans and other credit, and reasonable service charges. We believe our customers also consider the quality and scope of the services provided, the convenience of banking facilities, and relative lending limits in the case of loans to commercial borrowers. Our customers may also take into account the fact that other banks offer different services from those that we provide. The large national and super-regional banks may have significantly greater lending limits and may offer additional products. However, by emphasizing customer service and by providing a wide variety of services, we believe that our Bank has been able to compete successfully with our competitors, regardless of their size.

**Employees**

As of December 31, 2014, our Bank had 2,081 full-time equivalent employees compared to 2,106 as of the same date in 2013. We consider our relationship with our employees instrumental to the success of our business. We provide most of our employees with a comprehensive employee benefit program which includes the following: group life, health and dental insurance, paid vacation, sick leave, educational opportunities, a cash incentive plan, a stock purchase plan, stock incentive for officers and key employees, deferred compensation plans for officers and key employees, a defined benefit pension plan for employees hired on or before December 31, 2005 (except for employees acquired in the SunBank acquisition in November of 2005), and a 401(k) plan with employer match.

**Regulation and Supervision**

As a financial institution, we operate under a regulatory framework. The framework outlines a regulatory environment applicable to financial holding companies, bank holding companies, and their subsidiaries. Below, we have provided some specific information relevant to the Company. The regulatory framework under which we operate is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation's (the "FDIC") Deposit Insurance Fund and not for the protection of our security holders and creditors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

***General***

The current regulatory environment for financial institutions includes substantial enforcement activity by the federal banking agencies, the U.S. Department of Justice, the SEC, and other state and federal law enforcement agencies. This environment entails significant potential increases in compliance requirements and associated costs.

We are a bank holding company registered with the Board of Governors of the Federal Reserve System and are subject to the supervision of, and to regular inspection by, the Federal Reserve Board. In addition, as a South Carolina bank holding company organized under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the "SCBFI"). Our Bank is organized as a South Carolina-chartered commercial bank. It is subject to regulation, supervision, and examination by the SCBFI and the FDIC. The following discussion summarizes certain aspects of banking and other laws and regulations that affect the Company and our Bank.

Under the Bank Holding Company Act (the "BHC Act"), our activities and those of our Bank are limited to banking, managing or controlling banks, furnishing services to or performing services for our

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Bank, or any other activity which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The BHC Act requires prior Federal Reserve Board approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another bank holding company. The BHC Act also prohibits a bank holding company from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any company engaged in a non-banking business unless such business is determined by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. Further, under South Carolina law, it is unlawful without the prior approval of the SCBFI for any South Carolina bank holding company (i) to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank or any other bank holding company, (ii) to acquire all or substantially all of the assets of a bank or any other bank holding company, or (iii) to merge or consolidate with any other bank holding company.

The Gramm-Leach-Bliley Act amended a number of federal banking laws affecting the Company and our Bank. In particular, the Gramm-Leach-Bliley Act permits a bank holding company to elect to become a "financial holding company," provided certain conditions are met. A financial holding company, and the companies it controls, are permitted to engage in activities considered "financial in nature" as defined by the Gramm-Leach-Bliley Act and Federal Reserve Board interpretations (including, without limitation, insurance and securities activities), and therefore may engage in a broader range of activities than permitted by bank holding companies and their subsidiaries. We remain a bank holding company, but may at some time in the future elect to become a financial holding company.

***Interstate Banking***

In July 1994, South Carolina enacted legislation which effectively provided that, after June 30, 1996, out-of-state bank holding companies may acquire other banks or bank holding companies in South Carolina, subject to certain conditions. Further, pursuant to the Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking and Branching Act"), a bank holding company became able to acquire banks in states other than its home state, beginning in September 1995, without regard to the permissibility of such acquisition under state law, subject to certain exceptions. The Interstate Banking and Branching Act also authorized banks to merge across state lines, thereby creating interstate branches, unless a state, prior to the July 1, 1997 effective date, determined to "opt out" of coverage under this provision. In addition, the Interstate Banking and Branching Efficiency Act authorized a bank to open new branches in a state in which it does not already have banking operations if such state enacted a law permitting such "de novo" branching.

Effective July 1, 1996, South Carolina law was amended to permit interstate branching through acquisitions but not de novo branching by an out-of-state bank.

North Carolina opted-in to the provision of the Interstate Banking and Branching Act that allows out-of-state banks to branch into their state by establishing a de novo branch in the state, but only on a reciprocal basis. This means that an out-of-state bank could establish a de novo branch in North Carolina only if the home state of such bank would allow North Carolina banks (including national banks with their home office in North Carolina) to establish de novo branches in that home state under substantially the same terms as allowed in North Carolina. Because some states imposed greater limits on de novo branching by out-of-state banks, prior to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), this provided a limited barrier of entry into the North Carolina banking market.

Georgia did not opt-in to the provision allowing out-of-state banks to branch into their state. Therefore, prior to the Dodd-Frank Act, interstate merger was the only method through which a bank

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located outside of Georgia could branch into Georgia, which in effect provided a limited barrier of entry into the Georgia banking market.

On July 21, 2010, the U.S. President signed into law the Dodd-Frank Act. The Dodd-Frank Act removes previous state law restrictions on de novo interstate branching in states such as South Carolina, North Carolina, and Georgia. This change effectively permits out-of-state banks to open de novo branches in states where the laws of such state would permit a bank chartered by that sate to open a de novo branch.

***Obligations of Holding Company to its Subsidiary Banks***

There are a number of obligations and restrictions imposed by law and regulatory policy on bank holding companies with regard to their depository institution subsidiaries that are designed to minimize potential loss to depositors and to the FDIC insurance fund in the event that the depository institution becomes in danger of defaulting under its obligations to repay deposits. Under a policy of the Federal Reserve Board, which was confirmed in the Dodd-Frank Act, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), to avoid receivership of its insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" within the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

The Federal Reserve Board also has the authority under the BHC Act to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal law grants federal bank regulatory authorities additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

In addition, the "cross guarantee" provisions of the Federal Deposit Insurance Act ("FDIA") require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of our Bank.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank

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regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

***The Dodd-Frank Wall Street Reform and Consumer Protection Act***

The Dodd-Frank Act was signed into law in July 2010. The Dodd-Frank Act impacts financial institutions in numerous ways, including:

- The creation of a Financial Stability Oversight Council responsible for monitoring and managing systemic risk,
- Granting additional authority to the Federal Reserve to regulate certain types of nonbank financial companies,
- Granting new authority to the FDIC as liquidator and receiver,
- Changing the manner in which deposit insurance assessments are made,
- Requiring regulators to modify capital standards,
- Establishing the Bureau of Consumer Financial Protection (the "CFPB"),
- Capping interchange fees that banks charge merchants for debit card transactions,
- Imposing more stringent requirements on mortgage lenders, and
- Limiting banks' proprietary trading activities.

There are many provisions in the Dodd-Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. While some have been issued, many remain to be issued. Governmental intervention and new regulations could materially and adversely affect our business, financial condition and results of operations.

***Basel Capital Standards***

The Basel Committee on Banking Supervision, an international forum for cooperation on banking supervisory matters, promulgates capital standards for banking organizations. In July 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more (such as the Company) and top-tier savings and loan holding companies, which we collectively refer to herein as "covered" banking organizations. The final rule became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions), and all of the requirements in the final rule will be fully phased in by January 1, 2019.

The rule imposes higher risk-based capital and leverage requirements for covered banking institutions than those currently in place. Specifically, the rule imposes the following minimum capital requirements:

- a new common equity Tier 1 risk-based capital ratio of 4.5%;

a Tier 1 risk-based capital ratio of 6% (increased from the current 4% requirement);

a total risk-based capital ratio of 8% (unchanged from current requirements); and

a leverage ratio of 4% (currently 3% for depository institutions with the highest supervisory composite rating and 4% for other depository institutions).

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Under the rule, Tier 1 capital is redefined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The new and highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as non-cumulative perpetual preferred stock. The rule permits bank holding companies with less than $15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not in Common Equity Tier 1 capital, subject to certain restrictions. Tier 2 capital consists of instruments that currently qualify in Tier 2 capital plus instruments that the rule has disqualified from Tier 1 capital treatment.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets.

The current capital rules require certain deductions from or adjustments to capital. The final rule retains many of these deductions and adjustments and also provides for new ones. As a result, deductions from Common Equity Tier 1capital will be required for goodwill (net of associated deferred tax liabilities); intangible assets such as non-mortgage servicing assets and purchased credit card relationships (net of associated deferred tax liabilities); deferred tax assets that arise from net operating loss and tax credit carryforwards (net of any related valuations allowances and net of deferred tax liabilities); any gain on sale in connection with a securitization exposure; any defined benefit pension fund net asset (net of any associated deferred tax liabilities) held by a bank holding company (this provision does not apply to a bank or savings association); the aggregate amount of outstanding equity investments (including retained earnings) in financial subsidiaries; and identified losses. Other deductions will be necessary from different levels of capital.

Additionally, the final rule provides for the deduction of three categories of assets: (i) deferred tax assets arising from temporary differences that cannot be realized through net operating loss carrybacks (net of related valuation allowances and of deferred tax liabilities), (ii) mortgage servicing assets (net of associated deferred tax liabilities) and (iii) investments in more than 10% of the issued and outstanding common stock of unconsolidated financial institutions (net of associated deferred tax liabilities). The amount in each category that exceeds 10% of Common Equity Tier 1 capital must be deducted from Common Equity Tier 1 capital. The remaining, non-deducted amounts are then aggregated, and the amount by which this total amount exceeds 15% of Common Equity Tier 1 capital must be deducted from Common Equity Tier 1 capital. Amounts of minority investments in consolidated subsidiaries that exceed certain limits and investments in unconsolidated financial institutions may also have to be deducted from the category of capital to which such instruments belong.

Accumulated other comprehensive income ("AOCI") is presumptively included in Common Equity Tier 1 capital and often would operate to reduce this category of capital. The final rule provides a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. The final rule also has the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

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The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

***Volcker Rule***

Section 619 of the Dodd-Frank Act, known as the "Volcker Rule," prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: "proprietary trading" and the ownership or sponsorship of private equity or hedge funds that are referred to as "covered funds." On December 10, 2013, our primary federal regulators, the Federal Reserve Board and the FDIC, together with other federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. The deadline for compliance with the Volcker Rule is July 21, 2015. At December 31, 2014, the Company has evaluated our securities portfolio and has determined that we do not hold any covered funds.

***Prompt Corrective Action***

As an insured depository institution, the Bank is required to comply with the capital requirements promulgated under the FDIA and the regulations under it, which set forth five capital categories, each with specific regulatory consequences. Under current regulations, the categories are as noted below. Beginning in January 2015, however, the minimum capital levels for each prompt corrective action category will be increased pursuant to the new capital regulations adopted in July 2013, described above under "*Regulation and Supervision  Basel Capital Standards*." The following is a list of the current criteria for each prompt corrective action category:

Well Capitalized  The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution:

- has total risk-based capital ratio of 10% or greater; and
- has a Tier 1 risk-based capital ratio of 6% or greater; and
- has a leverage capital ratio of 5% or greater; and
- is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

Adequately Capitalized  The institution meets the required minimum level for each relevant capital measure. The institution may not make a capital distribution if it would result in the institution becoming undercapitalized. An adequately capitalized institution:

- has a total risk-based capital ratio of 8% or greater; and
- has a Tier 1 risk-based capital ratio of 4% or greater; and
- has a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

Undercapitalized  The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution:

has a total risk-based capital ratio of less than 8%; or

has a Tier 1 risk-based capital ratio of less than 4%; or

has a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMELS rating system, a leverage capital ratio of less than 3%.

Significantly Undercapitalized The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution:

- has a total risk-based capital ratio of less than 6%; or
- has a Tier 1 risk-based capital ratio of less than 3%; or
- has a leverage capital ratio of less than 3%.

Critically Undercapitalized The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

If the applicable federal regulator determines, after notice and an opportunity for hearing, that the institution is in an unsafe or unsound condition, the regulator is authorized to reclassify the institution to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If the institution is not well capitalized, it cannot accept brokered deposits without prior FDIC approval. Even if approved, rate restrictions will govern the rate the institution may pay on the brokered deposits. In addition, a bank that is undercapitalized cannot offer an effective yield in excess of 75 basis points over the "national rate" paid on deposits (including brokered deposits, if approval is granted for the bank to accept them) of comparable size and maturity. The "national rate" is defined as a simple average of rates paid by insured depository institutions and branches for which data are available and is published weekly by the FDIC. Institutions subject to the restrictions that believe they are operating in an area where the rates paid on deposits are higher than the "national rate" can use the local market to determine the prevailing rate if they seek and receive a determination from the FDIC that it is operating in a high-rate area. Regardless of the determination, institutions must use the national rate to determine conformance for all deposits outside their market area.

Moreover, if the institution becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the FDIC. The institution also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless it is determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital, to the owners of the institution if following such a distribution the institution would be undercapitalized.

As of December 31, 2014, the Bank's regulatory capital surpassed the levels required to be considered "well capitalized."

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As further described under "Regulation and Supervision *Basel Capital Standards*," in July 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by Basel III and certain provisions of the Dodd-Frank Act. The final rule became effective on January 1, 2015 and applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more (such as the Company) and top-tier savings and loan holding companies. It is management's belief that, as of December 31, 2014, the Company and the Bank would have met all capital adequacy requirements under Basel III on a fully phased-in basis if such requirements were effective at that time.

***Payment of Dividends***

The Company is a legal entity separate and distinct from the Bank. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company generally should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality, and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Funds for cash distributions to our shareholders are derived primarily from dividends received from our Bank. Our Bank is subject to various general regulatory policies and requirements relating to the payment of dividends. Any restriction on the ability of our Bank to pay dividends will indirectly restrict the ability of the Company to pay dividends.

The Company pays cash dividends to shareholders from its assets, which are mainly provided by dividends from the Bank. However, certain restrictions exist regarding the ability of its subsidiary to transfer funds to the Company in form of cash dividends, loans or advances. The approval of the South Carolina Board of Financial Institutions ("SCBFI") is required to pay dividends that exceed the current year's net income. The Federal Reserve Board, the FDIC, and the OCC have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

The ability of the Company and the Bank to pay dividends may also be affected by the various minimum capital requirements and the capital and non-capital standards established under the FDICIA, as described above. The right of the Company, its shareholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiary is further subject to the prior claims of creditors of our Bank.

In January of 2014, the Bank requested and received approval from the SCBFI to pay a special dividend of $31.4 million. These funds, along with a normal level of Bank dividends, provided the Company with sufficient funds to redeem $65.0 million of outstanding preferred stock. In December 2014, the Company received all necessary regulatory approvals and redeemed $46.4 million of outstanding preferred stock in January 2015 (see Note 30-Subsequent Events to our audited consolidated financial statements for more information).

***Certain Transactions by the Company and its Affiliates***

Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W. Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits a bank from engaging in certain transactions with certain affiliates unless the transactions are on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to such bank or its subsidiaries, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. If there are no comparable transactions, a bank's (or one of its subsidiaries') affiliate transaction must be on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, nonaffiliated companies.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve decides to treat these subsidiaries as affiliates.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Those extensions of credit:

- must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and

- must not involve more than the normal risk of repayment or present other unfavorable features.

Effective as of July 21, 2011, the Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act will apply Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transaction that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The Dodd-Frank Act also prohibits an insured depository institution from purchasing an asset from or selling an asset to an insider unless the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the disinterested directors.

***Insurance of Deposits***

The deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings associations and credit unions to $250,000 per account. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

FDIC insured institutions are required to pay a Financing Corporation assessment to fund the interest on bonds issued to resolve thrift failures in the 1980s. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

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The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a notice and hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, remain insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

***Incentive Compensation***

In June 2010, the Federal Reserve Board, the FDIC and the OCC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

***Anti-Tying Restrictions***

Under amendments to the Bank Holding Company Act and Federal Reserve Board regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that:

- the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or its subsidiaries; or

- the customer not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended.

Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

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***Community Reinvestment Act***

The Community Reinvestment Act requires a financial institution's primary regulator, which is the FDIC for the Bank, to evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could result in the imposition of additional requirements and limitations on the institution. Additionally, the institution must publicly disclose the terms of various Community Reinvestment Act-related agreements. In its most recent CRA examination, the Bank received a "satisfactory" rating.

***Consumer Protection Regulations***

Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The loan operations of the Bank are also subject to federal laws and regulations applicable to credit transactions, such as:

- the Dodd-Frank Act that created the CFPB within the Federal Reserve Board, which has broad rule-making authority over a wide range of consumer laws that apply to all insured depository institutions;

- the federal Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers and including substantial new requirements for mortgage lending, as mandated by the Dodd-Frank Act;

- the Home Mortgage Disclosure Act of 1975 and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, color, religion, or other prohibited factors in extending credit;

- the Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act and Regulation V, as well as the rules and regulations of the FDIC, governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;

- the Fair Debt Collection Practices Act and Regulation F, governing the manner in which consumer debts may be collected by collection agencies; and

- the Real Estate Settlement Procedures Act and Regulation X, which governs aspects of the settlement process for residential mortgage loans.

The deposit operations of the Bank are also subject to federal laws, such as:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- the Electronic Funds Transfer Act and Regulation E, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

the Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check; and the Truth in Savings Act and Regulation DD, which requires depository institutions to provide disclosures so that consumers can make meaningful comparisons about depository institutions.

***Enforcement Powers***

The Bank and its "institution-affiliated parties," including its management, employees, agents, independent contractors, and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Potential civil penalties have been substantially increased. Criminal penalties for some financial institution crimes have been increased to 20 years.

In addition, regulators are provided with considerable flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies' have expansive power to issue cease-and-desist orders. These orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts or take other actions as determined by the ordering agency to be appropriate.

The number of government entities authorized to take action against the Bank has expanded under the Dodd-Frank Act. The FDIC continues to have primary federal enforcement authority, and the SCBFI also has enforcement authority, with respect to the Bank. In addition, the CFPB also has back-up enforcement authority with respect to the consumer protection statutes above. Specifically, the CFPB may request reports from and conduct limited examinations of the Bank in conducting investigations involving the consumer protection statutes. Further, state attorneys general may bring civil actions or other proceedings under the Dodd-Frank Act or regulations against state-chartered banks, including the Bank. Prior notice to the CFPB and the FDIC would be necessary for an action against the Bank.

***Anti-Money Laundering***

Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions, foreign customers and other high risk customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act (the "Patriot Act"), enacted in 2001 and renewed through 2015, as described below. Bank regulators routinely examine institutions for compliance with these obligations, and this area has become a particular focus of the regulators in recent years. In addition, the regulators are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions found to be violating these obligations.

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***USA PATRIOT Act***

The Patriot Act became effective on October 26, 2001 and amended the Bank Secrecy Act. The Patriot Act provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including:

- requiring standards for verifying customer identification at account opening;
- rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;
- reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and
- filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

The Patriot Act requires financial institutions to undertake enhanced due diligence of private bank accounts or correspondent accounts for non-U.S. persons that they administer, maintain, or manage. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the Patriot Act, the Financial Crimes Enforcement Network ("FinCEN") can send the Bank a list of the names of persons suspected of involvement in terrorist activities or money laundering. The Bank may be requested to search its records for any relationships or transactions with persons on the list. If the Bank finds any relationships or transactions, it must report those relationships or transactions to FinCEN.

***The Office of Foreign Assets Control***

The Office of Foreign Assets Control ("OFAC"), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts; owned or controlled by, or acting on behalf of target countries, and narcotics traffickers. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transactions on the account. The Bank has appointed a compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

***Privacy and Credit Reporting***

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank's policy is not to disclose any personal information unless permitted by law.

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Like other lending institutions, the Bank uses credit bureau data in its underwriting activities. Use of that data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 allows states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the act.

***Fiscal and Monetary Policy***

Banking is a business that depends largely on interest rate differentials. In general, the difference between the interest we pay on our deposits and other borrowings, and the interest we receive on our loans and securities holdings, constitutes the major portion of our bank's earnings. Thus, our earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. The Federal Reserve Board regulates, among other things, the supply of money through various means, including open-market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve Board, and the reserve requirements on deposits. We cannot predict the nature and timing of any changes in such policies and their impact on our business.

***Proposed Legislation and Regulatory Action***

New regulations and statutes are regularly proposed that contain wide-ranging provisions for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

**Executive Officers of South State Corporation**

Executive officers of South State Corporation are elected by the board of directors annually and serve at the pleasure of the board of directors. The executive officers and their ages, positions over the past five years, and terms of office as of February 26, 2015, are as follows:

| Name (age) | Position and Five Year History | With the Company Since |
|---|---|---|
| Robert R. Hill, Jr. (48) | Chief Executive Officer and Director, President (2004 - 2013) | 1995 |
| John C. Pollok (49) | Senior Executive Vice President, Director, Chief Financial Officer (2007 - 2010, 2012 Present) and Chief Operating Officer | 1996 |
| Joseph E. Burns (60) | Senior Executive Vice President, Chief Credit Officer (2000 - 2009, 2013 Present) and Chief Risk Officer | 2000 |
| John F. Windley (62) | Chief Banking Officer and President of South State Bank | 2002 |
| R. Wayne Hall (64) | President and Director | 2013 |
| Renee R. Brooks (45) | Chief Administrative Officer Corporate Secretary (2009 - 2014) | 1996 |

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with the directors or officers of the Company acting solely in their capacities as such.

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## Item 1A. Risk Factors.

Our business operations and the value of securities issued by us may be adversely affected by certain risk factors, many of which are outside of our control. We believe the risk factors listed could materially and adversely affect our business, financial condition or results of operations. We may also be adversely affected by additional risks and uncertainties that management is not aware of or focused on or that we currently believe are immaterial to our business operations. If any of such risks actually occur, you could lose part or all of your investment. This Report is qualified in its entirety by these risk factors.

### General Business Risks

***Our business may be adversely affected by conditions in the financial markets and economic conditions generally.***

In recent years, economic growth and business activity across a wide range of industries and regions in the U.S. has been slow and uneven. Furthermore, there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. In addition, declining oil prices, on-going federal budget negotiations, the implementation of the employer mandate under the Patient Protection and Affordable Care Act and the level of U.S. debt may have a destabilizing effect on financial markets.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the primary markets where we operate and in the U.S. as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the U.S. and worldwide. While economic conditions in our primary markets of South Carolina, North Carolina and Georgia, as well as the U.S. and worldwide, have shown signs of improvement, there can be no assurance that this improvement will continue. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits. Such conditions could have a material adverse effect on the credit quality of our loan portfolio and our business, financial condition and results of operations.

***Negative developments in the financial industry, the domestic and international credit markets, and the economy in general pose significant challenges for our industry and us and could adversely affect our business, financial condition and results of operations.***

Negative developments that began in the latter half of 2007 have now began to show some signs of improvement both nationally and in our primary markets of South Carolina, North Carolina, and Georgia. The competition for deposits and quality loans has increased significantly given the limited number of qualified borrowers. As a result, we may face the following risks:

- economic conditions that negatively affect housing prices and the job market may cause the credit quality of our loan portfolio to deteriorate;

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- market developments that affect consumer confidence may cause adverse changes in payment patterns by our customers, causing increases in delinquencies and default rates on loans and other credit facilities;

- the processes that we use to estimate our allowance for loan and lease losses and reserves may no longer be reliable because they rely on judgments, such as forecasts of economic conditions, that may no longer be capable of accurate estimation;

- the value of our securities portfolio may decline; and

- we face increased regulation of our industry, and the costs of compliance with such regulation may increase.

These conditions or similar ones may continue to persist or worsen, causing us to experience continuing or increased adverse effects on our business, financial condition, results of operations and the price of our common stock.

***Our estimated allowance for loan losses may be inadequate and an increase in the allowance would reduce earnings.***

We are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to ensure full repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results and ability to meet obligations. The volatility and deterioration in domestic markets may also increase our risk for credit losses. The composition of our loan portfolio, primarily secured by real estate, reduces loss exposure. At December 31, 2014, we had approximately 25,754 of non-acquired and acquired non-credit impaired loans secured by real estate with an average loan balance of approximately $152,000. At December 31, 2014, we had approximately 49,769 total non-acquired and acquired non-credit impaired loans with an average loan balance of approximately $95,000. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe to be adequate based on a variety of factors including but not limited to: the risk characteristics of various classifications of loans, previous loan loss experience, specific loans that have loss potential, delinquency trends, estimated fair market value of the collateral, current economic conditions, the views of our regulators, and geographic and industry loan concentrations. If our evaluation is incorrect and borrower defaults cause loan losses that exceed our allowance for loan losses, our earnings could be significantly and adversely affected. No assurance can be given that the allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolio or perceive adverse conditions and trends that may require us to significantly increase our allowance for loan losses in the future, a decision that would reduce earnings.

***A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.***

A significant portion of our non-acquired loan portfolio is secured by real estate. As of December 31, 2014, approximately 81.5% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. We have identified credit concerns with respect to certain loans in our loan portfolio which are primarily related to the economic downturn that began in the latter half of 2007. This downturn resulted in increased inventories of unsold real estate, higher vacancy rates, lower lease rates and higher foreclosure rates, which in turn caused property values for real estate collateral to decline. While economic conditions and real estate in our primary markets of South Carolina, North Carolina and Georgia have shown signs of improvement, there can be no assurance that this improvement will continue or that our local markets will not experience another economic decline. Deterioration in the real estate market could cause us to adjust our opinion of the level of credit quality in our loan portfolio. Such a determination may lead to an additional increase in our provisions for loan losses, which could also adversely affect our business, financial condition, and results of operations.

***If we fail to effectively manage credit risk and interest rate risk, our business and financial condition will suffer.***

We must effectively manage credit risk. There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. There is no assurance that our credit risk monitoring and loan approval procedures are or will be adequate or will reduce the inherent risks associated with lending. Our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio. Any failure to manage such credit risks may materially adversely affect our business and our consolidated results of operations and financial condition.

We must also effectively manage interest rate risk. Because mortgage loans typically have much longer maturities than deposits or other types of funding, rising interest rates can raise the cost of funding relative to the value of the mortgage. We manage this risk in part by holding adjustable rate mortgages in portfolios and through other means. Conversely, the value of our mortgage servicing assets may fall when interest rates fall, as borrowers refinance into lower-yield loans. Given current rates, material reductions in rates may not be probable, but as rates rise, then the risk increases. There can be no assurance that we will successfully manage the lending and servicing businesses through all future interest-rate environments.

***We are exposed to higher credit risk by commercial real estate, commercial business, and construction lending.***

Commercial real estate, commercial business and construction lending usually involves higher credit risks than that of single-family residential lending. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, as well as the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest) and the availability of permanent take-out financing. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Commercial business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans have the following characteristics: (i) depreciate over time, (ii) difficult to appraise and liquidate, and (iii) fluctuate in value based on the success of the business.

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Commercial real estate, commercial business, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans.

As of December 31, 2014, our non-acquired and acquired non-credit impaired outstanding commercial real estate loans were equal to 102.1% of our total risk-based capital. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement enhanced underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

***Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.***

Our commercial business loans are originated primarily based on the identified cash flow and general liquidity of the borrower and secondarily on the underlying collateral provided by the borrower and/or repayment capacity of any guarantor. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use. In addition, business assets may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral value provided by the borrower and liquidity of the guarantor.

***Changes in local economic conditions where we operate could have a negative effect.***

Our success depends significantly on growth, or lack thereof, in population, income levels, deposits and housing starts in the geographic markets in which we operate. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. Unlike larger financial institutions that are more geographically diversified, we are a regional banking franchise. Adverse changes in, and further deterioration of, the economic conditions of the Southeast United States in general or in our primary markets in South Carolina, Mecklenburg County and Wilmington, North Carolina, Northeast Georgia, and Savannah, Georgia could negatively affect our financial condition, results of operations and profitability. While economic conditions in the states of South Carolina, North Carolina, and Georgia, along with the U.S. and worldwide, have shown signs of improvement, there can be no assurance that this improvement will continue. A continuing deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline; and
- collateral for loans that we make, especially real estate, may decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with the our loans.

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***Liquidity needs could adversely affect our results of operations and financial condition.***

The primary sources of our bank's funds are client deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters, which could be exacerbated by potential climate change, and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances, sales of securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

***We may make future acquisitions, which could dilute current shareholders' stock ownership and expose us to additional risks.***

In accordance with our strategic plan, we evaluate opportunities to acquire other banks and branch locations to expand the Company. As a result, we may engage in acquisitions and other transactions that could have a material effect on our operating results and financial condition, including short and long-term liquidity.

Our acquisition activities could require us to issue a significant number of shares of common stock or other securities and/or to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

Our acquisition activities could involve a number of additional risks, including the risks of:

- the possibility that expected benefits may not materialize in the timeframe expected or at all, or may be more costly to achieve;
- incurring the time and expense associated with identifying and evaluating potential acquisitions and merger partners and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- incurring the time and expense required to integrate the operations and personnel of the combined businesses;
- the possibility that we will be unable to successfully implement integration strategies, due to challenges associated with integrating complex systems, technology, banking centers, and other assets of the acquired bank in a manner that minimizes any adverse effect on customers, suppliers, employees, and other constituencies;
- the possibility of regulatory approval for the acquisition being delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues surrounding the Company, the

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- target institution or the proposed combined entity as a result of, among other things, issues related to anti-money laundering/Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, or the Community Reinvestment Act, and the possibility that any such issues associated with the target institution, which we may or may not be aware of at the time of the acquisition, could impact the combined entity after completion of the acquisition;

- the possibility that the acquisition may not be timely completed, if at all;

- creating an adverse short-term effect on our results of operations; and

- losing key employees and customers as a result of an acquisition that is poorly received.

If we do not successfully manage these risks, our acquisition activities could have a material effect on our operating results and financial condition, including short and long-term liquidity.

Any acquisition of assets and liabilities of target banks that are in receivership through the FDIC bid process for failed institutions requires our Bank to enter into a Purchase & Assumption Agreement (the "P&A Agreement") with the FDIC. The P&A Agreement typically provides limited disclosure about, and limited indemnification for, risks associated with the target bank. There is a risk that such disclosure regarding, and indemnification for, the assets and liabilities of target banks will not be sufficient and we will incur unanticipated losses in connection with any acquisition of assets and liabilities of target banks through the FDIC bid process for failed institutions. We may be required to make an additional payment to the FDIC under certain circumstances following the completion of an FDIC-assisted acquisition if, for example, actual losses related to the target bank's assets acquired are less than a stated threshold.

***Future acquisitions may be delayed, impeded, or prohibited due to regulatory issues.***

Future acquisitions by the Company, particularly those of financial institutions, are subject to approval by a variety of federal and state regulatory agencies (collectively, "regulatory approvals"). The process for obtaining these required regulatory approvals has become substantially more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to anti-money laundering/Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, Community Reinvestment Act issues, and other similar laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, and, in turn, our financial condition and results of operations.

***We may be exposed to difficulties in combining the operations of acquired businesses into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities.***

We may not be able to fully achieve the strategic objectives and operating efficiencies that we anticipate in our acquisition activities. Inherent uncertainties exist in integrating the operations of an acquired business. In addition, the markets and industries in which the Company and our potential acquisition targets operate are highly competitive. We may lose customers or the customers of acquired entities as a result of an acquisition. We also may lose key personnel from the acquired entity as a result of an acquisition. We may not discover all known and unknown factors when examining a company for acquisition during the due diligence period. These factors could produce unintended and unexpected consequences for us. Undiscovered factors as a result of acquisition, pursued by non-related

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third party entities, could bring civil, criminal, and financial liabilities against us, our management, and the management of those entities acquired. These factors could contribute to the Company not achieving the expected benefits from its acquisitions within desired time frames.

***Our ability to continue to receive the benefits of our loss share arrangements with the FDIC is conditioned upon our compliance with certain requirements under the agreements.***

We are the beneficiary of loss share agreements with the FDIC that call for the FDIC to fund a portion of our losses on a majority of the assets we acquired in connection with our FDIC-assisted transactions. To recover a portion of our losses and retain the loss share protection, we must comply with certain requirements imposed by the agreements. The requirements of the agreements relate primarily to our administration of the assets covered by the agreements, as well as our obtaining the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. For example, among other transactions, the following transactions require the consent of the FDIC:

- any merger or consolidation of the Company in which our shareholders will own less than sixty-six and two-thirds percent (66.66%) of the equity of the consolidated entity (in connection with the merger with FFHI, the FDIC consented to the assumption by South State Bank of the First Federal purchase and assumption agreement with the FDIC related to Plantation and Cape Fear), or

- any sale of shares of our common stock, or securities convertible into our common stock, by one or more shareholders that will effect a change in control of the Company, as determined by the FDIC with reference to the standards under the Change in Bank Control Act.

When the consent of the FDIC is required under the loss share agreements, the FDIC may withhold its consent or may condition its consent on terms that we do not find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, we may be unable to engage in a corporate transaction that might otherwise benefit our shareholders or we may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of our loss share agreements with the FDIC.

Additionally, the loss sharing agreements have limited terms; therefore, any charge-off of related losses after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

***Our loss sharing arrangements with the FDIC will not cover all of our losses on loans we acquired through the acquisitions of Community Bank & Trust ("CBT"), Habersham Bank ("Habersham"), BankMeridian, Plantation Federal Bank ("Plantation"), and Cape Fear Bank ("Cape Fear").***

Although we have entered into loss share agreements with the FDIC that provide that the FDIC will bear a significant portion of losses related to specified loan portfolios that we acquired through the acquired banks, we are not protected for all losses resulting from charge-offs with respect to those specified loan portfolios. Our loss share agreements with the FDIC with respect to Plantation covers losses on certain commercial loans and commercial OREO; it does not cover losses on single-family residential real estate loans. Additionally, the loss sharing agreements have limited terms (10 years for losses on single-family residential real estate loans, as defined by the FDIC, five years for losses on non-residential real estate loans, as defined by the FDIC, and eight years with respect to recoveries on non-residential real estate loans). Therefore, the FDIC will not reimburse us for any charge-off or related losses that we experience after the term of the loss share agreements, and any such charge-offs would negatively impact our net income. Moreover, the loss share provisions in the loss share agreement may be administered improperly, or the FDIC may interpret those provisions in a way different than we do. In any of those events, our losses could increase.

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***The FDIC requires that we make a "true-up" payment to the FDIC if our realized losses are less than expected.***

The loss share agreements between the bank and the FDIC with respect to CBT, Habersham, BankMeridian, Plantation, and Cape Fear each contain a provision that obligates us to make a "true-up" payment to the FDIC if the realized losses of each of these acquired banks are less than expected. The "true-up" calculation is scheduled to be made as of the 45th day following the last day of the calendar month of the tenth anniversary of the closing of the acquisitions of the acquired banks. Any such "true-up" payment that is materially higher than current estimates could have a negative effect on our business, financial condition and results of operations.

***We may be exposed to a need for additional capital resources for the future and these capital resources may not be available when needed or at all.***

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments or to strengthen our capital position. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control and our financial performance. Accordingly, we cannot provide assurance that such financing will be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, our current shareholders' interests could be diluted.

***Our net interest income may decline based on the interest rate environment.***

We depend on our net interest income to drive profitability. Differences in volume, yields or interest rates and differences in income earning products such as interest-earning assets and interest-bearing liabilities determine our net interest income. We are exposed to changes in general interest rate levels and other economic factors beyond our control. Net interest income may decline in a particular period if:

- In a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or
- In a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature, or
- For acquired loans, expected total cash flows decline.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the interest rates shrinks or disappear, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

Our primary policy for managing interest rate risk exposure involves monitoring exposure to interest rate increases and decreases of as much as 200 basis points ratably over a 12-month period. As of December 31, 2014, the earnings simulations indicated that the impact of a 200 basis point increase in rates over 12 months would result in an approximate 0.70% increase in net interest income as compared with a forward-rate curve interest rate scenario as the base case. As a result of the current rate environment with federal funds rates between zero and 25 basis points, simulation analysis does not produce a realistic scenario for the impact of a 200 basis point decrease in rates. These results indicate that our rate sensitivity is somewhat asset sensitive to the indicated change in interest rates over a one-year horizon.

***We may not be able to adequately anticipate and respond to changes in market interest rates.***

We may be unable to anticipate changes in market interest rates, which are affected by many factors beyond our control including but not limited to inflation, recession, unemployment, money supply, monetary policy, and other changes that affect financial markets both domestic and foreign. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, as well as balance sheet growth, customer loan and deposit preferences, and the timing of changes in these variables. In the event rates increase, our interest costs on liabilities may increase more rapidly than our income on interest earning assets, thus a deterioration of net interest margins. As such, fluctuations in interest rates could have significant adverse effects on our financial condition and results of operations.

***We are exposed to the possibility that more prepayments may be made by customers to pay down loan balances, which could reduce our interest income and profitability.***

Prepayment rates stem from consumer behavior, conditions in the housing and financial markets, general U.S. economic conditions, and the relative interest rates on fixed-rate and adjustable-rate loans. Therefore, changes in prepayment rates are difficult to predict. Recognition of deferred loan origination costs and premiums paid in originating these loans are normally recognized over the contractual life of each loan. As prepayments occur, the rate at which net deferred loan origination costs and premiums are expensed will accelerate. The effect of the acceleration of deferred costs and premium amortization may be mitigated by prepayment penalties paid by the borrower when the loan is paid in full within a certain period of time, which varies between loans. If prepayment occurs after the period of time when the loan is subject to a prepayment penalty, the effect of the acceleration of premium and deferred cost amortization is no longer mitigated. We recognize premiums paid on mortgage-backed securities as an adjustment from interest income over the expected life of the security based on the rate of repayment of the securities. Acceleration of prepayments on the loans underlying a mortgage-backed security shortens the life of the security, increases the rate at which premiums are expensed and further reduces interest income. We may not be able to reinvest loan and security prepayments at rates comparable to the prepaid instrument particularly in a period of declining interest rates.

***Our historical operating results may not be indicative of our future operating results.***

We may not be able to sustain our historical rate of growth, and, consequently, our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

***We are exposed to a possible loss of our employees and critical management team.***

We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or more senior executives or key managers may have an adverse effect on our operations. Also, as we continue to grow operations, our success depends on our ability to continue to attract, manage, and retain other qualified middle management personnel. We cannot guarantee that we will continue to attract or retain such personnel.

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***If we are unable to offer our key management personnel long-term incentive compensation, including options, restricted stock, and restricted stock units, as part of their total compensation package, we may have difficulty retaining such personnel, which would adversely affect our operations and financial performance.***

We have historically granted equity awards, including options, restricted stock awards or restricted stock units, to key management personnel as part of a competitive compensation package. Our ability to grant equity compensation awards as a part of our total compensation package has been vital to attracting, retaining and aligning shareholder interest with a talented management team in a highly competitive marketplace.

In the future, we may seek shareholder approval to adopt new equity compensation plans so that we may issue additional equity awards to management in order for the equity component of our compensation packages to remain competitive in the industry. Shareholder advisory groups have implemented guidelines and issued voting recommendations related to how much equity companies should be able to grant to employees. These advisors influence certain shareholder votes regarding approval of a company's request for approval of new equity compensation plans. The factors used to formulate these guidelines and voting recommendations include the volatility of a company's share price and are influenced by broader macro-economic conditions that can change year to year. The variables used by shareholder advisory groups to formulate equity plan recommendations may limit our ability to obtain approval to adopt new equity plans in the future. If we are limited in our ability to grant equity compensation awards, we would need to explore offering other compelling alternatives to supplement our compensation, including long-term cash compensation plans or significantly increased short-term cash compensation, in order to continue to attract and retain key management personnel. If we used these alternatives to long-term equity awards, our compensation costs could increase and our financial performance could be adversely affected. If we are unable to offer key management personnel long-term incentive compensation, including options, restricted stock or restricted stock units, as part of their total compensation package, we may have difficulty attracting and retaining such personnel, which would adversely affect our operations and financial performance.

***We may be adversely affected by the lack of soundness of other financial institutions.***

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by our Bank cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to our Bank. Any such losses could have a material adverse effect on our financial condition and results of operations.

***We could experience a loss due to competition with other financial institutions.***

We face substantial competition in all areas of our operations from a variety of different competitors, both within and beyond our principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain, and build upon long-term customer relationships based on top quality service, high ethical standards, and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance, and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

***Failure to keep pace with technological change could adversely affect our business.***

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

***Consumers may decide not to use banks to complete their financial transactions.***

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

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***We depend on the accuracy and completeness of information about clients and counterparties.***

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer's audited financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition and results of operations could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with GAAP or are materially misleading.

***The accuracy of our financial statements and related disclosures could be affected because we are exposed to conditions or assumptions different from the judgments, assumptions or estimates used in our critical accounting policies.***

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, included in this document, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" by us because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, such events or assumptions could have a material impact on our audited consolidated financial statements and related disclosures.

***Any requested or required changes in how we determine the impact of loss share accounting on our financial information could have a material adverse effect on our reported results.***

Our financial results are significantly affected by loss share accounting, which is driven by accounting rule interpretations, assumptions and judgments made by us, and subject to ongoing review by our accountants and the regulatory agencies to whom we report such information. Loss share accounting is a complex accounting methodology. Many of the decisions management makes regarding the application of this accounting methodology are subject to question or revision by our accountants and the various regulatory agencies to whom we report. As such, any financial information generated through the use of loss share accounting is subject to modification or change. Any significant modification or change in such information could have a material adverse effect on our results of operations and our previously reported results. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

***We are exposed to the possibility of technology failure and a disruption in our operations may adversely affect our business.***

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition. In addition, a disruption in our operations resulting from failure of transportation and telecommunication systems, loss of power, interruption of other utilities, natural disaster, fire, global climate changes, computer hacking or viruses, failure of technology, terrorist activity or the domestic and foreign response to such activity or other events outside of our control could have an adverse impact on the financial services industry as a whole and/or on our business. Our business recovery plan may not be adequate and may not prevent significant interruptions of our operations or substantial losses. The increased number of cyber attacks during the past few years has further heightened our attention to this risk. As such, we are in the process of implementing additional security software and hiring additional persons to monitor and assist with the mitigation of this ever increasing risk.

***A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers or other third parties, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.***

We rely heavily on communications and information systems to conduct our business. Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As client, public, and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks.

As noted above, our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. Although we have information security procedures and controls in place, our technologies, systems, networks, and our clients' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations. Third parties with whom we do business or that facilitate our business activities, including financial intermediaries, or vendors that provide services or security solutions for our operations, and other third parties, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

While we have disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and clients, or cyber attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

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***Our controls and procedures may fail or be circumvented, which could have a material adverse effect on our business, result of operations and financial condition.***

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

***Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.***

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to $250,000 per account. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Recent market developments and bank failures significantly depleted the FDIC's Deposit Insurance Fund, and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, banks are now assessed deposit insurance premiums based on the bank's average consolidated total assets, and the FDIC has modified certain risk-based adjustments which increase or decrease a bank's overall assessment rate. This has resulted in increases to the deposit insurance assessment rates and thus raised deposit premiums for many insured depository institutions. If these increases are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required.

Banks with assets of $10 billion or more are subject to a deposit assessment based on a "scorecard" system that combines regulatory ratings and certain forward-looking financial measures intended to assess the risk an institution poses to the deposit insruance fund. If our total assets increase to $10 billion or more for at least four consecutive quarters, then the Bank's deposit insurance assessment would be based on this scorecard system, which could result in an increase in the amount of premiums that we are required to pay for FDIC insurance.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. If our financial condition deteriorates or if the bank regulators otherwise have supervisory concerns about us, then our assessments could rise. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities, or otherwise negatively impact our operations.

***Negative public opinion surrounding our company and the financial institutions industry generally could damage our reputation and adversely impact our earnings.***

Reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

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**Legal and Regulatory Risks**

***We are subject to extensive regulation that could restrict our activities, have an adverse impact on our operations, and impose financial requirements or limitations on the conduct of our business.***

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. The Company is subject to Federal Reserve Board regulation, and our Bank is subject to extensive regulation, supervision, and examination by our primary federal regulator, the FDIC, and by the SCBFI. Also, as a member of the Federal Home Loan Bank (the "FHLB"), the Bank must comply with applicable regulations of the Federal Housing Finance Board and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. Our Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A sufficient claim against us under these laws could have a material adverse effect on our results of operations.

Further, changes in laws, regulations and regulatory practices affecting the financial services industry could subject us to increased capital, liquidity and risk management requirements, create additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could also result in heightened regulatory scrutiny and in sanctions by regulatory agencies (such as a memorandum of understanding, a written supervisory agreement or a cease and desist order), civil money penalties and/or reputation damage. Any of these consequences could restrict our ability to expand our business or could require us to raise additional capital or sell assets on terms that are not advantageous to us or our shareholders and could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, such violations may occur despite our best efforts.

***The Dodd-Frank Act has affected and will continue to affect our business.***

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant regulatory and compliance changes. The key effects of the Dodd-Frank Act on our business include:

- changes to regulatory capital requirements;
- exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from Tier 1 capital;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which oversees systemic risk, and the CFPB, which develops and enforces rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees for banks with assets of $10 billion or greater than $10 billion;
- changes in retail banking regulations; and
- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and

their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

The federal agencies have issued or proposed certain rules which apply directly or differently to larger institutions with more than $10 billion in assets, such as regulations for financial institutions deemed systemically significant, regulations requiring stress tests and regulations implementing the Volcker Rule. However, requirements and policies applicable to larger institutions may, in some cases, become "best practice" standards that are expected to also be met by smaller institutions. Therefore, as a result of the changes required by the Dodd-Frank Act with respect to larger institutions, we may make changes to certain of our business practices and our profitability may be impacted. The evaluation and implementation of such changes may require significant management attention and resources.

Many provisions of the Dodd-Frank Act became effective immediately upon its enactment or have been implemented by regulations promulgated by various federal agencies. Some provisions of the Dodd-Frank Act require regulations that have not yet been proposed or finalized by the applicable federal agencies. Certain provisions of the Dodd-Frank Act and its implementing regulations may have unintended effects, which will not be clear until sometime after implementation. Certain changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to investors in our common stock.

***If our total consolidated assets increase to $10 billion or more, we will be subject to additional regulations and oversight that are not currently applicable to us and that would impact our earnings.***

As of December 31, 2104, the Company had total assets of approximately $7.8 billion. If our total consolidated assets increase to $10 billion or more, we will become subject to additional regulations and oversight that could affect our revenues and expenses. Such regulations and oversight include the following.

The CFPB has broad rulemaking, supervisory, and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB has examination and primary enforcement authority with respect to banks with over $10 billion in assets. Banks with $10 billion or less in assets are examined for compliance with the consumer laws and regulations by their primary federal banking agency. If the Bank were to become subject to CFPB examination, receiving adverse examination findings from the CFPB, among other things, could negatively impact our operations, results of operations and financial condition.

In addition, banking organizations with more than $10 billion in assets must conduct annual stress tests using various scenarios established by federal regulators. Such stress tests are designed to determine whether a banking organization's capital planning, assessment of capital adequacy and risk management practices adequately protect the banking organization in the event of certain economic downturn scenarios. A banking organization that is required to perform stress tests must establish adequate internal controls, documentation, policies and procedures to ensure that the annual stress test adequately meets these objectives. Banking organizations that are required to perform stress rest must report the results of their annual stress to their federal regulator and must consider the results of their stress test as part of their capital planning and risk management practices.

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Furthermore, banks with assets in excess of $10 billion are subject to deposit insurance premium assessments based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank's CAMELS rating and results of asset-related stress testing and funding-related stress, among other things. Depending on the results of a bank's performance under that scorecard, the total base assessment rate for the bank's deposit insurance premiums may increase.

Banks with over $10 billion in total assets also cease to be exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards, which limit subject banks to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by the bank to its customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions.

If our total consolidated assets were to increase to $10 billion or more, then we may expend additional resources necessary to comply with the additional applicable regulatory requirements. Increased deposit insurance assessments could result in increased expense related to our use of deposits as a funding source. Likewise, a reduction in the amount of interchange fees we receive for electronic debit interchange could reduce our revenues. Finally, a failure to meet prudential standards and stress testing requirements could, among other things, limit our ability to engage in expansionary activities or make dividend payments to our shareholders.

***We are exposed to declines in the value of qualified pension plan assets or unfavorable changes in laws or regulations that govern pension plan funding, which could require us to provide significant amounts of funding for our qualified pension plan.***

As a matter of course, we anticipate that we will make cash contributions to our qualified defined benefit pension plan in the near and long term. A significant decline in the value of qualified pension plan assets in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. As a result, we may be required to fund our qualified defined benefit pension plan with a greater amount of cash from operations, perhaps by an additional material amount.

***New capital rules that were recently issued generally require insured depository institutions and their holding companies to hold more capital. The impact of the new rules on our financial condition and operations is uncertain but could be materially adverse.***

In July 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by Basel III and certain provisions of the Dodd-Frank Act. This rule substantially amended the regulatory risk-based capital rules applicable to us. The requirements in the rule began to phase in on January 1, 2015 for the Company and the Bank. The requirements in the rule will be fully phased in by January 1, 2019.

The final rule increases capital requirements and generally includes two new capital measurements that will affect us, a risk-based common equity Tier 1 ratio and a capital conservation buffer. Common Equity Tier 1 ("CET1") capital is a subset of Tier 1 capital and is limited to common equity (plus related surplus), retained earnings, accumulated other comprehensive income and certain other items. Other instruments that have historically qualified for Tier 1 treatment, including non-cumulative perpetual preferred stock, are consigned to a category known as Additional Tier 1 capital and must be phased out over a period of nine years beginning in 2014. The rule permits bank holding companies with less than $15 billion in assets (such as us) to continue to include trust preferred securities and non-cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not CET1.

Tier 2 capital consists of instruments that have historically been placed in Tier 2, as well as cumulative perpetual preferred stock.

The final rule adjusts all three categories of capital by requiring new deductions from and adjustments to capital that will result in more stringent capital requirements and may require changes in the ways we do business. Among other things, the current rule on the deduction of mortgage servicing assets from Tier 1 capital has been revised in ways that are likely to require a greater deduction than we currently make and that will require the deduction to be made from CET1. This deduction phases in over a three-year period from 2015 through 2017. We closely monitor our mortgage servicing assets, and we expect to maintain our mortgage servicing asset at levels below the deduction thresholds by a combination of sales of portions of these assets from time to time either on a flowing basis as we originate mortgages or through bulk sale transactions. Additionally, any gains on sale from mortgage loans sold into securitizations must be deducted in full from CET1. This requirement phases in over three years from 2015 through 2017. Under the earlier rule and through 2014, no deduction was required.

Beginning in 2015, the minimum capital requirements for the Company and the Bank will be (i) a CET1 ratio of 4.5%, (ii) a Tier 1 capital (CET1 plus Additional Tier 1 capital) of 6% (up from 4%) and (iii) a total capital ratio of 8% (the current requirement). Our leverage ratio requirement will remain at the 4% level now required. Beginning in 2016, a capital conservation buffer will phase in over three years, ultimately resulting in a requirement of 2.5% on top of the CET1, Tier 1 and total capital requirements, resulting in a require CET1 ratio of 7%, a Tier 1 ratio of 8.5%, and a total capital ratio of 10.5%. Failure to satisfy any of these three capital requirements will result in limits on paying dividends, engaging in share repurchases and paying discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions. While the final rules will result in higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to us.

In addition to the higher required capital ratios and the new deductions and adjustments, the final rule increases the risk weights for certain assets, meaning that we will have to hold more capital against these assets. For example, commercial real estate loans that do not meet certain new underwriting requirements must be risk-weighted at 150%, rather than the current 100%. There are also new risk weights for unsettled transactions and derivatives. We also will be required to hold capital against short-term commitments that are not unconditionally cancelable; currently, there are no capital requirements for these off-balance sheet assets. All changes to the risk weights take effect in full in 2015.

In addition, in the current economic and regulatory environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers, could result in management modifying our business strategy and could limit our ability to make distributions, including paying dividends or buying back our shares.

***We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.***

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (which we refer to as the "Patriot Act") and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

***Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.***

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability to a borrower for failing to make the necessary determinations. In either case, we may find it necessary to tighten our mortgage loan underwriting standards in response to the CFPB rules, which may constrain our ability to make loans consistent with our business strategies. It is our policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

***We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.***

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

***The Federal Reserve Board may require us to commit capital resources to support the Bank.***

The Federal Reserve Board requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, we could be required to provide financial assistance to our Bank if the Bank experiences financial distress.

A capital injection may be required at times when we do not have the resources to provide it, and therefore we may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

***The downgrade of the U.S. credit rating could negatively impact our business, results of operations and financial condition.***

Recent U.S. debt ceiling and budget deficit concerns together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of additional credit-rating downgrades and economic slowdowns in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling in 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+" in August 2011. The impact of any further downgrades to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. In January 2013, the U.S. government adopted legislation to suspend the debt limit until March 19, 2013. In October 2013, the debt ceiling was suspended until February 7, 2014, and in February 2014, the debt ceiling was suspended further until March 16, 2015. Moody's and Fitch have each warned that they may downgrade the U.S. government's rating if the federal debt is not stabilized. A downgrade of the U.S. government's credit rating or a default by the U.S. government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system. It is possible that any such impact could have a material adverse effect on our business, results of operations and financial condition.

***We are party to various lawsuits incidental to our business. Litigation is subject to many uncertainties such that the expenses and ultimate exposure with respect to many of these matters cannot be ascertained.***

From time to time, customers and others make claims and take legal action pertaining to our performance of fiduciary responsibilities. Whether customer claims and legal actions are legitimate or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

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**Risks Related to an Investment in Our Common Stock**

***Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.***

Our ability to pay cash dividends may be limited by regulatory restrictions, by our Bank's ability to pay cash dividends to our holding company and by our need to maintain sufficient capital to support our operations. The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Since the Company is legal entity separate and distinct from the Bank and does not conduct stand-alone operations, its ability to pay dividends depends on the ability of the Bank to pay dividends to it. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the SCBFI or the Commissioner of Banking, the Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the SCBFI. The Federal Reserve Board, the FDIC, and the OCC have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. In addition, under Federal Reserve Board regulations, a dividend cannot be paid by the Bank if it would be less than well-capitalized after the dividend. The Federal Reserve Board may also prevent the payment of a dividend by the Bank if it determines that the payment would be an unsafe and unsound banking practice.

If our Bank is not permitted to pay cash dividends to our holding company, it is unlikely that we would be able to pay cash dividends on our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce or eliminate our common stock dividend in the future.

***We may issue additional shares of stock or equity derivative securities that will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the terms on which we may obtain additional capital.***

Our authorized capital includes 40,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of December 31, 2014, we had 24,150,702 shares of common stock outstanding and had reserved for issuance 294,342 shares underlying options that are or may become exercisable at an average price of $35.91 per share. In addition, as of December 31, 2014, we had the ability to issue 1,421,540 shares of common stock pursuant to options and restricted stock that may be granted in the future under our existing equity compensation plans.

Subject to applicable NASDAQ rules, our board generally has the authority, without action by or vote of the shareholders, to issue all or part of any authorized but unissued shares of stock for any corporate purpose. Such corproate purposes could include, among other things, issuances of equity-based incentives under or outside of our equity compensation plans, issuances of equity in business

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combination transactions, and issuances of equity to raise additional capital to support growth or to otherwise strengthen our balance sheet. Any issuance of additional shares of stock or equity derivative securities will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. Shares we issue in connection with any such offering will increase the total number of outstanding shares and may dilute the economic and voting ownership interest of our existing shareholders.

***Our stock price may be volatile, which could result in losses to our investors and litigation against us.***

Our stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts' recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non-traditional competitors, news reports of trends, concerns, irrational exuberance on the part of investors, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

Stock price volatility may make it more difficult for our investors to resell their common stock when they desire and at prices they find attractive. Moreover, in the past, securities class action lawsuits have been instituted against some companies following periods of volatility in the market price of its securities. We could in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources from our normal business.

***Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline.***

Although our common stock is listed for trading in The NASDAQ Global Select Market$^{SM}$, the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

***State law and provisions in our articles of incorporation or bylaws could make it more difficult for another company to purchase us, even though such a purchase may increase shareholder value.***

In many cases, shareholders may receive a premium for their shares if we were purchased by another company. State law and our articles of incorporation and bylaws could make it difficult for anyone to purchase us without the approval of our board of directors. For example, our articles of incorporation divide the board of directors into three classes of directors serving staggered three-year terms with approximately one-third of the board of directors elected at each annual meeting of shareholders. This classification of directors makes it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders would be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable.

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Our articles of incorporation provide that a merger, exchange or consolidation of the Company with, or the sale, exchange or lease of all or substantially all of our assets to, any person or entity (referred to herein as a "Fundamental Change"), must be approved by the holders of at least 80% of our outstanding voting stock if the board of directors does not recommend a vote in favor of the Fundamental Change. The articles of incorporation further provide that a Fundamental Change involving a shareholder that owns or controls 20% or more of our voting stock at the time of the proposed transaction (a "Controlling Party") must be approved by the holders of at least (i) 80% of our outstanding voting stock, and (ii) 67% of our outstanding voting stock held by shareholders other than the Controlling Party, unless (x) the transaction has been recommended to the shareholders by a majority of the entire board of directors or (y) the consideration per share to be received by our shareholders generally is not less than the highest price per share paid by the Controlling Party in the acquisition of its holdings of our common stock during the preceding three years. The approval by the holders of at least 80% of our outstanding voting stock is required to amend or repeal these provisions contained in our articles of incorporation. Finally, in the event that any such Fundamental Change is not recommended by the board of directors, the holders of at least 80% of our outstanding voting stock must attend a meeting called to address such transaction, in person or by proxy, in order for a quorum for the conduct of business to exist. If the 80% and 67% vote requirements described above do not apply because the board of directors recommends the transaction or the consideration is deemed fair, as applicable, then pursuant to the provisions of the South Carolina Business Corporation Act, the Fundamental Change generally must be approved by two-thirds of the votes entitled to be cast with respect thereto.

Consequently, a takeover attempt may prove difficult, and shareholders may not realize the highest possible price for their securities.

***An investment in our common stock is not an insured deposit.***

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

Our corporate headquarters are located in a four-story facility, located at 520 Gervais Street, Columbia, South Carolina. The main offices of South State Bank and the Midlands region lead branch are also located in this approximately 57,000 square-foot building. Including this main location, our bank owns 91 properties and leases 41 properties, all of which are used as branch locations or for housing operational units in North and South Carolina and Georgia. Although the properties owned and leased are generally considered adequate, we have a continuing program of modernization, expansion, and when necessary, occasional replacement of facilities. For additional information relating to the Company's premises, equipment and lease commitments, see Note 7 Premises and Equipment and Note 21 Lease Commitments to our audited consolidated financial statements.

## Item 3. Legal Proceedings.

As of December 31, 2014 and the date of this form 10-K, we believe that we are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in the ordinary course of our business.

## Item 4. Mine Safety Disclosures.

Not applicable.

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## PART II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a)

The table below describes historical information regarding our common equity securities:

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Stock Performance** | | | | | |
| Dividends per share | **$ 0.82** | $ 0.74 | $ 0.69 | $ 0.68 | $ 0.68 |
| Dividend payout ratio | **26.61%** | 31.91% | 34.11% | 42.11% | 16.74% |
| Dividend yield (based on the average of the high and low for the year) | **1.34%** | 1.37% | 1.94% | 2.26% | 1.98% |
| Price/earnings ratio (based on year-end stock price and diluted earnings per share) | **21.78x** | 27.95x | 19.79x | 17.80x | 8.03x |
| Price/book ratio (end of year) | **1.64x** | 1.63x | 1.34x | 1.07x | 1.27x |
| **Common Stock Statistics** | | | | | |
| Stock price ranges: | | | | | |
| High | **$ 68.50** | $ 68.69 | $ 42.13 | $ 36.18 | $ 41.03 |
| Low | **53.87** | 39.56 | 29.16 | 24.02 | 27.59 |
| Close | **67.08** | 66.51 | 40.18 | 29.01 | 32.75 |
| Volume traded on exchanges | **18,488,200** | 15,928,600 | 9,796,100 | 8,048,600 | 9,948,300 |
| As a percentage of average shares outstanding | **76.63%** | 79.29% | 65.88% | 58.16% | 77.91% |
| Earnings per share, basic | **$ 3.11** | $ 2.41 | $ 2.04 | $ 1.65 | $ 4.11 |
| Earnings per share, diluted | **3.08** | 2.38 | 2.03 | 1.63 | 4.08 |
| Book value per share | **40.78** | 40.72 | 29.97 | 27.19 | 25.79 |

**Quarterly Common Stock Price Ranges and Dividends**

| | Years Ending December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| Quarter | High | Low | Dividend | High | Low | Dividend |
| 1st | **$ 66.76** | **$ 56.88** | **$ 0.19** | $ 51.68 | $ 39.56 | $ 0.18 |
| 2nd | **64.39** | **54.03** | **0.20** | 51.82 | 46.80 | 0.18 |
| 3rd | **64.60** | **55.90** | **0.21** | 58.31 | 50.21 | 0.19 |
| 4th | **68.50** | **53.87** | **0.22** | 68.69 | 54.38 | 0.19 |

As of February 26, 2015, we had issued and outstanding 24,156,759 shares of common stock which were held by approximately 15,500 shareholders of record. Our common stock trades in The NASDAQ Global Select Market[SM] under the symbol "SSB."

The Company is a legal entity separate and distinct from the Bank. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company generally should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality, and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends.

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We pay cash dividends to the Company's shareholders from our assets, which are provided primarily by dividends paid to the Company by our Bank. Certain restrictions exist regarding the ability of our subsidiary to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the SCBFI is required to pay dividends in excess of the bank's net income for the current year. For the year ended December 31, 2014, our Bank paid dividends of approximately $89.8 million to the Company. We anticipate that we will continue to pay cash dividends from our Bank to the Company in the future without needing SCBFI approval. Dividends paid to our shareholders are approved each quarter by the board of directors.

**Cumulative Total Return Performance**

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| | **12/31/2009** | **12/31/2010** | **12/31/2011** | **12/31/2012** | **12/31/2013** | **12/31/2014** |
| South State Corporation | $ 100.00 | $ 120.68 | $ 109.39 | $ 154.54 | $ 259.49 | $ 265.36 |
| NASDAQ Composite Index | $ 100.00 | $ 118.15 | $ 117.22 | $ 138.02 | $ 193.47 | $ 222.16 |
| SNL Southeast Bank Index | $ 100.00 | $ 97.10 | $ 56.81 | $ 94.37 | $ 127.88 | $ 144.03 |

The performance graph above compares the Company's cumulative total return over the most recent five-year period with the NASDAQ Composite and the SNL Southeast Bank Index, a banking industry performance index for the Southeastern United States. Returns are shown on a total return basis, assuming the reinvestment of dividends and a beginning stock index value of $100 per share. The value of the Company's common stock as shown in the graph is based on published prices for transactions in the Company's stock.

(b)

Not applicable.

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(c) Issuer Purchases of Equity Securities:

In February 2004, we announced a program with no formal expiration date to repurchase up to 250,000 of our common shares. The following table reflects share repurchase activity during the fourth quarter of 2014:

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1 - October 31 | | $ | | 147,872 |
| November 1 - November 30 | 2,103* | 62.22 | | 147,872 |
| December 1 - December 31 | 5,976* | 63.95 | | 147,872 |
| Total | 8,079 | | | 147,872 |

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

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## Item 6. Selected Financial Data.

The following table presents selected financial and quantitative data for the five years ended December 31 for South State Corporation:

| (Dollars in thousands, except per share) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Balance Sheet Data Period End** | | | | | |
| Assets | **$ 7,826,227** | $ 7,931,498 | $ 5,136,446 | $ 3,896,557 | $ 3,594,791 |
| Acquired credit impaired loans, net of acquired allowance for loan losses | **919,402** | 1,220,638 | 969,395 | 370,581 | 321,038 |
| Acquired non-credit impaired loans | **1,327,999** | 1,600,935 | 73,215 | | |
| Non-acquired loans | **3,467,826** | 2,865,216 | 2,571,003 | 2,470,565 | 2,296,200 |
| Loans, net of unearned income* | **5,715,227** | 5,686,789 | 3,613,613 | 2,841,146 | 2,617,238 |
| Investment securities | **826,943** | 812,603 | 560,091 | 324,056 | 237,912 |
| FDIC receivable for loss share agreements | **22,161** | 86,447 | 146,171 | 262,651 | 212,103 |
| Goodwill and other intangible assets | **366,927** | 377,596 | 128,491 | 74,426 | 72,605 |
| Deposits | **6,461,045** | 6,554,144 | 4,298,443 | 3,254,472 | 3,004,148 |
| Nondeposit borrowings | **322,751** | 313,461 | 293,518 | 227,119 | 237,995 |
| Shareholders' equity | **984,920** | 981,469 | 507,549 | 381,780 | 329,957 |
| Number of common shares outstanding | **24,150,702** | 24,104,124 | 16,937,464 | 14,039,422 | 12,793,823 |
| Book value per common share | **40.78** | 40.72 | 29.97 | 27.19 | 25.79 |
| Tangible common equity per common share*** | **25.59** | 22.36 | 22.54 | 21.89 | 20.12 |
| | | | | | |
| **Annualized Performance Ratios** | | | | | |
| Return on average assets | **0.95%** | 0.77% | 0.70% | 0.58% | 1.43% |
| Return on average equity | **7.79** | 6.90 | 7.15 | 6.10 | 15.45 |
| Return on average tangible common equity*** | **13.77** | 11.54 | 9.27 | 8.10 | 20.12 |
| Net interest margin (taxable equivalent) | **4.80** | 4.99 | 4.83 | 4.66 | 4.00 |
| Efficiency ratio | **71.41** | 75.85 | 72.20 | 68.77 | 46.68 |
| Dividend payout ratio | **26.61** | 31.91 | 34.11 | 42.11 | 16.74 |
| | | | | | |
| **Asset Quality Ratios** | | | | | |
| Allowance for loan losses to period end loans** | **1.00%** | 1.20% | 1.73% | 2.00% | 2.07% |
| Allowance for loan losses to period end nonperforming loans** | **121.12** | 81.20 | 71.53 | 64.19 | 68.71 |
| Net charge-offs to average loans** | **0.16** | 0.41 | 0.73 | 1.12 | 1.99 |
| ***Excluding acquired assets:*** | | | | | |
| Nonperforming assets to period end loans and repossessed assets | **1.05** | 1.94 | 3.13 | 3.82 | 3.74 |
| Nonperforming assets to period end total assets | **0.47** | 0.70 | 1.58 | 2.44 | 2.41 |
| ***Including acquired assets:*** | | | | | |
| Nonperforming assets to period end loans and repossessed assets | **1.38** | 1.88 | 3.46 | 5.45 | 5.76 |
| Nonperforming assets to period end total assets | **1.02** | 1.36 | 2.50 | 4.13 | 4.33 |
| | | | | | |
| **Capital Ratios** | | | | | |
| Common equity to assets | **12.58%** | 11.55% | 9.88% | 9.80% | 9.18% |
| Tangible common equity to tangible assets*** | **8.28** | 7.13 | 7.62 | 8.04 | 7.31 |
| Tier 1 leverage ratio | **9.47** | 9.30 | 9.87 | 9.12 | 8.48 |
| Tier 1 risk-based capital | **13.62** | 13.58 | 12.73 | 14.09 | 13.34 |
| Total risk-based capital | **14.43** | 14.47 | 13.99 | 15.36 | 14.60 |
| | | | | | |
| **Other Data** | | | | | |
| Number of financial centers | **127** | 144 | 86 | 70 | 76 |
| Number of employees (full-time equivalent basis) | **2,081** | 2,106 | 1,324 | 1,071 | 1,015 |

* Excludes loans held for sale.

** Excludes acquired assets.

*** A reconciliation of non-GAAP measures to GAAP is presented on page 45.

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The table below provides a reconciliation of non-GAAP measures to GAAP for the five years ended December 31:

| (Dollars in thousands, except per share) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Operating earnings** | | | | | |
| Net operating earnings available to common shareholders (non-GAAP) | **$ 90,572** | $ 63,379 | $ 36,920 | $ 14,445 | $ 347 |
| Gains on acquisitions, net of tax | | | | 10,226 | 62,453 |
| Securities gains (losses), net of tax | **(1)** | | 130 | 141 | 187 |
| Other-than-temporary impairment (OTTI), net of tax | | | | | (4,447) |
| Merger and conversion related expense, net of tax | **(16,207)** | (15,514) | (7,018) | (2,217) | (3,734) |
| Termination of group insurance, net of tax | | | | | (893) |
| FHLB prepayment fee, net of tax | | | | | (2,031) |
| Net income available to common shareholders (GAAP) | **$ 74,364** | $ 47,865 | $ 30,032 | $ 22,595 | $ 51,882 |
| | | | | | |
| **Operating earnings per common share, basic** | | | | | |
| Operating earnings per common share, basic (non-GAAP) | **$ 3.79** | $ 3.19 | $ 2.50 | $ 1.06 | $ 0.03 |
| Effect to adjust for gains on acquisitions, net of tax | | | | 0.74 | 4.95 |
| Effect to adjust for securities gains (losses), net of tax | | | 0.01 | 0.01 | 0.01 |
| Effect to adjust for other-than-temporary impairment (OTTI), net of tax | | | | | (0.35) |
| Effect to adjust for merger and conversion related expense, net of tax | **(0.68)** | (0.78) | (0.47) | (0.16) | (0.30) |
| Effect to adjust for termination of group insurance, net of tax | | | | | (0.07) |
| Effect to adjust for FHLB prepayment fee, net of tax | | | | | (0.16) |
| Earnings per common share, basic (GAAP) | **$ 3.11** | $ 2.41 | $ 2.04 | $ 1.65 | $ 4.11 |
| | | | | | |
| **Operating earnings per common share, diluted** | | | | | |
| Operating earnings per common share, diluted (non-GAAP) | **$ 3.75** | $ 3.16 | $ 2.49 | $ 1.05 | $ 0.03 |
| Effect to adjust for gains on acquisitions, net of tax | | | | 0.73 | 4.91 |
| Effect to adjust for securities gains (losses), net of tax | | | 0.01 | 0.01 | 0.01 |
| Effect to adjust for other-than-temporary impairment (OTTI), net of tax | | | | | (0.35) |
| Effect to adjust for merger and conversion related expense, net of tax | **(0.67)** | (0.78) | (0.46) | (0.16) | (0.29) |
| Effect to adjust for termination of group insurance, net of tax | | | | | (0.07) |
| Effect to adjust for FHLB prepayment fee, net of tax | | | | | (0.16) |
| Earnings per common share, diluted (GAAP) | **$ 3.08** | $ 2.38 | $ 2.03 | $ 1.63 | $ 4.08 |
| | | | | | |
| **Tangible common equity per common share** | | | | | |
| Tangible common equity per common share (non-GAAP) | **$ 25.59** | $ 22.36 | $ 22.54 | $ 21.89 | $ 20.12 |
| Effect to adjust for intangible assets | **15.19** | 18.36 | 7.43 | 5.30 | 5.67 |
| Book value per common share (GAAP) | **$ 40.78** | $ 40.72 | $ 29.97 | $ 27.19 | $ 25.79 |
| | | | | | |
| **Return on average tangible common equity** | | | | | |
| Return on average tangible common equity (non-GAAP) | **13.77%** | 11.54% | 9.27% | 8.10% | 20.12% |
| Effect to adjust for intangible assets | **5.98%** | 4.55% | 2.12% | 2.00% | 4.67% |
| Return on average common equity (GAAP) | **7.79%** | 6.99% | 7.15% | 6.10% | 15.45% |

| | | | | | |
|---|---|---|---|---|---|
| **Tangible common equity to tangible assets** | | | | | |
| Tangible common equity to tangible assets (non-GAAP) | **8.28%** | 7.13% | 7.62% | 8.04% | 7.31% |
| Effect to adjust for intangible assets | **4.30%** | 4.42% | 2.26% | 1.76% | 1.87% |
| Common equity to assets (GAAP) | **12.58%** | 11.55% | 9.88% | 9.80% | 9.18% |

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Operating earnings available to common shareholders, basic operating earnings per share, and diluted operating earnings per share are non-GAAP measures and exclude the after-tax effects of gains on acquisitions, gains or losses on sales of securities, other-than-temporary impairment ("OTTI"), merger and conversion related expense, termination of group insurance, and FHLB prepayment fees. The tangible measures above are non-GAAP measures and exclude the effect of period end or average balance of intangible assets. The tangible return on equity measures also adds back the after-tax amortization of intangibles to GAAP basis net income. Management believes these non-GAAP financial measures provide additional information that is useful to investors in evaluating the Company's performance and capital and that may facilitate comparisons with others in the banking industry as well as period-to-period comparisons. Non-GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non-GAAP measures have limitations as analytical tools, are not audited, and may not be comparable to other similarly titled financial measures used by other companies. Investors should not consider non-GAAP measures in isolation or as a substitute for analysis of the company's results or financial condition as reported under GAAP.

The following table presents selected financial data for the five years ended December 31:

| (Dollars in thousands, except per share) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Summary of Operations** | | | | | |
| Interest income | **$ 342,022** | $ 286,348 | $ 187,488 | $ 171,718 | $ 155,354 |
| Interest expense | **15,662** | 12,987 | 11,094 | 20,266 | 32,737 |
| Net interest income | **326,360** | 273,361 | 176,394 | 151,452 | 122,617 |
| Provision for loan losses | **6,590** | 1,886 | 13,619 | 30,236 | 54,282 |
| Net interest income after provision for loan losses | **319,770** | 271,475 | 162,775 | 121,216 | 68,335 |
| Noninterest income | **94,696** | 53,720 | 41,283 | 55,119 | 137,735 |
| Noninterest expense | **303,038** | 250,621 | 158,898 | 142,978 | 125,242 |
| Income before provision for income taxes | **111,428** | 74,574 | 45,160 | 33,357 | 80,828 |
| Provision for income taxes | **35,991** | 25,355 | 15,128 | 10,762 | 28,946 |
| Net income | **75,437** | 49,219 | 30,032 | 22,595 | 51,882 |
| Preferred stock dividends | **1,073** | 1,354 | | | |
| Net income available to common shareholders | **$ 74,364** | $ 47,865 | $ 30,032 | $ 22,595 | $ 51,882 |
| **Per Common Share Information** | | | | | |
| Net income available to common shareholders, basic | **$ 3.11** | $ 2.41 | $ 2.04 | $ 1.65 | $ 4.11 |
| Net income available to common shareholders, diluted | **3.08** | 2.38 | 2.03 | 1.63 | 4.08 |
| Cash dividends | **0.82** | 0.74 | 0.69 | 0.68 | 0.68 |

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Statements

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

- Credit risk associated with an obligor's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed;
- Interest rate risk involving the effect of a change in interest rates on both the Bank's earnings and the market value of the portfolio equity;
- Liquidity risk affecting our Bank's ability to meet its obligations when they come due;
- Price risk focusing on changes in market factors that may affect the value of financial instruments which are "marked-to-market" periodically;
- Merger integration risk, including potential deposit attrition, higher than expected costs, customer loss and business disruption, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters, and the inability to identify and successfully negotiate and complete additional combinations with potential merger or acquisition partners or to successfully integrate such businesses into the Company, including the ability to realize the benefits and cost savings from, and limit any unexpected liabilities associated with, any such business combinations;
- Transaction risk arising from problems with service or product delivery;
- Compliance risk involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- Controls and procedures risk, including the potential failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures;
- Regulatory change risk resulting from new laws, rules, regulations, proscribed practices or ethical standards, including the possibility that regulatory agencies may require higher levels of capital above the current regulatory-mandated minimums, including the impact of the new capital rules under Basel III;
- Strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- Reputation risk that adversely affects earnings or capital arising from negative public opinion;

Terrorist activities risk that result in loss of consumer confidence and economic disruptions;

Cybersecurity risk related to our dependence on internal computer systems and the technology of outside service providers, as well as the potential impacts of third-party security breaches, subjects us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;

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Noninterest income risk resulting from the effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions; and

Economic downturn risk resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which risks could be exacerbated by potential negative economic developments resulting from the expiration of the federal tax reductions, and the implementation of federal spending cuts currently scheduled to go into effect.

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

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

**Introduction**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes South State Corporation and its subsidiary's results of operations for the year ended December 31, 2014 as compared to the year ended December 31, 2013, and the year ended December 31, 2013 as compared to the year ended December 31, 2012, and also analyzes our financial condition as of December 31, 2014 as compared to December 31, 2013. Like most banking institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on most of which we pay interest. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

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

In addition to earning interest on our loans and investments, we earn income through fees and other services we charge to our customers. We incur costs in addition to interest expense on deposits and other borrowings, the largest of which is salaries and employee benefits. We describe the various components of this noninterest income and noninterest expense in the following discussion.

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

**Overview**

We achieved net income of $74.4 million, or $3.08 diluted earnings per share ("EPS"), during 2014 compared to net income of $47.9 million, or $2.38 diluted EPS in 2013. Net interest income was up $53.0 million, or 19.4%, due primarily to having twelve months of results included in 2014 from the acquisition of FFHI compared to five months in 2013. In addition, average earning assets increased by $1.3 billion, a 24.0% increase over the prior year. This increase resulted in interest income increasing by $55.7 million, or 19.4%. Interest expense increased by $2.7 million, or 20.6%, driven by a $906.3 million increase in interest-bearing liabilities, a 20.7% increase from 2013. Overall cost of funds, including costs associated with noninterest bearing liabilities, declined to 22 basis points from approximately 25 basis points. Provision for loan losses increased by $4.7 million compared to 2013 due primarily to $602.6 million of non-acquired loan growth. Noninterest income increased by $41.0 million, or 76.3%, due primarily to the acquisition of FFHI and inclusion of that business for all of 2014 compared to five months in 2013; and a significant decline in amortization of the FDIC indemnification asset of approximately $7.6 million. Noninterest expense was higher than the prior year by $52.4 million due primarily to a significant increase in salaries and employee benefits of $36.3 million. All other expense categories increased as a result of the acquisition of FFHI in mid-2013. OREO expense and loan related declined by $1.9 million as the inventory of OREO continues to decline, therefore, reducing our cost to carry these assets and our write downs were less as the economy continued to improve. In addition, the amortization of intangibles increased by more than $2.2 million for the year, or 36.8%, with a full year of amortization expense on acquired FFHI intangibles included in 2014 compared to five months in 2013. Income taxes increased by $10.6 million due primarily to the larger pre-tax income in 2014 than 2013 of $36.9 million. The effective tax rate decreased from 34.00% to 32.30% due primarily to increases in both federal and state tax credit investments.

At December 31, 2014, total classified assets declined by $4.9 million or 5.1% to $91.2 million from the level at December 31, 2013. Net charge offs as a percentage of average non-acquired loans for 2014 equaled 0.16% compared to 0.41% in 2013, an improvement of 0.25%. Non-acquired nonperforming assets ("NPAs") decreased to $36.5 million at December 31, 2014 from $55.7million at December 31, 2013, due to a decrease in the level of non-acquired nonaccrual loans and non-acquired OREO. NPAs as a percentage of non-acquired loans and repossessed assets decreased 89 basis points to 1.05% at December 31, 2014 as compared to 1.94% at December 31, 2013. Total NPAs (including acquired NPAs) to total assets at December 31, 2014 were 1.02% compared to 1.36% at the end of 2013. These improvements in NPAs reflect the gradual improvement of the real estate market within our local markets and overall improvement in the economy.

Our efficiency ratio was 71.4% at December 31, 2014 as compared to 75.9% at December 31, 2013. This lower ratio was primarily the result of the growth of net interest income and non-interest income in relation to the growth of noninterest expense during 2014. On an operating basis for December 31, 2014 and 2013, the efficiency ratio was 63.0% and 64.9%, respectively, excluding merger and conversion related expenses and OREO and loan related cost.

Our balance sheet continued to strengthen as evidenced by the decline in OREO of $22.2 million, or 34.2%; the decline in the FDIC receivable for loss share agreements by $64.3 million, or 74.4%; the redemption of $65.0 million in preferred stock with a 9% dividend rate in March 2014, a savings of $5.9 million annually; growth of our non-acquired loans of $602.6 million, or 21.0%; and increase in non-interest bearing deposits of $153.5 million, or 10.3%. Our acquired loan portfolio decreased during 2014 by $574.2 million, or 20.4%. On January 7, 2015, we redeemed $45.0 million of Trust Preferred Securities, classified as "other borrowings" on our balance sheet, which had an interest rate of 7%. This transaction is expected to save $2.2 million, net of tax, during 2015.

We continue to remain well-capitalized with a total risk-based capital ratio of 14.43% and a Tier 1 leverage ratio of 9.47%, as of December 31, 2014, compared to 14.47% and 9.30%, at December 31, 2013. The total risk-based capital ratio has declined slightly due to the increase in risk-weighted assets with the expiration of the Cape Fear loss share agreement on commercial assets on June 30, 2014, which moved assets from 20% to 100% risk weighted. In addition, capital remained relatively flat with net income nearly offset by the redemption of $65.0 million in preferred stock and dividends paid to preferred and common shareholders during 2014. Tier 1 leverage ratio slightly increased from the prior year and reflects equity movements discussed earlier. We believe our current capital ratios position us well to grow both organically and through certain strategic opportunities.

At December 31, 2014, we had $7.8 billion in assets and 2,081 full-time equivalent employees. Through our Bank we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

**Recent Government Actions**

Please see the caption "Regulation and Supervision" under PART I, Item 1 Business on page 4.

**Critical Accounting Policies and Estimates**

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

***Allowance for Non-acquired Loan Losses***

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank's borrowers to make required loan payments. The allowance for loan losses is established for estimated loan losses through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of general and specific reserves. The general reserves are determined, for loans not identified as impaired, by applying loss percentages to the portfolio that are based on historical loss experience and management's evaluation and "risk grading" of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. The specific reserves are determined, for impaired loans, on a loan-by-loan basis based on management's evaluation of the Company's exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. Management evaluates nonaccrual loans and TDRs to determine whether or not they are impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The Company requires updated appraisals on at least an annual basis for impaired loans that are collateral dependent. Generally, the need for specific reserve is evaluated on impaired loans, and once a specific

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reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve.

***Allowance for Acquired Loan Losses***

With the FFHI and Savannah acquisitions, the Company segregated the loan portfolio between loans for which there was a discount related, in part, to credit (ASC Topic 310-30 loans) and loans for which there was not a material discount attributable to credit. The loans where the discount was not attributable to credit or revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non-acquired loans.

Subsequent to the acquisition date, decreases in cash flows expected to be received on FASB ASC Topic 310-30 acquired loans from the Company's initial estimates are recognized as impairment through the provision for loan losses. For acquired loans subject to a loss sharing agreement with the FDIC, the FDIC indemnification asset will be adjusted prospectively in a similar, consistent manner with increases and decreases in expected cash flows.

Probable and significant increases in cash flows (in a loan pool where an allowance for acquired loan losses was previously recorded) reduces the remaining allowance for acquired loan losses before recalculating the amount of accretable yield percentage for the loan pool in accordance with ASC 310-30. For covered loan pools, the reduction of the remaining allowance for acquired loan losses would be offset by the impact to the indemnification asset depending on each covered portfolio's loss share coverage (either 80%, in the case of Habersham, Cape Fear, Plantation, and BankMeridian, or 95%, in the case of CBT).

***Other Real Estate Owned ("OREO")***

OREO, consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current valuations obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses.

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

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is

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recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

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

Our stock price has historically traded above its book value and tangible book value. During 2014, the lowest trading price for our stock was $53.87, and the stock price closed on December 31, 2014 at $67.08, above book value and tangible book value. We evaluated the carrying value of goodwill as of April 30, 2014, our annual test date, and determined that no impairment charge was necessary. Should our future earnings and cash flows decline, discount rates increase, and/or the market value of our stock decreases, an impairment charge to goodwill and other intangible assets may be required.

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

***Income Taxes and Deferred Tax Assets***

Income taxes are provided for the tax effects of the transactions reported in our condensed consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available-for-sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carry forwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. A valuation allowance is recorded in situations where it is "more likely than not" that a deferred tax asset is not realizable. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. We file a consolidated federal income tax return for our subsidiary bank. We evaluate the need for income tax reserves related to uncertain income tax positions but had no material reserves at December 31, 2014 or 2013.

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

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

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality,* formerly American Institute of Certified Public Accountants ("AICPA") Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, such as lines of credit (consumer and commercial) and loans for which there was no discount attributable to credit are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

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

For further discussion of the Company's loan accounting and acquisitions, see Note 1 Summary of Significant Accounting Policies, Note 2 Mergers and Acquisitions and Note 4 Loans and Allowance for Loan Losses to the audited condensed consolidated financial statements.

**Recent Accounting Standards and Pronouncements**

For information relating to recent accounting standards and pronouncements, see Note 1 to our audited consolidated financial statements entitled "Summary of Significant Accounting Policies."

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**Results of Operations**

Consolidated net income available to common shareholders increased by $26.5 million for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase reflects the improved net interest income and improved noninterest income, partially offset by an increase in the provision for loan losses, increases in noninterest expenses and an increase in the provision for income taxes. Calendar year 2013 included five months of activity after the acquisition of FFHI compared to 2014 which included the full twelve months of activity. Below are key highlights of our results of operations during 2014:

Consolidated net income available to common shareholders increased 55.4% to $74.4 million in 2014 compared with $47.9 million in 2013, and increased $44.3 million or 147.6% from 2012, when net income totaled $30.0 million.

Basic earnings per common share increased to $3.11 in 2014 compared with $2.41 in 2013, or 29.0%, and $2.04 in 2012, or 52.5%.

Diluted earnings per common share increased to $3.08 in 2014 compared with $2.38 in 2013, or 29.4%, and $2.03 in 2012, or 51.7%.

Book value per common share was $40.78 at the end of 2014, an increase from $40.72 at the end of 2013 and $29.97 at the end of 2012. The slight increase in 2014 was related to higher net income and reduced accumulated other comprehensive loss. These were partially offset by the redemption of preferred stock of $65.0 million in March of 2014 and the payment of dividends to common and preferred shareholders during the year. The increase from 2012 was primarily the result of the acquisition of FFHI during 2013.

Return on average assets increased to 0.95% in 2014, compared with 0.77% in 2013 and 0.70% in 2012. The increase in return on average assets for the year ended December 31, 2014 compared to December 31, 2013 was driven by improved net income partially offset by the increase in average total assets primarily from the acquisition of FFHI. Average assets increased by approximately $1.6 billion, or 24.9% during 2014.

Return on average common shareholders' equity increased to 7.80% in 2014, compared with 6.99% in 2013, and increased from 7.15% in 2012. The increase in 2014 was the result of higher net income which outpaced the $268.1 million average increase in common equity. The increase from 2012 reflected the increase in average shareholders' equity from the issuance of common shares related to the FFHI merger and fully offset by higher net income.

Our dividend payout ratio decreased to 26.61% for the year ended December 31, 2014 compared with 31.91% in 2013 and 34.11% in 2012. The decrease from 2013 and 2012 reflects higher net income available to common shareholders for the years ended December 31, 2013 and 2012. The higher net income was primarily the result of the acquisition of FFHI in 2013. Our dividend was increased by $0.08 per share, or 10.8% in 2014 compared to 2013.

Our common equity to assets ratio increased to 12.58% at December 31, 2014 compared with 11.55% in 2013 and 9.88% in 2012.

The yield on average earning assets declined by 19 basis points in 2014 from 2013 due primarily to the decline in the yield on acquired loans which decreased by 73 basis points and a decline in the yield on non-acquired loans which decreased by 25 basis points. Both of these decreases were directly attributable to the low interest rate environment. This decrease was fully offset by the increase in volume from a full year of acquired loans from the FFHI acquisition being included in 2014 which increased the average balance by $687.5 million (only five months in 2013) and resulted in an increase in interest income of $38.1 million, and non-acquired loan volume increased substantially in 2014, which resulted in an increase in interest income of $13.1 million. Average rate of interest-bearing

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liabilities remained level in 2014 with 2013 at 30 basis points. All categories of funding showed improvement during 2014, other than the other borrowing category which included a full year of 7% cost on trust preferred securities acquired in the FFHI acquisition (see Note 30 Subsequent Events in our notes to the audited consolidated financial statements). These trust preferred securities resulted in an increase in interest expense of $1.9 million in 2014 over 2013. Interest expense on deposits increased by approximately $812,000 which was the result of an increase in balances during the year. The average balance of interest-bearing liabilities grew by $906.3 million, or 20.7%, due primarily from the acquisition of FFHI. Overall, higher net interest income was the result of a much higher average earning asset base in 2014, partially offset by a decline in the overall yield.

In the table below, we have reported our results of operations by quarter for the years ended December 31, 2014 and 2013.

***Table 1 Quarterly Results of Operations (unaudited)***

| | 2014 Quarters | | | | 2013 Quarters | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Fourth** | **Third** | **Second** | **First** | **Fourth** | **Third** | **Second** | **First** |
| Interest income | **$ 85,380** | **$ 84,348** | **$ 84,831** | **$ 87,463** | $ 88,766 | $ 83,703 | $ 57,530 | $ 56,169 |
| Interest expense | **3,829** | **3,979** | **3,858** | **3,996** | 4,351 | 4,022 | 2,246 | 2,368 |
| Net interest income | **81,551** | **80,369** | **80,973** | **83,467** | 84,415 | 79,681 | 55,284 | 53,801 |
| Provision for loan losses | **1,481** | **2,091** | **2,169** | **849** | (12) | 659 | 179 | 1,060 |
| Noninterest income | **25,299** | **24,453** | **24,399** | **20,545** | 20,649 | 15,063 | 8,485 | 9,523 |
| Noninterest expense | **74,676** | **75,058** | **75,889** | **77,415** | 83,888 | 75,406 | 44,885 | 46,441 |
| Income before income taxes | **30,693** | **27,673** | **27,314** | **25,748** | 21,188 | 18,679 | 18,705 | 15,823 |
| Income taxes | **9,445** | **8,346** | **9,368** | **8,832** | 7,204 | 6,805 | 6,173 | 5,174 |
| Net income | **$ 21,248** | **$ 19,327** | **$ 17,946** | **$ 16,916** | $ 13,984 | $ 11,874 | $ 12,532 | $ 10,649 |
| Preferred stock dividends | | | | **1,073** | 812 | 542 | | |
| Net income available to common shareholders | **$ 21,248** | **$ 19,327** | **$ 17,946** | **$ 15,843** | $ 13,172 | $ 11,332 | $ 12,532 | $ 10,649 |
| **Earnings Per Share** | | | | | | | | |
| Net income, basic | **$ 0.89** | **$ 0.81** | **$ 0.75** | **$ 0.66** | $ 0.55 | $ 0.53 | $ 0.75 | $ 0.63 |
| Net income, diluted | **0.88** | **0.80** | **0.74** | **0.66** | 0.55 | 0.52 | 0.74 | 0.63 |
| Cash dividends | **0.22** | **0.21** | **0.20** | **0.19** | 0.19 | 0.19 | 0.18 | 0.18 |

***Net Interest Income***

Net interest income is the largest component of our net income. Net interest income is the difference between income earned on interest-earning assets and interest paid on deposits and borrowings. Net interest income is determined by the yields earned on interest-earning assets, rates paid on interest-bearing liabilities, the relative balances of interest-earning assets and interest-bearing liabilities, the degree of mismatch, and the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities. Net interest income divided by average interest-earning assets represents our net interest margin.

The Federal Reserve's Federal Open Market Committee's target for Federal funds remained at a range of zero to 0.25% for the year ended December 31, 2014. We continued to reduce rates on all of our deposit products in 2014 in line with the historically low Federal funds target. The reduction in the rates on interest-bearing liabilities contributed to higher net interest income for 2014 as compared to 2013. The repricing of all of our deposit products to lower interest rates, offset by the full year impact of additional balances added from the FFHI merger resulted in an increase in interest expense of $2.7 million for the year ended December 31, 2014. The increase in net interest income was volume driven, as average interest-earning assets increased considerably during the year. The yields on interest-earning assets continued to adjust downward while the rates on interest-bearing liabilities remained relatively flat contributing to the decline in the net interest margin.

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Net interest income highlighted for the year ended December 31, 2014:

- Net interest income increased by $53.0 million, or 19.4%, to $326.4 million during 2014.
- Higher 2014 net interest income was driven by an increase in volume as total average interest-earning assets increased by $1.3 billion, or 24.0%. This increase is partially offset by lower accretion income on the acquired credit-impaired loans.
- An increase in the average balances of both acquired and non-acquired loans was the largest contributor to the volume increase, accounting for 87.3% of the growth in the average balance of total interest-earning assets for the year ended December 31, 2014. The average balance of acquired loans increased $687.5 million and the average balance of non-acquired loans increased $474.0 million from the year ended December 31, 2013.
- Non-taxable equivalent net interest margin decreased 18 basis points to 4.75% from 4.93% in 2013.
- Net interest margin (taxable equivalent) decreased 19 basis points to 4.80% during 2014.
- Interest-free funds favorably impacted net interest margin by seven basis points, an increase of one basis point from the year ended December 31, 2013.

Net interest income highlighted for the year ended December 31, 2013:

- Net interest income increased by $97.0 million, or 55.0%, to $273.4 million during 2013.
- Higher 2013 net interest income was driven by higher average balances of interest earning assets from the FFHI and Savannah mergers completed in July 2013 and December 2012, respectively, and by a 7 basis point decrease in the average rate on interest-bearing liabilities.
- Non-taxable equivalent net interest margin increased 17 basis points to 4.93% from 4.76% in 2012.
- Net interest margin (taxable equivalent) increased 16 basis points to 4.99% during 2013.
- Interest-free funds favorably impacted net interest margin by six basis points, flat from the year ended December 31, 2012.
- The average balance of acquired loans increased $1.3 billion from the year ended December 31, 2012 due to the FFHI and Savannah mergers. This partially offset the impact of declining interest rates on non-acquired loans.

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***Table 2 Yields on Average Interest-Earning Assets and Rates on Average Interest-Bearing Liabilities***

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | 2012 | | |
| (Dollars in thousands) | Average Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Balance | Interest Earned/ Paid | Average Yield/ Rate |
| **Assets** | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Non-acquired loans, net of unearned income(1) | **$ 3,151,482** | **$ 131,461** | **4.17%** | $ 2,677,450 | $ 118,379 | 4.42% | $ 2,484,751 | $ 119,592 | 4.81% |
| Acquired loans, net of acquired ALL(2) | **2,500,882** | **186,655** | **7.46%** | 1,813,425 | 148,597 | 8.19% | 481,754 | 53,634 | 11.13% |
| Loans held for sale | **38,745** | **1,766** | **4.56%** | 45,015 | 1,620 | 3.60% | 45,112 | 1,581 | 3.50% |
| Investment securities: | | | | | | | | | |
| Taxable | **667,033** | **15,758** | **2.36%** | 458,344 | 11,073 | 2.42% | 325,420 | 7,577 | 2.33% |
| Tax-exempt | **146,700** | **4,589** | **3.13%** | 151,908 | 4,773 | 3.14% | 126,143 | 3,947 | 3.13% |
| Federal funds sold and securities purchased under agreements to resell and time deposits | **364,076** | **1,793** | **0.49%** | 392,915 | 1,906 | 0.49% | 241,332 | 1,157 | 0.48% |
| Total interest-earning assets | **6,868,918** | **342,022** | **4.98%** | 5,539,057 | 286,348 | 5.17% | 3,704,512 | 187,488 | 5.06% |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | **193,993** | | | 125,653 | | | 88,487 | | |
| FDIC receivable for loss share agreements | **52,161** | | | 118,977 | | | 205,460 | | |
| Other real estate owned | **55,084** | | | 69,848 | | | 79,899 | | |
| Other assets | **803,315** | | | 541,630 | | | 245,667 | | |
| Allowance for loan losses | **(35,034)** | | | (40,192) | | | (47,762) | | |
| Total noninterest-earning assets | **1,069,519** | | | 815,916 | | | 571,751 | | |
| Total assets | **$ 7,938,437** | | | $ 6,354,973 | | | $ 4,276,263 | | |
| **Liabilities** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Deposits | | | | | | | | | |
| Transaction and money market accounts | **$ 2,894,137** | **$ 3,295** | **0.11%** | $ 2,280,055 | $ 2,897 | 0.13% | $ 1,538,795 | $ 3,117 | 0.20% |
| Savings deposits | **663,659** | **488** | **0.07%** | 479,367 | 398 | 0.08% | 297,498 | 479 | 0.16% |
| Certificates and other time deposits | **1,381,049** | **5,518** | **0.40%** | 1,277,772 | 5,194 | 0.41% | 922,377 | 4,828 | 0.52% |
| Federal funds purchased and securities sold under agreements to repurchase | **253,948** | **357** | **0.14%** | 274,080 | 426 | 0.16% | 229,185 | 451 | 0.20% |
| Other borrowings | **101,195** | **6,004** | **5.93%** | 76,421 | 4,072 | 5.33% | 46,537 | 2,219 | 4.77% |
| Total interest-bearing liabilities | **5,293,988** | **15,662** | **0.30%** | 4,387,695 | 12,987 | 0.30% | 3,034,392 | 11,094 | 0.37% |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Noninterest-bearing deposits | **1,604,421** | | | 1,215,052 | | | 799,263 | | |
| Other liabilities | **71,865** | | | 39,336 | | | 22,759 | | |
| Total noninterest-bearing liabilities | **1,676,286** | | | 1,254,388 | | | 822,022 | | |
| Shareholders' equity | **968,163** | | | 712,890 | | | 419,849 | | |
| Total noninterest-bearing liabilities and shareholders' equity | **2,644,449** | | | 1,967,278 | | | 1,241,871 | | |
| Total liabilities and shareholders' equity | **$ 7,938,437** | | | $ 6,354,973 | | | $ 4,276,263 | | |

| | | | |
|---|---|---|---|
| Net interest spread | **4.68%** | 4.87% | 4.70% |
| Impact of interest free funds | **0.07%** | 0.06% | 0.06% |
| Net interest margin (non-taxable equivalent) | **4.75%** | 4.93% | 4.76% |
| Net interest margin (taxable equivalent) | **4.80%** | 4.99% | 4.83% |
| | | | |
| Net interest income | **$ 326,360** | $ 273,361 | $ 176,394 |

(1) Nonaccrual loans are included in the above analysis.

(2) ALL is an abbreviation for the allowance for loan losses.

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***Table 3 Volume and Rate Variance Analysis***

| | 2014 Compared to 2013 Increase (Decrease) due to | | | 2013 Compared to 2012 Increase (Decrease) due to | | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Volume(1)** | **Rate(1)** | **Total** | **Volume(1)** | **Rate(1)** | **Total** |
| **Interest income on:** | | | | | | |
| Non-acquired loans, net of unearned income(2) | **$ 20,959** | **$ (7,877)** | **$ 13,082** | $ 9,275 | $ (10,488) | $ (1,213) |
| Acquired loans, net of acquired ALL(4) | **56,332** | **(18,274)** | **38,058** | 148,256 | (53,293) | 94,963 |
| Loans held for sale | **(226)** | **372** | **146** | (3) | 42 | 39 |
| Investment securities: | | | | | | |
| Taxable | **5,042** | **(357)** | **4,685** | 3,095 | 401 | 3,496 |
| Tax exempt(3) | **(164)** | **(20)** | **(184)** | 806 | 20 | 826 |
| Federal funds sold and securities purchased under agreements to resell and time deposits | **(140)** | **27** | **(113)** | 727 | 22 | 749 |
| Total interest income | **81,803** | **(26,129)** | **55,674** | 162,156 | (63,296) | 98,860 |
| **Interest expense on:** | | | | | | |
| Deposits | | | | | | |
| Transaction and money market accounts | **780** | **(382)** | **398** | 1,502 | (1,722) | (220) |
| Savings deposits | **153** | **(63)** | **90** | 293 | (374) | (81) |
| Certificates and other time deposits | **420** | **(96)** | **324** | 1,861 | (1,495) | 366 |
| Federal funds purchased and securities sold under agreements to repurchase | **(31)** | **(38)** | **(69)** | 88 | (113) | (25) |
| Other borrowings | **1,320** | **612** | **1,932** | 1,425 | 428 | 1,853 |
| Total interest expense | **2,642** | **33** | **2,675** | 5,169 | (3,276) | 1,893 |
| Net interest income | **$ 79,161** | **$ (26,162)** | **$ 52,999** | $ 156,987 | $ (60,020) | $ 96,967 |

(1) The rate/volume variance for each category has been allocated on an equal basis between rate and volumes.

(2) Nonaccrual loans are included in the above analysis.

(3) Tax exempt income is not presented on a taxable-equivalent basis in the above analysis.

(4) ALL is an abbreviation for the allowance for loan losses.

***Noninterest Income and Expense***

Noninterest income provides us with additional revenues that are significant sources of income. In 2014, 2013, and 2012, noninterest income comprised 22.5%, 16.4%, and 19.0%, respectively, of total net interest and noninterest income. The increase from 2013 resulted primarily from the $7.8 million increase in bankcard services income, $7.6 million decrease in amortization of the FDIC indemnification asset and $7.0 million increase in mortgage banking income.

***Table 4 Noninterest Income for the Three Years***

| | Years Ended December 31, | | |
|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** |
| Service charges on deposit accounts | **$ 36,244** | $ 30,561 | $ 23,815 |
| Bankcard services income | **29,634** | 21,844 | 14,173 |

| | | | |
|---|---|---|---|
| Mortgage banking income, net of commissions | **16,170** | 9,149 | 12,545 |
| Trust and investment services income | **18,344** | 12,661 | 6,360 |
| Securities gains (losses), net | **(2)** | | 189 |
| Amortization of FDIC indemnification asset | **(21,895)** | (29,535) | (20,773) |
| Other | **16,201** | 9,040 | 4,974 |
| Total noninterest income | **$ 94,696** | $ 53,720 | $ 41,283 |

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Noninterest income increased 76.3% for the year ended December 31, 2014 compared to 2013 resulting from the following:

- Service charges on deposit accounts increased 18.6% driven by the increase in deposit accounts through organic growth as well as 12 months of FFHI service charges included in 2014 compared to five months included in 2013.
- Bankcard services income increased 35.7%, due to organic growth as well as an increased customer base from past acquisitions.
- Trust and investment services income increased 44.9%, driven primarily by the addition of investment services income generated by past acquisitions.
- Other noninterest income increased 79.2%, driven by increases in recoveries from acquired assets, cash surrender value of bank owned life insurance policies, and rental income.
- Negative accretion on the FDIC indemnification asset decreased $7.6 million, resulting from a smaller difference between expected cash flows from the FDIC compared to the remaining carrying value of the indemnification asset.
- Mortgage banking income increased 76.7%, driven primarily by 12 months of FFHI mortgage banking income included in 2014 compared to five months in 2013.

Noninterest income increased 30.1% for the year ended December 31, 2013 compared to 2012 resulting from the following:

- Service charges on deposit accounts increased 28.3% driven by the increase in deposit accounts through organic growth combined with the FFHI, Peoples, and Savannah acquisitions.
- Bankcard services income increased 54.1%, due to organic growth as well as an increased customer base from the FFHI, Peoples, and Savannah acquisitions.
- Trust and investment services income increased 99.1%, driven primarily by the addition of investment services income generated by Minis & Co., Inc., acquired in the Savannah transaction as well as the FFHI acquisition.
- Other noninterest income increased 81.7%, driven by an increase in recoveries from acquired assets and from the contribution of the FFHI acquisition.
- Negative accretion on the FDIC indemnification asset increased $8.8 million, resulting from decreases in expected cash flows from the FDIC. This decrease in expected cash flows from the FDIC was driven by improvement in the cash flows in certain acquired loan pools.
- Mortgage banking income decreased 27.1%, driven by a reduction in refinancing activities in the secondary market due to rising interest rates.

Noninterest expense represents the largest expense category for our company. During 2014, we continued to emphasize carefully controlling our noninterest expense.

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***Table 5 Noninterest Expense for the Three Years***

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2014 | 2013 | 2012 |
| Salaries and employee benefits | **$ 158,432** | $ 122,096 | $ 76,308 |
| Merger expense | **23,940** | 22,534 | 10,214 |
| Net occupancy expense | **22,459** | 17,590 | 11,608 |
| Information services expense | **15,844** | 14,470 | 11,092 |
| Furniture and equipment expense | **13,271** | 12,112 | 9,115 |
| OREO expense and loan related | **11,833** | 13,727 | 12,003 |
| Bankcard expense | **8,563** | 6,550 | 4,062 |
| Amortization of intangibles | **8,320** | 6,081 | 2,172 |
| Supplies, printing and postage expense | **6,937** | 4,891 | 3,234 |
| Busniess development and staff related expense | **6,543** | 5,519 | 3,309 |
| FDIC assessment and other regulatory charges | **5,432** | 5,034 | 3,875 |
| Professional fees | **4,960** | 4,210 | 2,681 |
| Advertising and marketing | **4,156** | 4,532 | 2,735 |
| Other | **12,348** | 11,275 | 6,490 |
| Total noninterest expense | **$ 303,038** | $ 250,621 | $ 158,898 |

Noninterest expense increased 20.9% for the year ended December 31, 2014 compared to 2013 resulting from the following:

The increases in almost every category were driven by the impact of a full year of the FFHI acquisition being included in 2014 compared to five months in 2013.

Salaries and employee benefits expense increased by 29.8% driven by the addition of staff from the past acquisitions, along with increases in both incentive and merit pay for employees.

Net occupancy expense increased by 27.7% driven by an increase in depreciation expense as well as higher utilities and maintenance and repair costs.

Bankcard expense increased by 30.7% driven by an increased deposit base.

Noninterest expense increased 57.7% for the year ended December 31, 2013 compared to 2012 resulting from the following:

The increases in every category were driven by the impact of five months of the FFHI acquisition being included in 2013.

Salaries and employee benefits expense increased by 60.0% driven by the addition of staff from the FFHI acquisition during 2013, along with increases in both incentive and merit pay for employees.

OREO and loan related expense increased 14.4% driven by an increase in carrying costs on OREO properties as well as a increase in legal expenses related to collections.

Business development and staff related expense increased 66.8% due primarily to the FFHI acquisition, along with an increase in recruitment and relocation costs, travel expenses, and training expenses.

Merger and conversion related expenses increased by 120.6% due to the merger costs related to the FFHI acquisition.

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***Income Tax Expense***

Our effective tax rate decreased to 32.3% at December 31, 2014, compared to 34.0% at December 31, 2013. The lower effective tax rate was attributable to additional state income tax credits acquired in 2014, "new job" related credits in South Carolina, and additional tax credits (both federal and state related) which were included in the December 31, 2013 income tax returns filed in September of 2014 that were not included in the 2013 income tax provision.

**Investment Securities**

We use investment securities, the second largest category of interest-earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. The expected average life of the investment portfolio at December 31, 2014 was approximately 3.46 years, compared with 4.27 years at December 31, 2013. At December 31, 2014, investment securities were $826.9 million, or 12.0% of average earning assets, compared with $812.6 million, or 14.7% of average earning assets, at December 31, 2013. See Note 1 Summary of Significant Accounting Policies in the audited consolidated financial statements for our accounting policy on investment securities.

As securities are purchased, they are designated as held to maturity or available for sale based upon our intent, which incorporates liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements. We do not currently hold, nor have we ever held, any securities that are designated as trading securities. The following table presents the reported values of investment securities for the past five years as of December 31:

***Table 6 Investment Securities for the Five Years***

| | | | December 31, | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Held-to-maturity (amortized cost):** | | | | | |
| State and municipal obligations | **$ 9,659** | $ 12,426 | $ 15,440 | $ 16,569 | $ 19,941 |
| Total held-to-maturity | **9,659** | 12,426 | 15,440 | 16,569 | 19,941 |
| **Available-for-sale (fair value):** | | | | | |
| Government-sponsored entities debt | **148,197** | 142,994 | 88,518 | 49,603 | 70,534 |
| State and municipal obligations | **137,581** | 140,651 | 152,799 | 43,957 | 40,004 |
| GSE mortgage-backed securities | **517,946** | 499,479 | 293,187 | 195,309 | 84,440 |
| Trust preferred (collateralized debt obligations) | | | | | 2,034 |
| Corporate stocks | **3,042** | 3,667 | 379 | 326 | 362 |
| Total available-for-sale | **806,766** | 786,791 | 534,883 | 289,195 | 197,374 |
| Total other investments | **10,518** | 13,386 | 9,768 | 18,292 | 20,597 |
| Total investment securities | **$ 826,943** | $ 812,603 | $ 560,091 | $ 324,056 | $ 237,912 |

During 2014, total investment securities increased $14.3 million, or 1.8%, from December 31, 2013. The increase was primarily the result of purchases of $167.3 million of GSEs and mortgage-backed securities. The increase was partially offset by $151.7 million of maturing, called, and prepaid securities that were generally purchased in higher interest rate environments. The decrease in held-to-maturity ("HTM") securities was the result of called and maturing state and municipal tax-exempt securities during 2014. These are generally longer-maturity bonds that we classified at the time of purchase as HTM. Beginning in the latter portion of 2008, we began to typically classify new purchases of municipal securities as available-for-sale to increase future flexibility to sell some of these securities if conditions warrant. At December 31, 2014, the fair value of the total investment securities portfolio (including HTM) was $9.4 million, or 1.15%, above its amortized cost basis. Comparable valuations at December 31, 2013 reflected a total investment portfolio fair value that was $8.5 million, or 1.06%, below its amortized cost basis.

***Held-to-maturity***

HTM securities consist solely of some of our tax-exempt state and municipal securities. The following are highlights:

- Total HTM securities decreased $2.8 million from the balance at December 31, 2013.
- The balance of HTM securities represented 0.1% and 0.2% of total assets at December 31, 2014 and 2013, respectively.
- Interest earned amounted to $422,000, a decrease of $99,000, or 19.0%, from $521,000 in 2013. The average balance of the HTM portfolio decreased by $2.5 million during 2014, as compared to the average during 2013. The overall yield on the HTM portfolio decreased by nine basis points from 2013 and decreased by 16 basis points from 2012 attributable to maturing or called securities that were purchased in higher interest rate environments.

The expected average life of the held to maturity portfolio was 2.43 years and 2.84 years at December 31, 2014 and 2013, respectively.

***Available-for-sale***

Securities available for sale consist mainly of debentures of government-sponsored entities, state and municipal bonds, and mortgage-backed securities. At December 31, 2014, investment securities with an amortized cost of $797.9 million and fair value of $806.8 million were classified as available for sale. The adjustment of $8.8 million between the carrying value of these securities and their amortized cost has been reflected, net of tax, in the consolidated balance sheet as a component of accumulated other comprehensive loss. The following are highlights of our available-for-sale securities:

- Total securities available for sale increased $20.0 million, or 2.5%, from the balance at December 31, 2013, primarily the result purchases of GSEs and mortgage-backed securities, partially offset by maturing or called securities specifically within the state and municipal category that were purchased in higher interest rate environments.
- The balance of securities available for sale represented 10.3% of total assets at December 31, 2014 and 9.9% of total assets at December 31, 2013.
- Interest income earned in 2014 amounted to $19.4 million, an increase of $4.5 million, or 30.1%, from $14.9 million in the comparable year of 2013. The increase in interest earned reflected a $223.1 million increase in the average balances of securities available for sale, partially offset by a 16 basis point decrease in the yield on available for sale securities, reflecting the ongoing low interest rate environment throughout 2014.

At December 31, 2014, we had 66 securities available for sale in an unrealized loss position, which totaled $3.6 million. During 2014, the credit and capital markets continued to experience some turmoil globally, and U.S. intermediate to longer term rates generally declined during the year as the yield curve flattened and credit spreads remained generally tight. See Note 3 Investment Securities in the consolidated financial statements for additional information.

Investment securities in an unrealized loss position as of December 31, 2014 continue to perform as scheduled. We have the intent to hold all securities within the portfolio until their maturity or until their value recovers and it is more-likely-than-not that we will not be required to sell the debt

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securities. Therefore, we do not consider these investments to be other-than-temporarily impaired at December 31, 2014. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for other-than-temporary impairment related to securities available for sale would not impact cash flow, tangible capital or liquidity.

While securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While we generally hold these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be sold at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

***Other Investments***

Other investment securities primarily include our investment in Federal Home Loan Bank of Atlanta ("FHLB") stock, with no readily determinable market value. The amortized cost and fair value of all these securities are equal at year end. As of December 31, 2014, the investment in FHLB stock represented approximately $7.5 million, or 0.10% of total assets.

***Table 7 Maturity Distribution and Yields of Investment Securities***

| | Due In 1 Year or Less | | Due After 1 Thru 5 Years | | Due After 5 Thru 10 Years | | Due After 10 Years | | Total(7) | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** |
| **Held-to-maturity** | | | | | | | | | | |
| State and municipal obligations(2)(3) | $ | 0.00% | $ 986 | 5.99% | $ 8,673 | 5.88% | $ | 0.00% | $ 9,659 | 5.89% |
| Total held-to-maturity | | 0.00% | 986 | 5.99% | 8,673 | 5.88% | | 0.00% | 9,659 | 5.89% |
| **Available-for-sale** | | | | | | | | | | |
| Government-sponsored entities debt(4) | 2,020 | 1.34% | 36,119 | 2.00% | 90,965 | 2.19% | 19,093 | 2.17% | 148,197 | 2.13% |
| State and municipal obligations(2)(3) | 3,661 | 5.30% | 8,127 | 3.09% | 47,462 | 4.66% | 78,331 | 4.69% | 137,581 | 4.60% |
| Mortgage-backed securities(5) | | 0.00% | 940 | 4.17% | 86,263 | 2.35% | 430,743 | 2.23% | 517,946 | 2.25% |
| Corporate stocks(1) | | 0.00% | | 0.00% | | 0.00% | 3,042 | 0.62% | 3,042 | 0.62% |
| Total available-for-sale | 5,681 | 3.89% | 45,186 | 2.24% | 224,690 | 2.77% | 531,209 | 2.58% | 806,766 | 2.62% |
| Total other investments(1) | | 0.00% | | 0.00% | | 0.00% | 10,518 | 4.42% | 10,518 | 4.42% |
| Total investment securities(6) | $ 5,681 | 3.89% | $ 46,172 | 2.32% | $ 233,363 | 2.89% | $ 541,727 | 2.62% | $ 826,943 | 2.68% |
| Percent of total | 1% | | 6% | | 28% | | 66% | | | |
| Cumulative percent of total | 1% | | 6% | | 34% | | 100% | | | |

(1) FHLB and other corporate stocks have no set maturity date and are classified in "Due after 10 Years."

(2) Yields on tax-exempt income have been presented on a taxable-equivalent basis in the above table.

(3) The expected average life for state and municipal obligations is 4.79 years; 2.43 years for held-to-maturity and 4.96 years for available-for-sale.

(4)

The expected average life for government sponsored entities debt securities is 1.50 years.

(5) The expected average life for mortgage-backed securities is 3.61 years.

(6) The expected average life for the total investment securities portfolio is 3.46 years (not including FHLB and corporate stock with no maturity date).

(7) For available-for-sale securities, this total equals total fair value; for held-to-maturity securities, this total equals amortized cost.

**Loan Portfolio**

Our loan portfolio remains our largest category of interest-earning assets. At December 31, 2014, total loans were $5.7 billion, relatively flat compared to the balance at the end of 2013. Non-acquired loan growth of $602.6 million, or 21.0%, for the year was partially offset by a $578.4 million, or 20.4%, decrease in acquired loans. A 33.0% increase in consumer real estate loans, an 18.0% increase in commercial non-owner occupied real estate loans, an 8.9% increase in commercial owner occupied real

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estate loans, a 38.8% increase in consumer loans, and a 26.1% increase in commercial and industrial loans contributed to the non-acquired loan growth for the year ended December 31, 2014. Average loans outstanding during 2014 were $5.7 billion, an increase of $1.2 billion, or 25.5%, over the 2013 average of $4.5 billion. (For further discussion of the Company's acquired loan accounting, see Note 1 Summary of Significant Accounting Policies, Note 2 Mergers and Acquisitions and Note 4 Loans and Allowance for Loan Losses in the consolidated financial statements.)

The following table presents a summary of the non-acquired loan portfolio by type:

***Table 8 Distribution of Non-Acquired Loans by Type***

| | December 31, | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| Real estate: | | | | | |
| Commercial non-owner occupied(1) | **$ 697,811** | $ 591,122 | $ 563,491 | $ 610,543 | $ 712,190 |
| Consumer(2) | **1,070,712** | 805,309 | 689,787 | 656,515 | 589,431 |
| Commercial owner occupied real estate | **907,913** | 833,513 | 784,152 | 742,890 | 578,587 |
| Commercial and industrial | **405,923** | 321,824 | 279,763 | 220,454 | 202,987 |
| Other income producing property | **150,928** | 143,204 | 133,713 | 140,693 | 124,431 |
| Consumer | **189,317** | 136,410 | 86,934 | 85,342 | 67,768 |
| Other loans | **45,222** | 33,834 | 33,163 | 14,128 | 20,806 |
| Total non-acquired loans | **$ 3,467,826** | $ 2,865,216 | $ 2,571,003 | $ 2,470,565 | $ 2,296,200 |

(1) Includes $364.2 million, $300.0 million, $273.4 million, $310.8 million, and $392.0 million of construction and land development loans at December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(2) Includes owner occupied real estate.

In accordance with FASB ASC Topic 310-30, the Company aggregated acquired credit impaired loans that have common risk characteristics into pools within the following loan categories: commercial loans greater than or equal to $1 million CBT, commercial real estate, commercial real estate construction and development, residential real estate, residential real estate junior lien, home equity, consumer, commercial and industrial, and single pay. Single pay loans consist of those instruments for which repayment of principal and interest is expected at maturity. The following table presents the acquired credit impaired loans by type:

***Table 9 Distribution of Acquired Credit Impaired Loans by Type***

| | December 31, | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| Commercial loans greater than or equal to $1 million CBT | **$ 15,813** | $ 24,109 | $ 39,661 | $ 56,540 | $ 84,288 |
| Commercial real estate | **325,109** | 439,785 | 372,924 | 108,327 | 66,628 |
| Commercial real estate construction and development | **65,262** | 114,126 | 130,451 | 51,005 | 32,312 |
| Residential real estate | **390,244** | 481,247 | 354,718 | 128,510 | 92,737 |
| Consumer | **85,449** | 103,998 | 15,685 | 10,019 | 10,915 |
| Commercial and industrial | **44,804** | 68,862 | 72,718 | 39,311 | 24,742 |
| Single pay | **86** | 129 | 456 | 475 | 9,416 |
| Total acquired credit impaired loans | **$ 926,767** | $ 1,232,256 | $ 986,613 | $ 394,187 | $ 321,038 |

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Acquired loans that are not credit impaired and lines of credit (consumer and commercial) are accounted for in accordance with FASB ASC Topic 310-20. The following table presents the acquired non-credit impaired loans by type:

***Table 10 Distribution of Acquired Non-Credit Impaired Loans by Type***

| | December 31, | | |
|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** |
| Real estate: | | | |
| Commercial non-owner occupied(1) | **$ 73,575** | $ 116,994 | $ 3,716 |
| Consumer(2) | **881,324** | 1,009,631 | 36,139 |
| Commercial owner occupied real estate | **62,065** | 73,714 | 12,141 |
| Commercial and industrial | **41,130** | 58,773 | 17,531 |
| Other income producing property | **65,139** | 74,566 | 3,688 |
| Consumer | **204,766** | 267,257 | |
| Total acquired non-credit impaired loans | **$ 1,327,999** | $ 1,600,935 | $ 73,215 |

(1) Includes $24.1 million, $58.4 million, and $839,000 of construction and land development loans at December 31, 2014, 2013, and 2012, respectively.

(2) Includes owner occupied real estate.

The Company did not have any acquired non-credit impaired loans for the years ended December 31, 2011, and 2010.

Real estate mortgage loans continue to comprise the largest segment of our loan portfolio. All commercial and residential loans secured by real estate are included in this category. As of December 31, 2014 compared to December 31, 2013:

- Acquired loans were $2.3 billion, or 39.4% of total loans at December 31, 2014.

- Non-acquired loans secured by real estate mortgages, excluding commercial owner occupied loans, were $1.8 billion, and comprised 30.9% of the total loan portfolio. This was an increase of $372.1 million, or 26.6%, over December 31, 2013.

- Loans secured by commercial real estate, excluding commercial owner occupied loans, increased by $106.7 million, or 18.0%.

- Loans secured by consumer real estate grew by $265.4 million, or 33.0%.

- Commercial owner occupied real estate loans grew $74.4 million, or 8.9%, from the comparable year of 2013. The balance represented 15.9% of total loans at December 31, 2014.

Loan interest income was $319.9 million in 2014, an increase of $51.3 million, or 19.1%, over 2013 loan interest income of $268.6 million. The increase was the result of the 37.9% growth in the average balance of the acquired loan portfolio from the full year impact of the FFHI business combination along with organic growth partially offset by an average acquired loan portfolio yield in 2014 of 7.46% which was 73 basis points lower than the 8.19% loan yield in 2013 and an average non-acquired loan portfolio yield in 2014 of 4.17% which was 25 basis points lower than the 4.42% loan yield in 2013. Interest income for 2013 was 53.6% higher than the 2012 income of $174.8 million. The average loan yield of the non-acquired loan portfolio in 2013 was 39 basis points lower than the 2012 yield of 4.42%. The average loan yield of the acquired loan portfolio in 2013 was 294 basis points lower than the 2012 yield of 11.13%.

Non-acquired loans secured by commercial real estate were comprised of $364.2 million in construction and land development loans and $333.6 million in commercial non-owner occupied loans at December 31, 2014. At December 31, 2013, we had $300.0 million in construction and land

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development loans and $291.2 million in commercial non-owner occupied loans. Construction and land development loans are more susceptible to a risk of loss during the current downturn in the business cycle.

Non-acquired loans secured by consumer real estate comprised of $786.8 million in consumer owner occupied loans and $283.9 million in home equity loans at December 31, 2014. At December 31, 2013, we had $548.2 million in consumer owner occupied loans and $257.1 million in home equity loans.

The table below shows the contractual maturity of the non-acquired loan portfolio at December 31, 2014.

***Table 11 Maturity Distribution of Non-acquired Loans***

| **December 31, 2014 (Dollars in thousands)** | **Total** | **1 Year or Less** | **Maturity 1 to 5 Years** | **Over 5 Years** |
|---|---|---|---|---|
| Real estate: | | | | |
| Commercial non-owner occupied | $ 697,811 | $ 95,247 | $ 564,839 | $ 37,725 |
| Consumer | 1,070,712 | 59,644 | 924,350 | 86,718 |
| Commercial owner occupied real estate | 907,913 | 93,361 | 814,552 | |
| Commercial and industrial | 405,923 | 117,660 | 288,263 | |
| Other income producing property | 150,928 | 27,339 | 123,339 | 250 |
| Consumer | 189,317 | 8,878 | 180,439 | |
| Other loans | 45,222 | 5,313 | 38,261 | 1,648 |
| Total non-acquired loans | $ 3,467,826 | $ 407,442 | $ 2,934,043 | $ 126,341 |

At December 31, 2014 and 2013, our non-acquired commercial non-owner-occupied real estate loans, with fixed rates and maturities greater than a year, had a balance of $399.8 million and $355.2 million, respectively. The adjustable interest rate loan balance in this loan category was $202.8 million and $116.5 million, respectively. The non-acquired commercial owner occupied loans, with fixed rates and maturities greater than a year, had a balance of $751.6 million and $727.1 million, respectively. The adjustable interest rate loan balance in this loan category was $62.9 million and $31.5 million, respectively. The non-acquired commercial and industrial loan category, with fixed rates and maturities greater than a year, had a balance of $244.1 million and $178.3 million, respectively. The adjustable interest rate loan balance in this loan category was $44.2 million and $30.9 million, respectively.

The table below shows the contractual maturity of the acquired non-credit impaired loan portfolio at December 31, 2014.

***Table 12 Maturity Distribution of Acquired Non-credit Impaired Loans***

| **December 31, 2014 (Dollars in thousands)** | **Total** | **1 Year or Less** | **Maturity 1 to 5 Years** | **Over 5 Years** |
|---|---|---|---|---|
| Real estate: | | | | |
| Commercial non-owner occupied | $ 73,575 | $ 2,709 | $ 34,417 | $ 36,449 |
| Consumer | 881,324 | 5,303 | 50,467 | 825,554 |
| Commercial owner occupied real estate | 62,065 | 7,070 | 29,490 | 25,505 |
| Commercial and industrial | 41,130 | 10,176 | 22,002 | 8,952 |
| Other income producing property | 65,139 | 875 | 5,336 | 58,928 |
| Consumer | 204,766 | 549 | 11,408 | 192,809 |
| Total acquired non-credit impaired loans | $ 1,327,999 | $ 26,682 | $ 153,120 | $ 1,148,197 |

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The table below shows the contractual maturity of the acquired credit impaired loan portfolio at December 31, 2014.

***Table 13 Maturity Distribution of Acquired Credit Impaired Loans***

| December 31, 2014<br>(Dollars in thousands) | Total | 1 Year<br>or Less | Maturity<br>1 to 5 Years | Over<br>5 Years |
|---|---|---|---|---|
| Commercial loans greater than or equal to $1 million CBT | $ 15,813 | $ 4,138 | $ 8,155 | $ 3,520 |
| Commercial real estate | 325,109 | 79,796 | 178,886 | 66,427 |
| Commercial real estate construction and development | 65,262 | 32,982 | 27,284 | 4,996 |
| Residential real estate | 390,244 | 61,206 | 105,075 | 223,963 |
| Consumer | 85,449 | 1,873 | 8,449 | 75,127 |
| Commercial and industrial | 44,804 | 16,529 | 22,163 | 6,112 |
| Single pay | 86 | 59 | 27 | |
| Total acquired credit impaired loans | $ 926,767 | $ 196,583 | $ 350,039 | $ 380,145 |

***Nonaccrual Loans***

Generally, we place a non-acquired loan on nonaccrual when the loan becomes 90 days or more past due. Management does place loans which are not 90 days or more past due on nonaccrual based upon management's judgment of collectability of principal and interest.

***Troubled Debt Restructurings ("TDRs")***

The Company designates loan modifications as TDRs when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider (ASC Topic 310-40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. TDRs are returned to accruing status when there is economic substance to the restructuring, there is documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months). At December 31, 2014 and 2013, total TDRs were $16.2 million and $16.0 million, respectively, of which $6.8 million were accruing restructured loans at December 31, 2014, compared to $5.3 million at December 31, 2013. The Company does not have significant commitments to lend additional funds to these borrowers whose loans have been modified.

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The level of risk elements in the loan portfolio, OREO and other nonperforming assets for the past five years is shown below:

***Table 14 Nonperforming Assets***

| | December 31, | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| **Non-acquired:** | | | | | |
| Nonaccrual loans | **$ 18,569** | $ 31,333 | $ 48,387 | $ 64,170 | $ 62,661 |
| Accruing loans past due 90 days or more | **522** | 258 | 500 | 926 | 118 |
| Restructured loans | **9,425** | 10,690 | 13,151 | 11,807 | 6,365 |
| Total nonperforming loans | **28,516** | 42,281 | 62,038 | 76,903 | 69,144 |
| Other real estate owned ("OREO")(2) | **7,947** | 13,456 | 19,069 | 18,022 | 17,264 |
| Other nonperforming assets(3) | | | | 24 | 50 |
| Total nonperforming assets excluding acquired assets | **36,463** | 55,737 | 81,107 | 94,949 | 86,458 |
| **Acquired:** | | | | | |
| Acquired non-credit impaired nonaccrual loans | **7,538** | | | | |
| Acquired non-credit impaired accruing loans past due 90 days or more | **108** | | | | |
| Acquired covered OREO | **16,227** | 27,520 | 34,257 | 65,849 | 69,317 |
| Acquired non-covered OREO | **18,552** | 23,942 | 13,179 | | |
| Other acquired nonperforming assets(3) | **694** | 943 | 44 | 251 | 19 |
| Total acquired nonperforming assets(1) | **43,119** | 52,405 | 47,480 | 66,100 | 69,336 |
| Total nonperforming assets | **$ 79,582** | $ 108,142 | $ 128,587 | $ 161,049 | $ 155,794 |
| **Excluding acquired assets:** | | | | | |
| Total nonperforming assets as a percentage of total loans and repossessed assets(4) | **1.05%** | 1.94% | 3.13% | 3.82% | 3.74% |
| Total nonperforming assets as a percentage of total assets | **0.47%** | 0.70% | 1.58% | 2.44% | 2.41% |
| Nonperforming loans as a percentage of period end loans(4) | **0.82%** | 1.48% | 2.41% | 3.11% | 3.01% |
| **Including acquired assets:** | | | | | |
| Total nonperforming assets as a percentage of total loans and repossessed assets(4) | **1.38%** | 1.88% | 3.46% | 5.45% | 5.76% |
| Total nonperforming assets as a percentage of total assets | **1.02%** | 1.36% | 2.50% | 4.13% | 4.33% |

| | | | | | |
|---|---|---|---|---|---|
| Nonperforming loans as a percentage of period end loans(4) | **0.63%** | 0.74% | 1.70% | 2.68% | 2.64% |

(1) Excludes the acquired credit impaired loans that are contractually past due 90 days or more totaling $48.5 million, $82.1 million, $76.1 million, $97.6 million, and $93.6 million as of December 31, 2014, December 31, 2013, 2012, December 31, 2011, and December 31, 2010, respectively, including the valuation discount. Acquired credit impaired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For

further discussion of the Company's application of the accretion method, see *Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset* under Note 1 Summary of Significant Accounting Policies in the consolidated financial statements.)

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

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

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

Excluding the acquired loans, total nonperforming loans were $28.5 million, or 0.82% of total loans, a decrease of $13.8 million, or 32.6%, from December 31, 2013. The decrease in nonperforming loans was driven by a decrease in commercial nonaccrual loans and TDRs of $10.0 million and a decrease in consumer nonaccrual loans and TDRs of $4.0 million from December 31, 2013.

Nonperforming loans and restructured loans decreased by approximately $179,000 during the fourth quarter of 2014 from the level at September 30, 2014. This was primarily the result of $2.6 million being repaid or sold, $1.1 million returning to accruing status, $1.8 million being transferred to OREO, and $384,000 charged-off; partially offset by $6.0 million in loans moving to nonaccrual status during the quarter. The top 10 nonaccrual loans at December 31, 2014 consist of five loans located along the coast of South Carolina, four in the Low Country/Orangeburg region, and one located in the Charlotte region, and total $10.9 million. These loans comprise 30.6% of total nonaccrual loans at December 31, 2014 and are all real estate collateral dependent. The Company currently holds specific reserves of $306,000 on one of these ten loans. Of our nonperforming loan balance of $36.2 million at December 31, 2014, 39% is in South Carolina coastal markets.

At December 31, 2014, non-acquired OREO (not covered) decreased by $5.5 million from the balance at December 31, 2013 to $7.9 million. At December 31, 2014, non-acquired OREO consisted of 55 properties with an average value of $145,000, a decrease of $11,000 from December 31, 2013, when we had 86 properties. In the fourth quarter of 2014, we added eight properties with an aggregate value of $1.7 million into non-acquired OREO, and we sold 12 properties with a basis of $2.3 million in that same quarter. We recorded a net loss of $3,000 on the properties sold during the quarter. We also wrote down five properties during the fourth quarter by $100,000. Our non-acquired OREO balance of $7.9 million at December 31, 2014 is comprised of 38% in the Low Country/Orangeburg region, 25% in the Coastal region (Beaufort to Myrtle Beach), 9% in the Charlotte region, 13% in the Upstate region (Greenville), and 15% primarily related to former branch locations.

Our general policy is to obtain updated OREO valuations at least annually. OREO valuations include appraisals or broker opinions, (See *Other Real Estate Owned ("OREO")* under Critical Accounting Policies and Estimates in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion on the Company's OREO policies.)

***Potential Problem Loans***

Potential problem loans, which are not included in nonperforming loans, amounted to approximately $7.6 million, or 0.22% of total non-acquired loans outstanding at December 31, 2014, compared to $7.3 million, or 0.25% of total loans outstanding at December 31, 2013. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms. Potential problem loans related to acquired non-credit impaired loans totaled $10.4 million, or 0.79%, of total acquired non-credit impaired loans at December 31, 2014. For the period ended December 31, 2013, there were no acquired non-credit impaired loans that were considered potential problem loans until we completed the evaluation of acquired loans and any related purchase adjustment during the measurement period. All potential problem loans represent

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those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower's ability to comply with present repayment terms.

***Allowance for Loan Losses***

On December 13, 2006, the Federal Reserve Board, the FDIC, and other regulatory agencies collectively revised the banking agencies' 1993 policy statement on the allowance for loan and lease losses to ensure consistency with generally accepted accounting principles in the United States and more recent supervisory guidance. Our loan loss policy adheres to the interagency guidance.

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

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

With the FFHI business combination, the Company segregated the FFHI acquired loan portfolio into performing loans ("non-credit impaired") and credit impaired loans. The acquired non-credit impaired loans and acquired revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. Acquired credit impaired loans are recorded net of any acquisition accounting discounts and have no allowance for loan losses associated with them at acquisition date. The related discount, if applicable, is accreted into interest income over the remaining contractual life of the loan using the level yield method. Subsequent deterioration in the credit quality of these loans is recognized by recording a provision for loan losses through the income statement, increasing the non-acquired and acquired non-credit impaired allowance for loan losses. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income

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prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past-due and nonaccrual levels and migration in the pools to lower loan grades. Offsetting the impact of the provision established for the loan, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 1 Summary of Significant Accounting Policies, Note 2 Mergers and Acquisitions and Note 4 Loans and Allowance for Loan Losses in the consolidated financial statements.)

The following tables provide the allocation for the non-acquired and acquired credit impaired allowance for loan losses. There was no allowance for acquired credit impaired loan losses prior to 2011. At December 31, 2014, there has been no allowance recognized for acquired non-credit impaired loan losses.

***Table 15 Allocation of the Allowance for Non-Acquired Loan Losses***

| | **2014** | | **2013** | | **2012** | | **2011** | | **2010** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amount** | **%*** | **Amount** | **%*** | **Amount** | **%*** | **Amount** | **%*** | **Amount** | **%*** |
| Real estate: | | | | | | | | | | |
| Commercial non-owner occupied | **$ 8,820** | **20.1%** | $ 10,466 | 20.6% | $ 15,757 | 21.9% | $ 18,482 | 24.6% | $ 20,670 | 31.0% |
| Consumer owner occupied | **9,695** | **30.9%** | 8,851 | 28.1% | 10,194 | 26.8% | 11,722 | 26.6% | 10,484 | 25.7% |
| Commercial owner occupied real estate | **8,415** | **26.2%** | 7,767 | 29.1% | 8,743 | 30.5% | 10,356 | 30.1% | 7,814 | 25.2% |
| Commercial and industrial | **3,561** | **11.7%** | 3,592 | 11.2% | 4,939 | 10.9% | 3,901 | 8.9% | 4,313 | 8.8% |
| Other income producing property | **2,232** | **4.4%** | 2,509 | 5.0% | 3,747 | 5.2% | 3,636 | 5.7% | 2,834 | 5.4% |
| Consumer | **1,367** | **5.5%** | 937 | 4.8% | 781 | 3.4% | 1,145 | 3.5% | 1,191 | 3.0% |
| Other loans | **449** | **1.2%** | 209 | 1.2% | 217 | 1.3% | 125 | 0.6% | 206 | 0.9% |
| Total | **$ 34,539** | **100.0%** | $ 34,331 | 100.0% | $ 44,378 | 100.0% | $ 49,367 | 100.0% | $ 47,512 | 100.0% |

* Loan carrying value in each category, expressed as a percentage of total non-acquired loans

***Table 16 Allocation of the Allowance for Acquired Credit Impaired Loan Losses***

| | **2014** | | **2013** | | **2012** | | **2011** | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amount** | **%*** | **Amount** | **%*** | **Amount** | **%*** | **Amount** | **%*** |
| Commercial loans greater than or equal to $1 million CBT | **$ 135** | **1.7%** | $ 303 | 2.0% | $ 5,337 | 4.0% | $ 12,417 | 15.1% |
| Commercial real estate | **1,444** | **35.1%** | 1,816 | 35.7% | 1,517 | 37.8% | 1,318 | 26.9% |
| Commercial real estate construction and development | **336** | **7.0%** | 2,244 | 9.3% | 1,628 | 13.2% | | 12.7% |
| Residential real estate | **4,387** | **42.1%** | 5,132 | 39.1% | 4,207 | 36.0% | 5,332 | 32.0% |
| Consumer | **275** | **9.2%** | 538 | 8.4% | 96 | 1.6% | | 2.5% |
| Commercial and industrial | **718** | **4.9%** | 1,481 | 5.5% | 4,139 | 7.4% | 4,564 | 9.8% |
| Single pay | **70** | **0.0%** | 104 | 0.0% | 294 | 0.0% | (24) | 1.0% |
| Total | **$ 7,365** | **100.0%** | $ 11,618 | 100.0% | $ 17,218 | 100.0% | $ 23,607 | 100.0% |

* Loan carrying value in each category, expressed as a percentage of total acquired credit impaired loans

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The following table presents changes in the allowance for loan losses on non-acquired loans for the five years at December 31:

***Table 17 Summary of Non-Acquired Loan Loss Experience***

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| Allowance for loan losses at January 1 | **$ 34,331** | $ 44,378 | $ 49,367 | $ 47,512 | $ 37,488 |
| Charge-offs: | | | | | |
| Real estate: | | | | | |
| Commercial non-owner occupied | **(679)** | (5,316) | (10,802) | (15,653) | (22,161) |
| Consumer | **(1,382)** | (2,681) | (3,244) | (5,524) | (9,775) |
| Commercial owner occupied real estate | **(531)** | (2,695) | (2,781) | (2,346) | (2,625) |
| Commercial and industrial | **(1,114)** | (1,329) | (2,033) | (1,872) | (9,138) |
| Other income producing property | **(309)** | (816) | (924) | (2,366) | (338) |
| Consumer* | **(3,501)** | (2,452) | (2,146) | (1,337) | (2,780) |
| Other loans | | | | (111) | |
| Total charge-offs | **(7,516)** | (15,289) | (21,930) | (29,209) | (46,817) |
| Recoveries: | | | | | |
| Real estate: | | | | | |
| Commercial non-owner occupied | **811** | 1,748 | 1,710 | 662 | 814 |
| Consumer | **340** | 861 | 724 | 356 | 194 |
| Commercial owner occupied real estate | **95** | 41 | 5 | 158 | 126 |
| Commercial and industrial | **264** | 514 | 228 | 295 | 713 |
| Other income producing property | **191** | 224 | 361 | 293 | 6 |
| Consumer* | **873** | 836 | 728 | 645 | 706 |
| Other loans | | | | | |
| Total recoveries | **2,574** | 4,224 | 3,756 | 2,409 | 2,559 |
| Net charge-offs | **(4,942)** | (11,065) | (18,174) | (26,800) | (44,258) |
| Provision for loan losses | **5,150** | 1,018 | 13,185 | 28,655 | 54,282 |
| Allowance for loan losses at December 31 | **$ 34,539** | $ 34,331 | $ 44,378 | $ 49,367 | $ 47,512 |
| Average loans, net of unearned income** | **$ 3,151,482** | $ 2,677,450 | $ 2,484,751 | $ 2,397,821 | $ 2,224,746 |
| Ratio of net charge-offs to average loans, net of unearned income* | **0.16%** | 0.41% | 0.73% | 1.12% | 1.99% |
| Allowance for loan losses as a percentage of total non-acquired loans | **1.00%** | 1.20% | 1.73% | 2.00% | 2.07% |

* Net charge-offs at December 31, 2014, 2013, 2012, 2011 and 2010 include automated overdraft protection ("AOP") principal net charge-offs of $1.3 million, $947,000, $813,000, $515,000 and $610,000, respectively, and insufficient fund ("NSF") principal net charge-offs of $763,000, $119,000, $251,000, $122,000 and $263,000, respectively, that are included in the consumer classification above.

** Non-acquired average loans, net of unearned income does not include loans held for sale.

The increase in non-acquired provision for loan losses in 2014 was primarily the result of loan growth during 2014. Non-acquired loans grew by more than $602.6 million, or 21%, in 2014. Net

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charge-offs declined by more than $6.1 million from the level in 2013. The following provides highlights for the years ended December 31, 2014 and 2013:

- Total net charge-offs decreased $6.1 million, or 55.3% for the year ended December 31, 2014 compared to a $7.1 million, or 39.1%, decrease for the comparable year in 2013. Gross charge offs and recoveries both declined from the 2013 levels, as gross charge offs declined by $7.8 million, or 50.8%, and recoveries declined by $1.7 million, or 39.1%. The decrease in net charge-offs between December 31, 2014 and December 31, 2013 was in commercial non-owner occupied real estate by $3.7 million, consumer real estate by $778,000, commercial owner occupied real estate by $2.2 million, and other income producing by $474,000. These declines were partially offset by the following increases in net charge-offs: commercial and industrial by $35,000 and consumer by $1.0 million.

- During the fourth quarter of 2014, the ratio of net charge-offs to average loans decreased to 0.13% from 0.26% during the third quarter of 2014 and during the fourth quarter of 2013.

We have seen noted improvement in the economy and business activity throughout our markets during 2014, and we are expecting this trend to continue in 2015. Excluding acquired loans, non-acquired non-accrual loans decreased by $1.9 million during the fourth quarter compared to the third quarter of 2014. The ratio of the ALLL to cover these non-acquired nonaccrual loans increased from 81% at December 31, 2013 to 121% at December 31, 2014.

We decreased the ALLL for the fourth quarter of 2014 compared to the fourth quarter of 2013 due to the decline in risk and net charge offs within the overall loan portfolio. On a general basis, we consider three-year historical loss rates on the entire loan portfolio, except residential lot loans where two-year historical loss rates are applied, consumer auto loans where seven quarter historical loss rates have been applied, and consumer marine where six quarter historical loss rates have been applied. Once more historical loss rates are determined for consumer auto loans and consumer marine loans, three year historical loss rates will be applied. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio.

The three-year historical loss rate average on an overall basis decreased from December 31, 2013 due to the removal of much higher historical loss rates in our rolling averages being replaced with recent lower historical loss rates. This resulted in a decrease of 20 basis points in the ALLL. Compared to the third quarter of 2014, the decrease was five basis points.

Economic risk remained flat at the end of 2014 as compared to 2013. A decrease of one basis point was reflected in the unemployment factor, but was offset with an increase in home sales factor of one basis point. Compared to the third quarter of 2014, we did not adjust the economic risk factors.

Model risk increased one basis point compared to December 31, 2013, and was adjusted based upon our experience with the current model which is a more automated solution. This risk comes from the fact that our ALLL model is not all-inclusive. Risk inherent with new products, new markets, and timeliness of information are examples of this type of exposure. Our model has been reviewed by management, the audit committee, and the bank's primary regulators (including the FDIC, the SCBFI, and until July 2012, the OCC), and we believe it adequately addresses the various inherent risks in our loan portfolio.

Operational risk consists of the underwriting, documentation, closing and servicing associated with any loan. This risk is managed through policies and procedures, portfolio management reports, best practices and the approval process. The risk factors evaluated include the following: exposure outside our deposit footprint, changes in underwriting standards, levels of past due loans and classified assets, loan growth, supervisory loan to value exceptions, results of external loan reviews, our centralized loan documentation process and significant loan concentrations. We increased the overall operational risk by

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five basis points during 2014 compared to December 31, 2013, due primarily to loan growth experienced during 2014, which increased by six basis points. Other factors declined by one basis point including levels of classified assets and levels of past dues.

On a specific reserve basis, the allowance for loan losses at December 31, 2014 decreased by approximately $73,000 from December 31, 2013. The loan balances being evaluated for specific reserves during the year increased from $26.0 million to $27.1 million at December 31, 2014. Our practice, generally, is that once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve.

The following table presents changes in the allowance for loan losses on acquired non-credit impaired loans for the year ended December 31, 2014. Prior to 2014, there was no material activity in the allowance for loan losses for acquired non-credit impaired loans.

***Table 18 Summary of Acquired Non-Credit Impaired Loan Loss Experience***

| (Dollars in thousands) | | Year Ended December 31, 2014 |
|---|---|---|
| Allowance for loan losses at January 1 | $ | |
| Charge-offs: | | |
| Real estate: | | |
| Commercial non-owner occupied | | (150) |
| Consumer | | (680) |
| Commercial owner occupied real estate | | |
| Commercial and industrial | | (456) |
| Other income producing property | | (14) |
| Consumer* | | (231) |
| Other loans | | |
| Total charge-offs | | (1,531) |
| Recoveries: | | |
| Real estate: | | |
| Commercial non-owner occupied | | 1 |
| Consumer | | 282 |
| Commercial owner occupied real estate | | |
| Commercial and industrial | | 312 |
| Other income producing property | | |
| Consumer* | | 9 |
| Other loans | | |
| Total recoveries | | 604 |
| Net charge-offs | | (927) |
| Provision for loan losses | | 927 |
| Allowance for loan losses at December 31 | $ | |
| Average loans, net of unearned income | $ | 1,458,309 |
| Ratio of net charge-offs to average loans, net of unearned income | | 0.06% |

The following table presents changes in the allowance for loan losses on acquired credit impaired loans for the years ended December 31, 2014, 2013, 2012, and 2011. Prior to 2011, there was no material activity in the allowance for loan losses for acquired credit impaired loans.

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***Table 19 Summary of Acquired Credit Impaired Loan Loss Experience***

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** |
| Balance, beginning of the period | **$ 11,618** | $ 17,218 | $ 23,607 | $ |
| Provision for loan losses before benefit attributable to FDIC loss share agreements: | | | | |
| Commercial loans greater than or equal to $1 million CBT | **(129)** | (3,109) | (1,298) | 16,706 |
| Commercial real estate | **(328)** | 299 | 199 | 1,318 |
| Commercial real estate construction and development | **(621)** | 2,347 | 1,628 | |
| Residential real estate | **(406)** | 1,057 | (855) | 5,471 |
| Consumer | **(111)** | 442 | 96 | |
| Commercial and industrial | **(314)** | (1,786) | (259) | 4,564 |
| Single pay | **2** | (168) | 1,001 | 3,561 |
| Total provision for loan losses before benefit attributable to FDIC loss share agreements | **(1,907)** | (918) | 512 | 31,620 |
| Benefit attributable to FDIC loss share agreements: | | | | |
| Commercial loans greater than or equal to $1 million CBT | **183** | 2,934 | 1,233 | (15,871) |
| Commercial real estate | **364** | (456) | (30) | (1,252) |
| Commercial real estate construction and development | **792** | (1,645) | (1,319) | |
| Residential real estate | **571** | (520) | 813 | (5,198) |
| Consumer | **141** | (412) | (88) | |
| Commercial and industrial | **371** | 1,719 | 264 | (4,336) |
| Single pay | **(2)** | 166 | (951) | (3,384) |
| Total benefit attributable to FDIC loss share agreements | **2,420** | 1,786 | (78) | (30,041) |
| Total provision for loan losses charged to operations | **513** | 868 | 434 | 1,579 |
| Provision for loan losses recorded through the FDIC loss share receivable | **(2,420)** | (1,786) | 78 | 30,041 |
| Reductions due to loan removals: | | | | |
| Commercial loans greater than or equal to $1 million CBT | **(39)** | (1,925) | (5,782) | (4,289) |
| Commercial real estate | **(44)** | | | |
| Commercial real estate construction and development | **(1,285)** | (1,731) | | |
| Residential real estate | **(339)** | (132) | (270) | (139) |
| Consumer | **(153)** | | | |
| Commercial and industrial | **(449)** | (872) | (166) | |
| Single pay | **(37)** | (22) | (683) | (3,585) |
| Total reductions due to loan removals | **(2,346)** | (4,682) | (6,901) | (8,013) |
| Balance, end of the period | **$ 7,365** | $ 11,618 | $ 17,218 | $ 23,607 |

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**Loss Share**

The following table presents the projected total losses compared to the original estimated losses on acquired assets covered under loss share agreements as of December 31, 2014:

***Table 20 Projected Total Losses under FDIC Loss Share Agreements***

| (Dollars in thousands) | FDIC Threshold or ILE | Original Estimated Gross Losses | Original Estimated Covered Losses | Losses Incurred* By FFCH through July 26, 2013 | Losses Incurred** By South State through December 31, 2014 | Remaining Estimated Losses for Loans | OREO Mark*** December 31, 2014 | Projected Total Losses |
|---|---|---|---|---|---|---|---|---|
| CBT | $ 233,000 | $ 340,039 | $ 334,082 | $ | $ 312,766 | $ 1,498 | $ 1,281 | $ 315,545 |
| Habersham | 94,000 | 124,363 | 119,978 | | 92,182 | 1,618 | 471 | 94,271 |
| BankMeridian | 70,827 | 70,190 | 67,780 | | 30,230 | 1,777 | 2,384 | 34,391 |
| Cape Fear**** | 131,000 | 12,921 | 8,213 | 76,122 | 4,481 | 622 | 50 | 81,275 |
| Plantation**** | 70,178 | 24,273 | 16,176 | 35,190 | 11,973 | 5,106 | 233 | 52,502 |
| Total | $ 599,005 | $ 571,786 | $ 546,229 | $ 111,312 | $ 451,632 | $ 10,621 | $ 4,419 | $ 577,984 |

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

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

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

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

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

Effective June 30, 2014, the Commercial Shared-Loss Agreement with the FDIC for Cape Fear expired and losses on assets covered under this agreement are no longer claimable after filing the second quarter of 2014 commercial loss share certificate. The Commercial Shared-Loss Agreement for CBT will expire March 31, 2015 and losses on assets covered under this agreement will no longer be claimable after this date; however, 95% of recoveries received over the next three years will be shared with the FDIC. At December 31, 2014, $50.3 million in loans and $3.9 million in OREO were covered under this agreement.

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**Liquidity**

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

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. As reported in Table 7, less than one percent of the investment portfolio contractually matures in one year or less. This segment of the portfolio consists mostly of municipal obligations. There is also an additional amount of securities that could be called or prepaid; as well as expected monthly paydowns of mortgage-backed securities. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

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

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our bank,

- Pricing deposits, including certificates of deposit, at rate levels that will sustain balances at levels that will enhance our bank's asset/liability management and net interest margin requirements, and

- Continually working to identify and introduce new products that will attract customers or enhance our bank's appeal as a primary provider of financial services.

Our legacy loan portfolio increased by approximately $602.6 million, or approximately 21.0%, compared to the balance at December 31, 2013. The acquired loan portfolio declined by $578.4 million, or 20.4%, from the balance at December 31, 2013. Our investment securities portfolio increased $14.3 million compared to the balance at December 31, 2013. Total cash and cash equivalents was $417.9 million at December 31, 2014 as compared to $479.5 million at December 31, 2013.

At December 31, 2014 and December 31, 2013, the Company had $23.4 million and $34.8 million, respectively, in traditional, out-of-market brokered deposits and $67.5 million and $85.3 million, respectively, of reciprocal brokered deposits. Total deposits decreased $93.1 million, or 1.4%, from December 31, 2013, to $6.5 billion, resulting primarily from decreases in certificates of deposit by $288.4 million partially offset by increases in core deposits by $195.2 million. Other borrowings were relatively flat from the balance at December 31, 2013, decreasing by $850,000. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to take in some shorter maturities of such funds. Our current approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, typically including some level of reverse repurchase agreements, federal funds sold, balances at the Federal Reserve Bank, and/or other short-term investments; asset quality; well-capitalized position; and profitable operating results. Cyclical and other economic trends and conditions can disrupt our bank's desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our bank's reverse repurchase agreements and federal funds sold positions, or balances at the Federal Reserve Bank, if any, serves as the primary source of immediate liquidity. At December 31, 2014, our bank had total federal funds credit lines of $376.0 million with no outstanding advances. If additional liquidity were needed, the bank would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. At December 31, 2014, our bank had $164.9 million of credit available at the Federal Reserve Bank's discount window, but had no outstanding advances as of the end of 2014. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At December 31, 2014, our bank had a total FHLB credit facility of $960.8 million with $135,000 in outstanding advances and outstanding uses of FHLB letters of credit to secure certain public funds deposits of $19.7 million. We believe that our liquidity position continues to be very adequate and readily available.

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

**Derivatives and Securities Held for Trading**

The SEC has adopted rules that require comprehensive disclosure of accounting policies for derivatives as well as enhanced quantitative and qualitative disclosures of market risk for derivatives and other financial instruments. The market risk disclosures are classified into two categories: financial instruments entered into for trading purposes and all other instruments (non-trading purposes). We do not maintain a derivatives or securities trading portfolio.

**Asset-Liability Management and Market Risk Sensitivity**

Our earnings and the economic value of our shareholders' equity may vary in relation to changes in interest rates and the accompanying fluctuations in market prices of certain of our financial instruments. We use a number of methods to measure interest rate risk, including simulating the effect on earnings of fluctuations in interest rates, monitoring the present value of asset and liability portfolios under various interest rate scenarios, and, to a lesser extent, monitoring the difference, or gap, between our balances of rate sensitive assets and liabilities. The earnings simulation models take into account our contractual agreements with regard to investments, loans, deposits, borrowings, and derivatives. While the simulation models are subject to the accuracy of the assumptions that underlie the process, we believe that such modeling provides a better illustration of the interest sensitivity of earnings than does a static or even a beta-adjusted interest rate sensitivity gap analysis. The simulation models assist in measuring and achieving growth in net interest income by providing the Asset- Liability Management Committee ("ALCO") a reasonable basis for quantifying and managing interest rate risk. Numerous simulations incorporate an array of interest rate changes as well as projected changes in the mix and volume of balance sheet assets and liabilities. Accordingly, the simulations are considered to provide a measurement of the degree of earnings risk we have, or may incur in future periods, arising from interest rate changes or other market risk factors.

From time-to-time we enter into interest rate swaps to hedge some of our interest rate risks. For further discussion of the Company's interest rate swaps, see Note 28 Derivative Financial Instruments in the consolidated financial statements.

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Our primary management tool and policy, established by ALCO and the board of directors, is to monitor exposure to interest rate increases and decreases of as much as 200 basis points ratably over a 12-month period. Our policy guideline prescribes 8% as the maximum negative impact on net interest income associated with a steady ("ramping") change in interest rates of 200 basis points over 12 months. This most-relied-upon simulation also uses a strategy (or dynamic) balance sheet that forecasts growth, not a static or frozen balance sheet. We traditionally have maintained a risk position well within the policy guideline level. As of December 31, 2014, the earnings simulations indicated that the impact of a 200 basis point increase in rates over 12 months would result in an approximate 0.70% increase in net interest income as compared with a base case interest rate environment that uses the implied forward rates in the currently existing yield curve. Certain key rates in the simulations model (such as federal funds at zero to 0.25%) are at unprecedented low levels that can decline very little, if at all, and remain a positive number. Consequently, the simulations in the declining-rate scenarios are viewed by us and many other depository institutions as being remote and not meaningful. Therefore, declining rate scenario simulations are not currently being used in our assessment and management of interest rate risk. The simulations indicate that our rate sensitivity is currently somewhat asset sensitive to the indicated change in interest rates over a one-year horizon. As of December 31, 2013, the earnings simulations indicated that the impact of a 200 basis point increase in rates over 12 months would result in an approximate 0.93% increase in net interest income as compared with a base case interest rate environment.

The shape and non-parallel shifts of the fixed-income yield curve can also influence interest rate risk sensitivity. Therefore, we run a number of other rate scenario simulations to provide additional assessments of our interest rate risk posture. For example, in our analysis at December 31, 2014, we simulated a curve that flattens with one-month rates rising by approximately 180 basis points and then all rates beyond that point rising proportionally up to the current 30-year rate. This caused net interest income to increase somewhat from a base case. This is largely attributable to our position in short-term assets rising quickly in yield. A simulation of a curve that steepened, caused by a 200 basis points rise in 30-year yields, and then sloping downward proportionally to the current one-month rate, would have a less beneficial but still positive effect on net interest income as deposit rates would rise only modestly and longer-term loan yields (like mortgages) would increase.

In addition to simulation analysis, we use Economic Value of Equity ("EVE") analysis as an indicator of the extent to which the present value of our capital could change, given potential changes in interest rates. This measure assumes no growth or decline in the balance sheet (no management influence) but does assume mortgage-related prepayments and certain other cash flows occur. It provides a measure of rate risk extending beyond the analysis horizon contained in the simulation analyses. The EVE model is essentially a discounted cash flow fair value of all of the Company's assets, liabilities, and derivatives. The difference represented by the present value of assets minus the present value of liabilities is defined as the economic value of equity. At December 31, 2014, the Company's ratio of EVE-to-assets was 13.2% in a current forward rate curve and 13.2% in a hypothetical environment where rates increased from there by 200 basis points instantaneously.

**Deposits**

We rely on deposits by our customers as the primary source of funds for the continued growth of our loan and investment securities portfolios. Customer deposits are categorized as either noninterest-bearing deposits or interest- bearing deposits. Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide the Company with "interest-free" sources of funds. Interest-bearing deposits include savings deposit, interest-bearing transaction accounts, certificates of deposits, and other time deposits. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

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During 2014 and 2013, we continued our focus on increasing core deposits (excluding certificates of deposits and other time deposits). This focus has led to increases in demand deposits, savings deposits and interest-bearing deposits. This increase in our core deposit balances helped offset the planned decline in certificate of deposit balances, which are a higher cost funds to the bank.

The following table presents total deposits for the five years at December 31:

***Table 21 Total Deposits***

| | December 31, | | | | |
|---|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** | **2011** | **2010** |
| Demand deposits | **$ 1,639,953** | $ 1,486,445 | $ 982,046 | $ 658,454 | $ 484,838 |
| Savings deposits | **655,132** | 647,648 | 341,103 | 258,644 | 202,054 |
| Interest-bearing demand deposits | **2,927,820** | 2,893,646 | 1,910,374 | 1,432,806 | 1,186,260 |
| Total savings and interest-bearing demand deposits | **3,582,952** | 3,541,294 | 2,251,477 | 1,691,450 | 1,388,314 |
| Certificates of deposit | **1,237,140** | 1,525,567 | 1,064,141 | 903,874 | 1,129,892 |
| Other time deposits | **1,000** | 838 | 779 | 694 | 1,104 |
| Total time deposits | **1,238,140** | 1,526,405 | 1,064,920 | 904,568 | 1,130,996 |
| Total deposits | **$ 6,461,045** | $ 6,554,144 | $ 4,298,443 | $ 3,254,472 | $ 3,004,148 |

The reduction in higher cost time deposits drove the lower balance in total deposits at December 31, 2014 compared to 2013, which was partially offset by the organic growth in core deposits. The following are key highlights regarding overall growth in total deposits:

Total deposits decreased $93.1, or 1.4%, for the year ended December 31, 2014, driven largely by the reduction in time deposits. For the year ended December 31, 2013, total deposits increased $2.3 billion, or 52.5% from the year ended December 31, 2012, driven largely by the acquisition of FFHI.

Noninterest-bearing deposits (demand deposits) increased by $153.5 million, or 10.3%, for the year ended December 31, 2014.

Total savings and interest-bearing account balances increased $41.7 million for the year ended December 31, 2014. Savings deposits increased $7.5 million, or 1.2%, money market (Market Rate Checking) deposits increased $7.3 million, or 0.5%, and other interest-bearing deposits (NOW, IOLTA, and other) increased $26.9 million, or 1.9%.

At December 31, 2014, the ratio of savings, interest-bearing, and time deposits to total deposits was 74.6%, down slightly from 77.3% at the end of 2013.

The following are key highlights regarding overall growth in average total deposits:

Growth in average total deposits was primarily attributable to the additional deposits from the FFHI acquisition being included for 12 months for the year ended December 31, 2014 compared to five months for the year ended December 31, 2013.

Total deposits averaged $6.5 billion in 2014, an increase of 24.6% from 2013.

Average interest-bearing transaction account deposits increased by $901.7 million, or 22.3%, in 2014 compared to 2013.

Average noninterest-bearing demand deposits increased by $389.4 million, or 32.0%, in 2014 compared to 2013.

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The following table provides a maturity distribution of certificates of deposit of $250,000 or more for the next twelve months as of December 31:

***Table 22 Maturity Distribution of Certificates of Deposits of $250 Thousand or More***

| | December 31, | | |
|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **% Change** |
| Within three months | **$ 35,043** | $ 44,794 | 21.8% |
| After three through six months | **21,664** | 21,195 | 2.2% |
| After six through twelve months | **31,968** | 31,430 | 1.7% |
| After twelve months | **39,796** | 55,206 | 27.9% |
| | **$ 128,471** | $ 152,625 | 15.8% |

**Short-Term Borrowed Funds**

Our short-term borrowed funds consist of federal funds purchased and securities sold under repurchase agreements. Note 10 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase in our audited financial statements provides a profile of these funds for the last three years at each year-end, the average amounts outstanding during each period, the maximum amounts outstanding at any month-end, and the weighted average interest rates on year-end and average balances in each category. Federal funds purchased and securities sold under agreements to repurchase most typically have maturities within one to three days from the transaction date. Certain of these borrowings have no defined maturity date.

**Capital and Dividends**

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of December 31, 2014, shareholders' equity was $984.9 million, an increase of $3.5 million, or 0.4%, from $981.5 million at December 31, 2013. The driving factor for the increase from year-end was net income and a favorable change in accumulated comprehensive income. Partially offsetting the increases were the redemption of $65.0 million in preferred stock and the dividend paid to both common and preferred shareholders of $20.9 million during the year. Our common equity-to-assets ratio increased to 12.58% at December 31, 2014 from 11.55% at December 31, 2013.

The Federal Reserve Board in March of 2005 announced changes to its capital adequacy rules, including the capital treatment of trust preferred securities. The Federal Reserve's rule, which took effect in early April 2005, permits bank holding companies to treat outstanding trust preferred securities as Tier 1 Capital for the first 25 years of the 30 year term of the related junior subordinated debt securities. We issued $40.0 million of these types of junior non-consolidated securities during 2005, positively impacting Tier I Capital. In November of 2007, we acquired the Scottish Bank and an additional $3.0 million of non-consolidated junior subordinated debt securities. In December of 2012, we acquired $9.2 million of non-consolidated junior subordinated debt securities through the Savannah acquisition. In July of 2013, we acquired an additional $46.1 million of non-consolidated junior subordinated debt securities through the FFHI merger. We did not issue trust preferred securities during the years ended December 31, 2014, 2013 and 2012. (See Note 1 Summary of Significant Accounting Policies in the audited consolidated financial statements for a more detailed explanation of our trust preferred securities; see Note 30 Subsequent Events in the audited consolidated financial statements for discussion of the redemption of the FFHI junior subordinated debt securities.)

Pursuant to the Basel III capital rules adopted by the bank regulatory agencies in July 2013, financial institutions with less than $15 billion in total assets, such as the Company, may continue to include their TRUPs issued prior to May 19, 2010 in Tier 1 capital, but cannot include in Tier 1 capital any TRUPs issued after such date.

We are subject to certain risk-based capital guidelines that measure the relationship of capital to both balance sheet and off-balance sheet risks. Risk values are adjusted to reflect credit risk. Pursuant to guidelines of the Federal Reserve Board, which are substantially similar to those promulgated by the FDIC, Tier 1 capital must be at least 50% of total capital and total capital must be 8% of risk-weighted assets.

As an additional measure of capital soundness, the regulatory agencies have prescribed a leverage ratio of total capital to total assets. The minimum leverage ratio assigned to banks is between 3% and 5% and is dependent on the institution's composite rating as determined by its regulators.

***Table 23 Capital Adequacy Ratios***

| | **December 31,** | | |
|---|---|---|---|
| **(In percent)** | **2014** | **2013** | **2012** |
| Tier 1 risk-based capital | **13.62** | 13.58 | 12.73 |
| Total risk-based capital | **14.43** | 14.47 | 13.99 |
| Tier 1 leverage | **9.47** | 9.30 | 9.87 |

Compared to December 31, 2013, our Tier 1 risk-based capital increased due primarily to Tier 1 capital increasing faster than the increase in risk-weighted assets. Our total risk-based capital has decreased due to a decline in Tier 2 capital. The Tier 1 leverage ratio has increased compared to December 31, 2013 due to the decrease in average assets. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

We pay cash dividends to shareholders from funds provided mainly by dividends received from our bank subsidiary. Dividends paid by our bank are subject to certain regulatory restrictions. The approval of the South Carolina Board of Financial Institutions ("SCBFI") is required to pay dividends that exceed current year's net income. As of December 31, 2014, approximately $119.5 million of the bank's current year net income was available for distribution to the Company as dividends without prior regulatory approval. During 2012 and in conjunction with the acquisition of Peoples, the Bank paid a special dividend of $13.4 million to the Company to allow for the redemption of Peoples preferred stock (TARP). This special dividend along with a special dividend used to pay certain obligations assumed from the Savannah acquisition resulted in the Bank paying dividends that approximated 2012 net income. During January 2013, the Bank requested and received approval, from the SCBFI, to pay a special dividend of $5.0 million to the Company in order to provide working capital and the funds needed to pay the quarterly dividend to its shareholders in February of 2013. In January 2014, the Bank requested and received approval from the SCBFI to pay a special dividend of $31.4 million to the Company in order to redeem $65.0 million of outstanding preferred stock. It is expected that no special dividend approval will be needed from the SCBFI during 2015. The Federal Reserve Board, the FDIC, and the OCC have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

In July 2013, the federal bank regulatory agencies issued final rules establishing a new comprehensive capital framework for U.S. banking organizations that would implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. See "Regulation and Supervision *Basel Capital Standards*" for additional information on Basel III and the Dodd-Frank Act. Management believes that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis if such requirements were effective at that time.

The following table provides the amount of dividends and payout ratios for the years ended December 31:

***Table 24 Dividends Paid to Common Shareholders***

| | Years Ended December 31, | | |
|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **2012** |
| Dividend payments to common shareholders | **$ 19,785** | $ 15,274 | $ 10,244 |
| Dividend payout ratios | **26.61%** | 31.91% | 34.11% |

We retain earnings to have capital sufficient to grow our loan and investment portfolios and to support certain acquisitions or other business expansion opportunities. The dividend payout ratio is calculated by dividing dividends paid during the year by net income for the year.

In February 2004, the Company's board of directors authorized a program with no formal expiration date to repurchase up to 250,000 of its common shares. We did not repurchase any shares under this program during 2014, 2013 and 2012. During 2014, 2013 and 2012, we redeemed 14,723, 17,186, and 23,532, respectively, of shares of common stock from officers and directors at an average cost of $62.31, $54.38 and $35.57, respectively, under an approved program designed to facilitate stock option exercises or tax payments on vesting restricted stock under the Company's stock incentive plans.

**Asset Credit Risk and Concentrations**

The quality of our interest-earning assets is maintained through our management of certain concentrations of credit risk. We review each individual earning asset including investment securities and loans for credit risk. To facilitate this review, we have established credit and investment policies that include credit limits, documentation, periodic examination, and follow-up. In addition, we examine these portfolios for exposure to concentration in any one industry, government agency, or geographic location.

***Loan and Deposit Concentration***

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. At December 31, 2014 and 2013, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

***Concentration of Credit Risk***

Each category of earning assets has a certain degree of credit risk. We use various techniques to measure credit risk. Credit risk in the investment portfolio can be measured through bond ratings published by independent agencies. In the investment securities portfolio, the investments consist of U.S. government-sponsored entity securities, tax-free securities, or other securities having ratings of "AAA" to "Not Rated". All securities, with the exception of those that are not rated, were rated by at least one of the nationally recognized statistical rating organizations. The credit risk of the loan portfolio can be measured by historical experience. We maintain our loan portfolio in accordance with credit policies that we have established. Although the subsidiary has a diversified loan portfolio, a substantial portion of their borrowers' abilities to honor their contracts is dependent upon economic conditions within South Carolina, North Carolina, Georgia and the surrounding regions.

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We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25 percent of total risk-based capital. Based on this criteria, we had four such credit concentrations at December 31, 2014, including loans to religious organizations, loans to lessors of nonresidential buildings (except mini-warehouses), loans to lessors of residential buildings, and loans to offices of physicians, dentists, and other health practitioners. The risk for these loans and for all loans is managed collectively through the use of credit underwriting practices developed and updated over time. The loss estimate for these loans is determined using our standard ALLL methodology.

**Off-Balance Sheet Arrangements**

Through the operations of our bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

At December 31, 2014, the bank had issued commitments to extend credit and standby letters of credit and financial guarantees of $1.3 billion through various types of lending arrangements. We believe that we have adequate sources of liquidity to fund commitments that are drawn upon by the borrowers.

In addition to commitments to extend credit, we also issue standby letters of credit, which are assurances to third parties that they will not suffer a loss if our customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled $17.4 million at December 31, 2014. Past experience indicates that many of these standby letters of credit will expire unused. However, through our various sources of liquidity, we believe that we will have the necessary resources to meet these obligations should the need arise.

Except as disclosed in this report, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

**Effect of Inflation and Changing Prices**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measure of financial position and results of operations in terms of historical dollars, without consideration of changes in the relative purchasing power over time due to inflation. Unlike most other industries, the majority of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on a financial institution's performance than does the effect of inflation. Interest rates do not necessarily change in the same magnitude as the prices of goods and services.

While the effect of inflation on banks is normally not as significant as is its influence on those businesses which have large investments in plant and inventories, it does have an effect. During periods of high inflation, there are normally corresponding increases in money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses. Inflation also affects our bank's customers and may result in an indirect effect on our bank's business.

**Contractual Obligations**

The following table presents payment schedules for certain of our contractual obligations as of December 31, 2014. Long-term debt obligations totaling $101.2 million include junior subordinated debt. On January 7, 2015 we redeemed $46.3 million of junior subordinated debt. See Note 30 Subsequent Events for additional information. Operating lease obligations of $38.3 million pertain to banking facilities and equipment. Certain lease agreements include payment of property taxes and insurance and contain various renewal options. Additional information regarding leases is contained in Note 21 of the audited consolidated financial statements. Additional information regarding FDIC loss share agreement estimated "true-up" is contained in Note 5 of the audited consolidated financial statements.

***Table 25 Obligations***

| (Dollars in thousands) | Total | Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| Long-term debt obligations* | $ 101,210 | $ 6 | $ 13 | $ 14 | $ 101,177 |
| Operating lease obligations | 38,282 | 5,064 | 9,733 | 7,183 | 16,302 |
| FDIC loss share agreement estimated true-up# | 7,436 | | | | 7,436 |
| Total | $ 146,928 | $ 5,070 | $ 9,746 | $ 7,197 | $ 124,915 |

* Represents principal maturities.

# Amount is included in the FDIC indemnification asset on the balance sheet.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

See "Asset-Liability Management and Market Risk Sensitivity" on page 78 in Management's Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk.

**Item 8. Financial Statements and Supplementary Data.**

See Table 1 on page 55 for our unaudited quarterly results of operations and the pages beginning with F-1 for our audited consolidated financial statements.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2014, in accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (Exchange Act). We applied our judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding our control objectives. Based upon that evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of December 31, 2014, were effective to provide reasonable assurance regarding our control objectives.

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Management's Annual Report on Internal Control over Financial Reporting is included on page F-1 of this Report. The report of the Company's independent registered public accounting firm regarding the Company's internal control over financial reporting begins on page F-2 of this Report.

**Changes in Internal Controls**

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Management's Report on Internal Controls over Financial Reporting**

We are responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 is included in Item 8 of this Report under the heading "Management's Report on Internal Controls Over Financial Reporting."

Our independent auditors have issued an audit report on management's assessment of internal controls over financial reporting. This report entitled "Report of Independent Registered Public Accounting Firm" appears in Item 8.

**Item 9B. Other Information.**

Not applicable.

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item will be incorporated herein by reference to the information in the Company's definitive proxy statement to be filed in connection with the our 2015 Annual Meeting of Shareholders under the caption "Election of Directors," in the fourth paragraph under the caption "The Board of Directors and Committees," in the subsection titled "Audit Committee" under the caption "The Board of Directors and Committees," in the subsection titled "Governance Committee" under the caption "The Board of Directors and Committees," and under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

### Item 11. Executive Compensation.

The information required by this item will be incorporated herein by reference to the information in the Company's definitive proxy statement to be filed in connection with our 2015 Annual Meeting of Shareholders under the caption "Executive Compensation," including the sections titled "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan Based Awards," "Outstanding Equity Awards at Fiscal Year-End," "Option Exercises and Stock Vested," "Pension Benefits," "Deferred Compensation Plan," "Compensation Committee Report," "Potential Payments Upon Termination or Change of Control," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation."

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table contains certain information as of December 31, 2014, relating to securities authorized for issuance under our equity compensation plans:

| | A | B | C |
|---|---|---|---|
| **Plan Category** | **Number of securities to be issued upon exercise of outstanding options, warrants, and rights** | **Weighted-average exercise price of outstanding options, warrants, and rights** | **Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column "A")** |
| Equity compensation plans approved by security holders | 294,342 | $ 35.91 | 1,551,913 |
| Equity compensation plans not approved by security holders | None | n/a | n/a |

Included within the 1,551,913 number of securities available for future issuance in the table above are a total of 130,373 shares remaining from the authorized total of 363,825 under the Company's 2002 Employee Stock Purchase Plan. All securities totals for the outstanding and remaining available for future issuance amounts described in this Item 12 have been adjusted to give effect to stock dividends paid on March 23, 2007, January 1, 2005 and December 6, 2002.

Other information required by this item will be incorporated herein by reference to the information under the captions "Beneficial Ownership of Certain Parties" and "Beneficial Ownership of Directors and Executive Officers" in the definitive proxy statement of the Company to be filed in connection with our 2015 Annual Meeting of Shareholders.

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**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item will be incorporated herein by reference to the information under the caption "Certain Relationships and Related Transactions" in the definitive proxy statement of the Company to be filed in connection with our 2015 Annual Meeting of Shareholders.

**Item 14. Principal Accounting Fees and Services.**

The information required by this item will be incorporated by reference to the information under the caption "Audit and Other Fees" in the definitive proxy statement of the Company to be filed in connection with our 2015 Annual Meeting of Shareholders.

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## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a)

1. The financial statements and independent auditors' report referenced in "Item 8 Financial Statements and Supplementary Data" are listed below:

South State Corporation and Subsidiary
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2.
Financial Schedules Filed: None

3.
Exhibits

In most cases, documents incorporated by reference to exhibits that have been filed with the Company's reports or proxy statements under the Securities Exchange Act of 1934 are available to the public over the Internet from the SEC's web site at www.sec.gov. You may also read and copy any such document at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549 under the Company's SEC file number (001-12669).

| Exhibit No. | Description of Exhibit |
|---|---|
| 2.1 | Purchase & Assumption Agreement dated January 29, 2010 (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2010) |
| 2.2 | Purchase & Assumption Agreement dated February 18, 2011 (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 25, 2011) |
| 2.3 | Purchase & Assumption Agreement dated July 29, 2011 (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on August 2, 2011) |
| 2.4 | Agreement and Plan of Merger, dated as of December 19, 2011, by and between SCBT Financial Corporation and Peoples Bancorporation, Inc. (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 23, 2011) |
| 2.5 | Agreement and Plan of Merger, dated as of Aug |