CenterState

BANKS, INC.

2014 Annual Report

OFFICERS

E. S. "Ernie" Pinner
Chief Executive Officer
Chairman of the Board of Directors

John C. Corbett
Executive Vice President and
Chief Executive Officer of the
Company's Subsidiary Bank

James J. Antal
Chief Financial Officer and
Corporate Secretary

Stephen D. Young
Treasurer and
Chief Operating Officer of the
Company's Subsidiary Bank

Daniel E. Bockhorst
Chief Risk Officer

INDEPENDENT AUDITORS

Crowe Horwath LLP
Fort Lauderdale, Florida

STOCK LISTING

Symbol - CSFL
Cusip #15201P 10 9

SHAREHOLDER SERVICES

Continental Stock Transfer & Trust Company
17 Battery Place, NY, NY 10004
212.509.4000

CORPORATE OFFICES

42745 U.S. Highway 27
Davenport, FL 33837
863.419.7750

CORPORATE WEBSITE

www.centerstatebanks.com

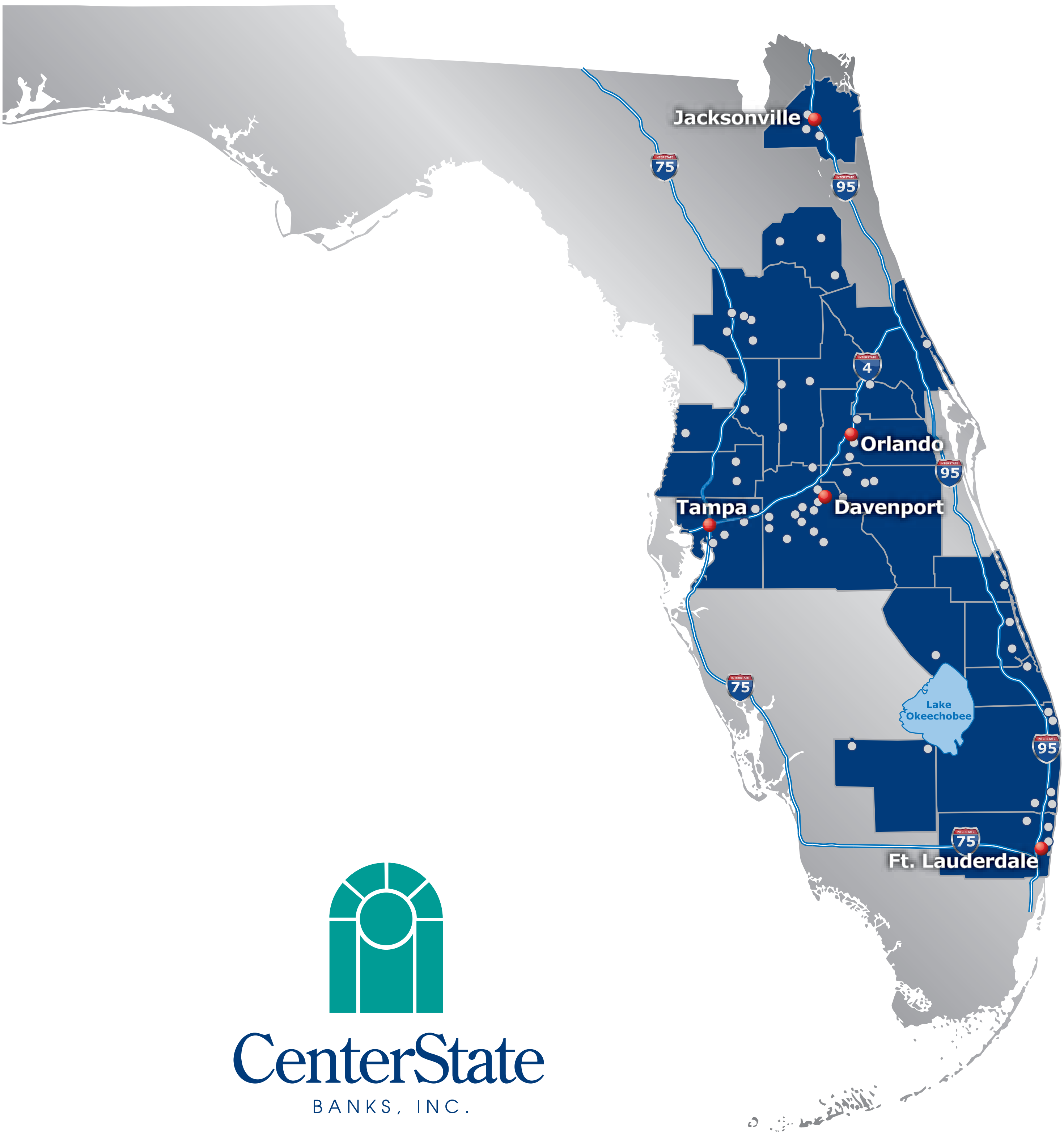
CORPORATE PROFILE

Headquartered in Davenport, Florida between Orlando and Tampa, CenterState operates through its subsidiary bank, CenterState Bank of Florida, N.A., providing a range of consumer and commercial banking services, including trust services. These services are provided to individuals, businesses and industries throughout Central, Southeastern and Northeastern Florida.

The Company, through its Correspondent Division, also provides research; an automated SBA platform called SmartBiz; clearing/cash management; fixed income; loan sales services; hedging; foreign exchange; fed funds purchased products; safekeeping; proprietary bond accounting; asset/liability; strategic planning and consulting services to financial institutions located throughout the United States.

ANNUAL MEETING

The 2015 Annual Meeting of the Shareholders will be held on Thursday, April 30, 2015 at 10:00 a.m. at the Winter Haven Chamber of Commerce 401 Avenue B, NW, Winter Haven, FL 33881.



CenterState
BANKS, INC.

Dear Fellow
CenterState Shareholder,

We were recently preparing for our fourth quarter investor conference call and our minds drifted back to 1999 when we were contacting potential investors in our local communities soliciting startup capital for CenterState Bank of Florida in Polk County. It was our original foray into what is now CSFL. Our vision was to grow our neophyte company into a multi-regional Florida bank with total assets exceeding $5 billion and earning at least a 1% ROA ("return on average assets"). A bold goal, but a determined, shared vision with no avenue of retreat. It has been a long and memorable fifteen-year history and our vision remains the same.

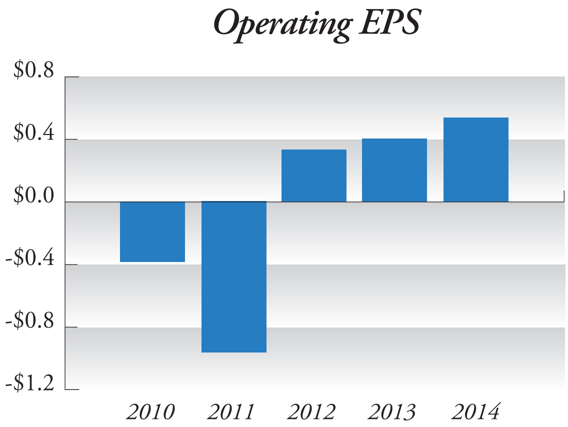
E.S. Pinner, Chairman, President and CEO

As we have stated previously, we believe our 1% ROA goal is attainable in 2016 with real potential to accomplish this in the fourth quarter of 2015. We continue to actively visit other banks, seeking acquisition partners to join in our journey and help us accomplish our total asset goal of $5 billion during 2016.

During 2014 we accomplished several objectives that strengthen our resolve to reach our goals of size and profitability. Even with all the noise and the many one-time charges, we were able to post one of our better years. The net income of almost $13 million generated operating earnings of $0.54 a share, approximately a 35% increase from 2013 operating EPS of $0.40. Our operating annual ROA of 0.66% definitely situates us for our target of 1% in the fourth quarter of 2015. We have been fortunate to outperform the street consensus on earnings three of the four quarters in 2014.

Our FDIC indemnification asset ("IA"), the result of the many purchased credit impaired loans ("PCI") covered by FDIC loss sharing agreements, created an amortization charge of almost $21 million in 2014. We believe there is significant value in these loans that could be realized over time through higher future interest income accretion. At this time, we expect the IA amortization expense for 2015 will be materially less than 2014, thus enhancing earnings.

We have closed and fully integrated our last two acquisitions, Gulfstream Bank in Stuart, Florida and First Southern Bank in Boca Raton. These banks are now on our



systems and operating smoothly, and we hasten to add both banks are proving to be more valuable than our original analysis. The two banks increased our assets by 56% and both will be accretive to our 2015 earnings.

Both banks established CSFL in the premiere Southeast Florida markets of Broward, Palm Beach and Martin counties. These markets are a much greater loan-rich area than our home base and should help us reach our targeted production. During the first half of 2014 these southeast lenders were concentrating on learning the CenterState systems. During the last half of the year, lending in this area began to gain traction and, coupled with our other markets, we saw excellent loan growth. As we race into 2015, loan growth is the challenge for our earnings but with all of our markets now running on all cylinders, we feel high single digit loan growth is obtainable.

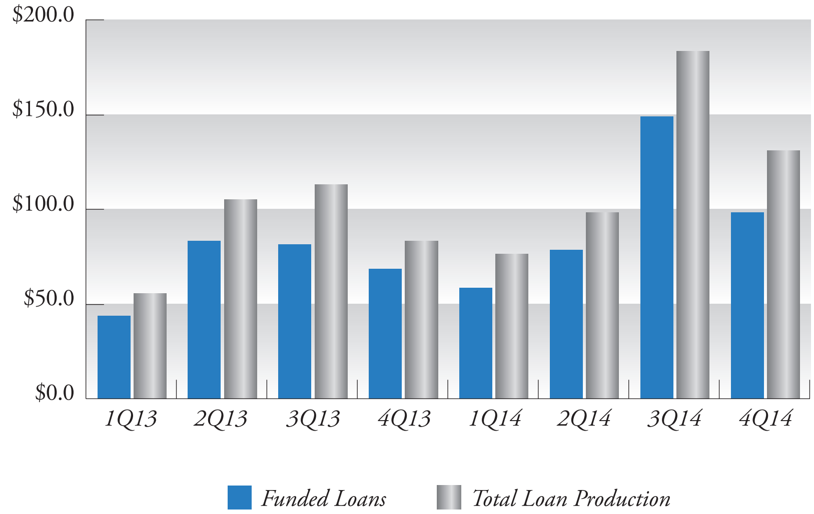
John C. Corbett, President & CEO, CenterState Bank of Florida, N.A.

Realizing loan growth is the challenge for 2015, we take comfort in our seasoned lenders, our southeast lending staff now fully engaged, and our healthy credit metrics. We envision solid savings from past years of high credit cost and better net interest income.

Our NPL ratio (non-performing loans excluding PCI loans) is slightly over 1% and is approaching the goal of less than 1%. Our net loan charge-offs were down to an excellent level of 0.07% or about $1.3 million. The steadily improving credit metrics coupled with the strengthening Florida economy has 2015 showing great promise for more profitability improvement.

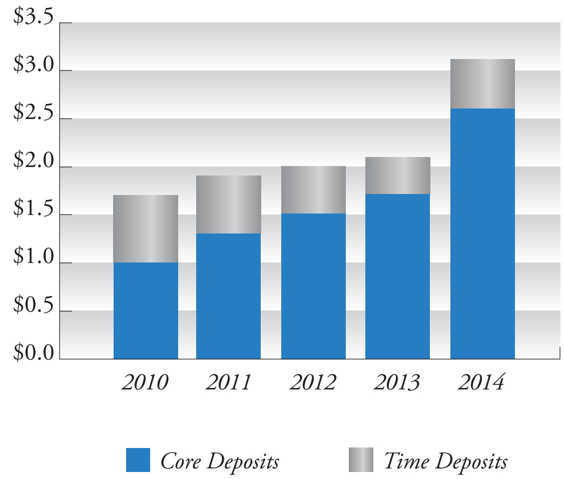
The Florida economy continues to improve and create more business potential for our bank. Population growth is a major component of the economy. In 2014 Florida passed the state of New York in population making us the third most populated state. Population growth stalled during the recession, but has now rebounded to an average daily growth rate of 800 people. Existing home sales are also

New Loan Production (million $)



growing and we are at 99% of the peak year of 2005 sales! Homes-for-sale inventory is down to approximately 5½ months, a great number, and listed homes-for-sale on average sell in 56 days.

Deposits (million $)



The steadily improving credit metrics coupled with the strengthening Florida economy has 2015 showing great promise for more profitability improvement.

The reduction in price of gas at the pump is very good for Florida sales and consumer confidence. We were on average at a high of $4.07 per gallon to now on average approaching $2.00 per gallon, a 50% reduction. The state of Florida calculates the gas price reduction will create almost $6 billion in additional spending over the next four quarters, a genuine windfall. General Florida revenue collections for 2014 – 2015 are expected to surpass the prior highs in 2005-2006. Good news!

CenterState has been positive in many areas. Total loans increased $955 million, or approximately 65% at year-end 2014 compared to year end 2013. Total deposits increased approximately $1 billion, or 50% during the same period. Through branch acquisition and consolidation, deposits per branch saw major improvement from average deposits per branch in the $27 million range in 2009 to average deposits per branch of $53 million today.

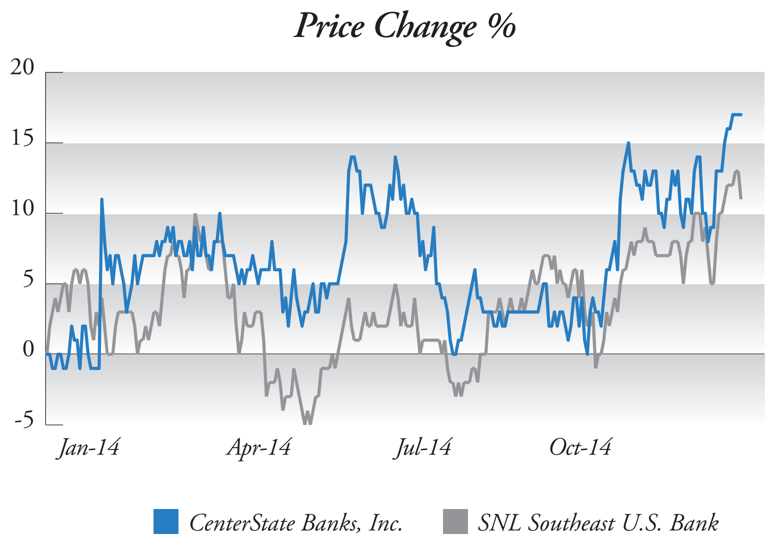
CSFL EXECUTIVE MANAGEMENT TEAM

Left to Right: Stephen D. Young (Treasurer, CenterState Banks, Inc. and EVP & Chief Operating Officer, CenterState Bank of Florida, N.A.), Daniel Bockhorst (Chief Risk Officer, CenterState Banks, Inc. and EVP & Chief Risk Officer, CenterState Bank of Florida, N.A.), John C. Corbett (EVP, CenterState Banks, Inc. and President & CEO, CenterState Bank of Florida, N.A.), E.S. "Ernie" Pinner (Chairman, President & CEO, CenterState Banks, Inc.), and James J. Antal (SVP & Chief Financial Officer, CenterState Banks, Inc.).

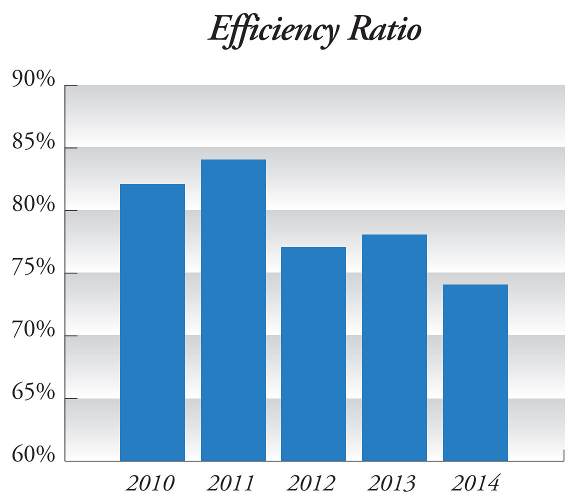
As these positive trends became more visible this year, the market reflected our improvements in the stock price. 2013 closed with a $10.15 stock price, but the upward trend in 2014 allowed us to close the year at $11.91, solid growth of 17%! When we compare CSFL's 17% growth to SNL's Southeastern Banks average of 11% growth, we have outperformed the SNL metric by 55%. We also believe our stock is now trading on a price to earnings ratio basis versus a multiple of book.

Another positive for this year has been our Correspondent Banking division. We continue to gain customers in this arena with now over 600 banks having some relationship with CenterState. Non- interest income for this division at $20 million is very accretive to earnings. The introduction of two new products being led by our new team members in California is being well received by the market and has strong promise for even better income in 2015.

Along with increased earnings in most departments, we have also been sensitive to lowering non-interest expense. Our efficiency ratio of 74% is down from last year's ratio of 78%, a reduction of 400 basis points. In early 2014 we announced and executed a branch closure and other efficiency initiatives that resulted in a $6 million expense reduction when compared to the 3Q13 baseline. During the year, we had a net 59 FTE reduction of personnel. We also acquired 21 branches and closed, consolidated or sold 17 offices. Our net number of branches grew by 5% but our deposits grew over 50% which translates into greater efficiency.



Source: SNL Financial LC



2014 was a good year, but 2015 could be a great year. The environment we face for 2015 appears very positive and will create tailwinds for CSFL. The last three years of our huge integration combined with building one of the greatest banking teams in the state has made CenterState, in my opinion, the only real Florida community bank of any size. We are on the threshold of the best environment for expansion and strength in the last 25 years. We intend to take full advantage of having the right people in the right place at the right time so as to benefit our shareholders. Our driving goal for 2015 is earnings and the appropriate measurement of our ROA approaching 1% is a focus point.

In a recent conversation, one of our senior correspondent bankers was commenting on the excellent success of one of our correspondent bank customers. Someone stated that our customer must be either a genius or very lucky. The wisdom of our banker was quickly highlighted when he responded it was neither luck nor genius but rather the product of thousands of small decisions made over a long period of time that resulted in great success. Be assured we continue our culture of pushing responsibility to the lowest level! In so doing, our seasoned bankers make hundreds of small decisions daily resulting in good years like 2014, and building the platform for many more productive years.

As always, thank you for your ownership confidence, and if you are our customer, thanks for your business.

E. S. Pinner
Chairman, President & CEO,
CenterState Banks, Inc.

John C. Corbett
EVP, CenterState Banks, Inc.
President & CEO, CenterState Bank of Florida, N.A.

Left to right: Dale Dreyer, Regional President; Mark Thompson, Regional President; Tim Pierson, Regional President; Cindy Robbins, Director of Retail Banking; Gil Pomar, Regional President; and John Tranter, Chief Banking Officer

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

OR

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

Commission File Number 000-32017

CENTERSTATE BANKS, INC.

(Name of registrant as specified in its charter)

Florida	**59-3606741**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
42745 U.S. Highway 27, Davenport, Florida	**33837**
(Address of principal executive offices)	**(Zip Code)**

Issuer's telephone number, including area code:
(863) 419-7750

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.01 per share

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

The registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

The registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Check whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒] NO ☐

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SK contained in this form, and no disclosure will 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. ☒

Indicate by check mark if 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. (Check one):

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐

The registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. YES ☐ NO ☒

The aggregate market value of the Common Stock of the registrant held by non-affiliates of the registrant (36,438,924 shares) on June 30, 2014, was approximately $408,116,000. The aggregate market value was computed by reference to the last sale of the Common Stock of the registrant at $11.20 per share on June 30, 2014. For the purposes of this response, directors, executive officers and holders of 5% or more of the registrant's Common Stock are considered the affiliates of the issuer at that date.

As of February 27, 2015 there were outstanding 45,392,240 shares of the registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2015 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the registrant's fiscal year end are incorporated by reference into Part III, of this Annual Report on Form 10-K.

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PART I

Item 1. Business

General

CenterState Banks, Inc. ("We," "Our," "CenterState," "CSFL," or the "Company") was incorporated under the laws of the State of Florida on September 20, 1999. CenterState is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and owns all the outstanding shares of CenterState Bank of Florida, N.A. ("CSB" or the "Bank"), and R4ALL, Inc. ("R4ALL") a non bank subsidiary.

The Company was formed and commenced operations by acquiring CenterState Bank Central Florida, N.A. ("Central"), CenterState Bank, N.A. ("CSNA") and First National Bank of Polk County ("FNB/Polk") in June of 2000. Central and CSNA commenced operations in 1989. FNB/Polk commenced operations in 1992.

CSB commenced operations in April of 2000 and was acquired by the Company on December 31, 2002. In January 2006, FNB/Polk was merged with CSB.

The Company purchased CenterState Bank Mid Florida in March of 2006 and merged it with CSNA in November of 2007. In April of 2007 we purchased Valrico State Bank ("VSB"). In December 2010 Central and CSNA were merged into CSB. In June 2012 VSB was merged into CSB.

In September 2009 we formed a separate non bank subsidiary, R4ALL, for the purpose of acquisition and disposition of troubled assets from our subsidiary bank(s).

Through our subsidiary bank, CSB, we acquired assets and deposits from four failed financial institutions from the Federal Deposit Insurance Corporation ("FDIC") in 2009 and 2010, and a fifth and sixth in January of 2012.

In January 2011, we acquired four branch banking offices with approximately $113 million of deposits and approximately $121 million of performing loans from TD Bank, N.A.

In November 2011, we acquired Federal Trust Corporation in Sanford, Florida, with approximately $157 million of selected performing loans, $198 million of deposits and five branch banking offices from The Hartford Insurance Group, Inc., the sole owner of Federal Trust Corporation.

In January 2014, we acquired Gulfstream Bancshares, Inc. ("Gulfstream") which added four additional branches (approximately $479 million of deposits) and two additional counties, Palm Beach and Martin, to our market area.

In June 2014, we acquired First Southern Bancorp, Inc. ("FSB") with approximately $600 million in loans, $853 million in deposits and 17 branches, of which 10 were either sold or closed in September 2014, and added Broward County to our market area.

Headquartered in Davenport, Florida between Orlando and Tampa, we provide a range of consumer and commercial banking services to individuals, businesses and industries throughout our branch network located within 20 counties throughout Central, Northeast and Southeastern Florida. As of December 31, 2014, our 58 bank branch offices were located in the following Florida counties:

Broward	Indian River	Orange	Putnam
Duval	Lake	Osceola	St. Lucie
Hendry	Marion	Palm Beach	Seminole
Hernando	Martin	Pasco	Sumter
Hillsborough	Okeechobee	Polk	Volusia

The basic services we offer include: demand interest-bearing and noninterest-bearing accounts, money market deposit accounts, time deposits, safe deposit services, cash management, direct deposits, notary services, money orders, night depository, travelers' checks, cashier's checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, and banking by mail and by internet. In addition, we make residential and commercial real estate loans, secured and unsecured commercial loans and consumer loans. We provide automated teller machine (ATM) cards, thereby permitting customers to utilize the convenience of larger ATM networks. We also offer internet banking services to our customers. We also offer trust services to customers throughout our existing markets in Florida. We also have a wealth management division that offers other financial products to our customers, including mutual funds, annuities and other products.

Our revenue is primarily derived from interest on, and fees received in connection with, real estate and other loans, interest and dividends from investment securities and short-term investments, and commissions on bond sales. The principal sources of funds for our lending activities are customer deposits, repayment of loans, and the sale and maturity of investment securities. Our principal expenses are interest paid on deposits, and operating and general administrative expenses.

In addition to providing traditional deposit and lending products and services to our commercial and retail customers through our 58 locations, we also operate a correspondent banking and capital markets division. The division is integrated with and part of our subsidiary bank, CSB, located in Winter Haven, Florida, although the majority of our bond salesmen, traders and operations personnel are physically housed in leased facilities located in Birmingham, Alabama and Atlanta, Georgia. Its primary revenue generating activities are related to the capital markets division which includes commissions earned on fixed income security sales, fees from hedging services, loan brokerage fees and consulting fees for services related to these activities. Income generated related to the correspondent banking services includes spread income earned on correspondent bank deposits (i.e. federal funds purchased) and fees generated from safe-keeping activities, bond accounting services, asset/liability consulting services, international wires, clearing and corporate checking account services and other correspondent banking related services. The fees derived from the correspondent banking services are less volatile than those generated through the capital markets group. The customer base includes small to medium size financial institutions primarily located in Southeastern United States.

As is the case with banking institutions generally, our operations are materially and significantly influenced by the real estate market, general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. We face strong competition in the attraction of deposits (our primary source of lendable funds) and in the origination of loans. *See* "Competition."

At December 31, 2014, our primary asset is our ownership of 100% of the stock of our subsidiary bank. At December 31, 2014, we had total consolidated assets of $3,776,869,000, total consolidated loans of $2,429,525,000, total consolidated deposits of $3,092,040,000, and total consolidated stockholders' equity of $452,477,000.

Note about Forward-Looking Statements

This Form 10-K contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

Lending Activities

We offer a range of lending services, including real estate, consumer and commercial loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in our market area. Our consolidated loans at December 31, 2014 and 2013 were $2,429,525,000, or 64% and $1,474,179,000, or 61%, respectively, of total consolidated assets. The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan, and are further subject to competitive pressures, money market rates, availability of funds, and government regulations. We have no foreign loans or loans for highly leveraged transactions. We do have immaterial amounts of loans with foreigners on property located within our Florida market area, primarily vacation and second homes.

Our loans are concentrated in three major areas: real estate loans, commercial loans and consumer loans. A majority of our loans are made on a secured basis. As of December 31, 2014, approximately 85% of our consolidated loan portfolio consisted of loans secured by mortgages on real estate, 12% of the loan portfolio consisted of commercial loans (not secured by real estate) and 3% of our loan portfolio consisted of consumer and other loans.

Approximately 11.3% of our loans, or $274,521,000, are covered by FDIC loss sharing agreements related to the acquisition of three failed financial institutions during the third quarter of 2010, two during the first quarter of 2012 and two were assumed pursuant to our 2014 acquisition of First Southern Bank. Pursuant to the terms of the loss sharing agreements, the FDIC is obligated to reimburse us for losses with respect to the covered loans, subject to the terms of the various agreements. With respect to the carrying balances at December 31, 2014, the approximate loss reimbursement percentages are as follows:

$ 163,473,000	80%
$ 87,333,000	ranges between 30% and 75%
$ 23,715,000	ranges between 0% and 70%
$ 274,521,000	Total covered loans

We will reimburse the FDIC for its share of recoveries with respect to the covered loans. The loss sharing agreements applicable to single family residential mortgage loans provide for FDIC loss sharing and our reimbursement to the FDIC for recoveries for ten years. The loss sharing agreements applicable to commercial loans provide for FDIC loss sharing for five years and our reimbursement to the FDIC for a total of eight years for recoveries.

Our real estate loans are secured by mortgages and consist primarily of loans to individuals and businesses for the purchase, improvement of or investment in real estate, for the construction of single-family residential and commercial units, and for the development of single-family residential building lots. These real estate loans may be made at fixed or variable interest rates. Generally, we do not make fixed-rate commercial real estate loans for terms exceeding five years. Loans in excess of five years are generally adjustable. Our residential real estate loans generally are repayable in monthly installments based on up to a 15-year or a 30-year amortization schedule with variable or fixed interest rates.

Our commercial loan portfolio includes loans to individuals and small-to-medium sized businesses located primarily in eighteen Florida counties listed under “Business” or contiguous counties for working capital, equipment purchases, and various other business purposes. A majority of commercial loans are secured by equipment or similar assets, but these loans may also be made on an unsecured basis. Commercial loans may be made at variable or fixed rates of interest. Commercial lines of credit are typically granted on a one-year basis, with loan covenants and monetary thresholds. Other commercial loans with terms or amortization schedules of longer than one year will normally carry interest rates which vary with the prime lending rate and will become payable in full and are generally refinanced in three to five years. Commercial and agricultural loans not secured by real estate amounted to approximately 12% and 10% of our Company's total loan portfolio as of December 31, 2014 and 2013, respectively.

Our consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans which are payable on an installment basis. The majority of these loans are for terms of less than five years and are secured by liens on various personal assets of the borrowers, but consumer loans may also be made on an unsecured basis. Consumer loans are made at fixed and variable interest rates, and are often based on up to a five-year amortization schedule.

For additional information regarding our loan portfolio, *see* "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Loan originations are derived primarily from employee loan officers within our local market areas, but can also be attributed to referrals from existing customers and borrowers, advertising, or walk-in customers.

Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect collectability. We attempt to minimize credit losses through various means. In particular, on larger credits, we generally rely on the cash flow of a debtor as the source of repayment and secondarily on the value of the underlying collateral. In addition, we attempt to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral.

Deposit Activities

Deposits are the major source of our funds for lending and other investment activities. We consider the majority of our regular savings, demand, NOW and money market deposit accounts to be core deposits. These accounts comprised approximately 84% and 81% of our consolidated total deposits at December 31, 2014 and 2013, respectively. Approximately 16% of our consolidated deposits at December 31, 2014, were certificates of deposit compared to 19% at December 31, 2013. Generally, we attempt to maintain the rates paid on our deposits at a competitive level. Time deposits of $100,000 and over made up approximately 9% of consolidated total deposits at December 31, 2014 and 10% at December 31, 2013. The majority of the deposits are generated from market areas where we conduct business. Generally, we do not accept brokered deposits and we do not solicit deposits on a national level. We obtain substantially all of our deposits from customers in our local markets. For additional information regarding the Company's deposit accounts, *see* "Management's Discussion and Analysis of Financial Condition and Results of Operations—Deposits."

Investments

Our investment securities portfolio available for sale was $517,457,000 and $457,086,000 at December 31, 2014 and 2013, respectively, representing 14% and 19% of our total consolidated assets. At December 31, 2014, approximately 92% of this portfolio was invested in U.S. government mortgage backed securities ("MBS"), specifically residential FNMA, FHLMC, and GNMA MBSs. We do not own any private label MBSs. Approximately 8%, or $38,821,000, of this portfolio is invested in municipal securities. Our investments are managed in relation to loan demand and deposit growth, and are generally used to provide for the investment of excess funds at acceptable risks levels while providing liquidity to fund increases in loan demand or to offset fluctuations in deposits. Investment securities available for sale are recorded on our balance sheet at market value at each balance sheet date. Any change in market value is recorded directly in our stockholders' equity account and is not recognized in our income statement unless the security is sold or unless it is impaired and the impairment is other than temporary. During 2014, we sold approximately $323,537,000 of these securities and recognized a net gain on the sales of approximately $46,000.

We have selected these types of investments because such securities generally represent what we believe to be a minimal investment risk. Occasionally, we may purchase certificates of deposits of national and state banks. These investments may exceed $250,000 in any one institution (the limit of FDIC insurance for deposit accounts). Federal funds sold, money market accounts and interest bearing deposits held at the Federal Reserve Bank represent the excess cash we have available over and above daily cash needs. Federal funds sold and money market funds are invested on an overnight basis with approved correspondent banks.

We monitor changes in financial markets. In addition to investments for our portfolio, we monitor daily cash positions to ensure that all available funds earn interest at the earliest possible date. A portion of the investment account is invested in liquid securities that can be readily converted to cash with minimum risk of market loss. These investments usually consist of obligations of U.S. government agencies, mortgage backed securities and federal funds. The remainder of the investment account may be placed in investment securities of different type and/or longer maturity. Daily surplus funds are sold in the federal funds market for one business day. We attempt to stagger the maturities of our securities so as to produce a steady cash-flow in the event cash is needed, or economic conditions change.

We also have a trading securities portfolio managed at our subsidiary bank. For this portfolio, realized and unrealized gains and losses are included in trading securities revenue, a component of non interest income in our Consolidated Statement of Operations and Comprehensive Income. Securities purchased for this portfolio have primarily been municipal securities and are held for short periods of time. During 2014, we purchased approximately $171,089,000 of securities for this portfolio and sold $167,838,000 recognizing a net gain on sale of approximately $169,000. At December 31, 2014 we had $3,420,000 of securities in our trading portfolio.

During the third quarter of 2014, we initiated a held to maturity securities portfolio. At December 31, 2014, we had $237,362,000 of securities held to maturity. These securities had gross unrecognized gains of approximately $1,080,000 and $12,000 of gross unrecognized losses, resulting in an estimated fair value of $238,431,000. Approximately 68% of this portfolio is invested in mortgage backed securities and the remaining amount is municipal securities and obligations of U.S. government sponsored entities and agencies. It is anticipated that this portfolio will generally hold longer term securities for the primary purpose of yield. This classification was chosen to minimize temporary effects on our tangible equity and tangible equity ratio due to increases and decreases in general market interest rates.

Correspondent Banking

We have a correspondent banking and capital markets segment which operates as a division within our subsidiary bank. Its primary revenue generating activities are related to the capital markets division which includes commissions earned on fixed income security sales, fees from hedging services, loan brokerage fees and consulting fees for services related to these activities. Income generated related to the correspondent banking services includes spread income earned on correspondent bank deposits (i.e. federal funds purchased) and fees generated from safe-keeping activities, bond accounting services, asset/liability consulting services, international wires, clearing and corporate checking account services and other correspondent banking related services. The fees derived from the correspondent banking services are less volatile than those generated through the capital markets group. The customer base includes small to medium size financial institutions primarily located in Southeastern United States.

Data Processing

We use a single in-house core data processing solution. The core data processing system provides deposit processing, loan processing and overall accounting services. In January 2014 and June 2014, we acquired Gulfstream and FSB, respectively. Each continued to operate under their legacy data processing systems until we converted them into our subsidiary bank's core system in February and September 2014, respectively.

A division of our subsidiary bank provides item processing services and certain other information technology ("IT") services for the bank and the Company overall. These services include; sorting, encoding, processing, and imaging checks and rendering checking and other deposit statements to commercial and retail customers, as well as providing IT services, including intranet and internet services for our bank and the Company overall.

Effect of Governmental Policies

Our earnings and business are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

Interest and Usury

We are subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter us from continuing the process of originating loans.

Supervision and Regulation

Banks and their holding companies, and many of their affiliates, are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules, and regulations affecting our Company, and our subsidiary bank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to the business of our Company and subsidiary bank. Supervision, regulation, and examination of banks by regulatory agencies are intended primarily for the protection of depositors, rather than shareholders.

Bank Holding Company Regulation. Our Company is a bank holding company, registered with the Federal Reserve under the BHC Act. As such, we are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

Under current law and Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to its subsidiary bank and to maintain resources adequate to support its bank. The term "source of financial strength" is defined under the Dodd-Frank Act as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress. The appropriate federal banking agency for such a depository institution may require reports from companies that control the insured depository institution to assess their abilities to serve as a source of strength and to enforce compliance with the source-of-strength requirements. The appropriate federal banking agency may also require a holding company to provide financial assistance to a bank with impaired capital. Under this requirement, in the future, we could be required to provide financial assistance to our subsidiary bank should it experience financial distress. Based on our ownership of a national bank subsidiary, the OCC could assess us if the capital of our subsidiary bank were to become impaired. If a holding company fails to pay an imposed assessment within three months, it could be ordered to sell its stock of its subsidiary bank to cover the deficiency.

Bank holding companies also have minimum capital requirements which must be maintained to remain in regulatory compliance. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, (ii) taking any action that causes a bank to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience, and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy and consideration of convenience and needs issues includes the parties' performance under the Community Reinvestment Act of 1977 (the "CRA"), both of which are discussed below.

Banks are subject to the provisions of the CRA. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the community served by that bank, including low- and moderate-income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, such assessment is required of any bank which has applied to:

- establish a new branch office that will accept deposits,
- relocate an office, or
- merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution

In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

The BHC Act generally prohibits a bank holding company from engaging in activities other than banking, or managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. For example, factoring accounts receivable, acquiring or servicing loans, leasing personal property, conducting securities brokerage activities, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and certain insurance underwriting activities have all been determined by regulations of the Federal Reserve to be permissible activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Dodd-Frank Act. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted into law. The Dodd-Frank Act has a broad impact on the financial services industry, including providing for potentially significant regulatory and compliance changes including, among other things, (1) enhanced resolution authority of troubled and failing banks and their holding companies; (2) potential changes to capital and liquidity requirements; (3) changes to regulatory examination fees; (4) changes to assessments to be paid to the FDIC for federal deposit insurance; and (5) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector.

Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, or the OCC, and the Federal Deposit Insurance Corporation, or the FDIC. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The 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 ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations, or principles or changes thereto, 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 our investors and shareholders.

The following items provide a brief description of the impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively.

- *Increased Capital Standards and Enhanced Supervision*. The federal banking agencies have published a final rule to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. Compliance with heightened capital standards may reduce our ability to generate or originate revenue-producing assets and thereby restrict revenue generation from banking and non-banking operations. The Dodd-Frank Act also increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency. Compliance with new regulatory requirements and expanded examination processes could increase the Company's cost of operations.

- *The Consumer Financial Protection Bureau.* The Dodd-Frank Act created a new, independent Consumer Financial Protection Bureau, or the Bureau, within the Federal Reserve. The Bureau is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. The Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the Bureau and state attorneys general are permitted to enforce consumer protection rules adopted by the Bureau against certain state-chartered institutions. Any such new regulations could increase our cost of operations and, as a result, could limit our ability to expand into these products and services.

- *Deposit Insurance.* The Dodd-Frank Act makes permanent the $250,000 deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the FDIC's Deposit Insurance Fund, or the DIF, will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity.

- *Transactions with Affiliates*. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and increasing the amount of time for which collateral requirements regarding covered transactions must be maintained.

- *Transactions with Insiders*. Insider transaction limitations are expanded through the strengthening on loan restrictions to insiders and the expansion of the types of transactions subject to the, various limits.

- *Enhanced Lending Limits*. The Dodd-Frank Act strengthens the existing limits on a depository institution's credit exposure to one borrower. Current banking law limits a depository institution's ability to extend credit to one person (or group of related persons) in an amount exceeding certain thresholds. The Dodd-Frank Act expands the scope of these restrictions to include credit exposure arising from derivative transactions, repurchase agreements, and securities lending and borrowing transactions.
- *Loss of Federal Preemption*. The Dodd-Frank Act restricts the preemption of state law by federal law and disallows subsidiaries and affiliates of national banks from availing themselves of such preemption.
- *Interstate Branching*. The Dodd-Frank Act, subject to a state's restrictions on intrastate branching, now permits interstate branching. Therefore, a bank may enter a new state by acquiring a branch of an existing institution or by establishing a new branch office. As a result, there will be no need for the entering bank to acquire or merge with an existing institution in the target state. This ability to establish a de novo branch across state lines will have the effect of increasing competition within a community bank's existing markets and may create downward pressure on the franchise value for existing community banks.
- *Compensation Practices.* The Dodd-Frank Act provides that the appropriate federal regulators must establish standards prohibiting as an unsafe and unsound practice any compensation plan of a bank holding company or other covered financial institution that provides an insider or other employee with "excessive compensation" or compensation that gives rise to excessive risk or could lead to a material financial loss to such organization.

While approximately half of the rules and regulations mandated by the Dodd-Frank Act have been finalized, the balance of the other additional requirements will be subject to implementing regulations over the next several years. Accordingly, the full extent of the impact of these additional rules and regulations will have on financial institutions and the Bank is not certain.

<u>Basel III</u>. In 2010 the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements known as Basel III. In July 2013, the OCC and the Federal Reserve approved a final rule that establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, including Basel III and other elements. The rule strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets. The rule applies to all national banks. Subject to various transition periods, the rule became effective for certain banks (including the Bank) on January 1, 2015. Among other things, the rule:

- Implements strict eligibility criteria for regulatory capital instruments.
- Revises the Prompt Corrective Act action framework to incorporate new regulatory capital minimum thresholds.
- Adds a new common equity Tier 1 capital ratio of 4.5% and increases the minimum Tier 1 capital ratio requirement from 4% to 6%.
- Improves the measure of risk-weighted assets to enhance risk sensitivity.
- Allows certain depository institution holding companies to continue to include in Tier 1 capital previously issued trust preferred securities and cumulative perpetual preferred stock.
- Limits capital distributions and certain discretionary bonus payments if banks do not maintain a capital conservation buffer of common equity Tier 1 capital above minimum capital requirements.
- Establishes due diligence requirements for securitization exposures.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act permits the creation of financial services holding companies that can offer a full range of financial products under a regulatory structure based on the principle of functional regulation. The law allows affiliations among banks and securities firms, insurance companies, and other financial services companies. The law also provides financial organizations with the opportunity to structure these new financial affiliations through a holding company structure or a financial subsidiary. The law reserves the role of the Federal Reserve as the supervisor for bank holding companies. At the same time, the law also provides a system of functional regulation which is designed to utilize the various existing federal and state regulatory bodies. The law also sets up a process for coordination between the Federal Reserve and the Secretary of the Treasury regarding the approval of new financial activities for both bank holding companies and national bank financial subsidiaries.

The law also includes a minimum federal standard of financial privacy. Financial institutions are required to have written privacy policies that must be disclosed to customers. The disclosure of a financial institution's privacy policy must take place at the time a customer relationship is established and not less than annually during the continuation of the relationship. The act also provides for the functional regulation of bank securities activities. The law repealed the exemption that banks were afforded from the definition of "broker," and replaced it with a set of limited exemptions that allow the continuation of some historical activities performed by banks. In addition, the act amended the securities laws to include banks within the general definition of dealer. Regarding new bank products, the law provides a procedure for handling products sold by banks that have securities elements. In the area of CRA activities, the law generally requires that financial institutions address the credit needs of low-to-moderate income individuals and neighborhoods in the communities in which they operate. Bank regulators are required to take the CRA ratings of a bank or of the bank subsidiaries of a holding company into account when acting upon certain branch and bank merger and acquisition applications filed by the institution. Under the law, financial holding companies and banks that desire to engage in new financial activities are required to have satisfactory or better CRA Act ratings when they commence the new activity.

Bank Regulation. CSB is chartered under the national banking laws and is subject to comprehensive regulation, examination and supervision by the OCC. The deposits of the Bank are insured by the FDIC to the extent provided by law and, accordingly, the Bank is also subject to certain FDIC regulations and the FDIC has backup examination authority and some enforcement powers over the Bank. The Bank also is subject to various federal and state laws and regulations applicable to banks. Such regulations include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; and the disclosure of the costs and terms of such credit. The Bank submits to its examining agencies periodic reports regarding its financial condition and other matters. The bank regulatory agencies have a broad range of powers to enforce regulations under their jurisdiction, and to take discretionary actions determined to be for the protection and safety and soundness of banks, including the institution of cease and desist orders and the removal of directors and officers. The bank regulatory agencies also have the authority to approve or disapprove mergers, consolidations, and similar corporate actions.

There are various statutory limitations on our ability to pay dividends. The bank regulatory agencies also have the general authority to limit the dividend payment by banks to their holding company parent if such payment may be deemed to constitute an unsafe and unsound practice. For information on the restrictions on the right of our Bank to pay dividends to us, *see* Part II - Item 5 "Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

The Bank also is subject to restrictions as to the limit of the size and number of transactions that it may have with its affiliates, as well as restrictions on lending to its and our executive officers and directors and their related interest. Under federal law, federally insured banks are subject, with certain exceptions, to certain restrictions on any extension of credit to their parent holding companies or other affiliates, on investment in the stock or other securities of affiliates, and on the taking of such stock or securities as collateral from any borrower. In addition, banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") imposes stronger capital standards and stronger civil and criminal enforcement provisions. FIRREA also provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with:

- the default of a commonly controlled FDIC insured depository institution; or
- any assistance provided by the FDIC to a commonly controlled FDIC insured institution in danger of default.

The FDIC Improvement Act ("FDICIA") made a number of reforms addressing the safety and soundness of deposit insurance funds, supervision, accounting, and prompt regulatory action, and also implemented other regulatory improvements. Periodic full-scope, on-site examinations are required of all insured depository institutions. The cost for conducting an examination of an institution may be assessed to that institution, with special consideration given to affiliates and any penalties imposed for failure to provide information requested. Insured state banks also are precluded from engaging as principal in any type of activity that is impermissible for a national bank, including activities relating to insurance and equity investments. The Act also recodified restrictions on extensions of credit to insiders under the Federal Reserve Act.

Incentive Compensation Arrangements. In 2010 the Federal Reserve and other regulators jointly published final guidance for structuring incentive compensation arrangements at financial organizations, which guidelines are applicable to all financial institutions. The guidance does not set forth any formulas or pay caps for, but contain certain principles which companies would be required to follow with respect to, employees and groups of employees that may expose the company to material amounts of risk. The three primary principles are (i) balanced risk-taking incentives, (ii) compatibility with effective controls and risk management, and (iii) strong corporate governance. The Federal Reserve will now monitor compliance with this guidance as a part of its safety and soundness oversight.

Capital Requirements. The Federal Reserve and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights. At December 31, 2014, our Tier 1 and total risk-based capital ratios were 14.4% and 15.1%, respectively.

FDICIA contains "prompt corrective action" provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized" and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes "significantly undercapitalized" or "critically undercapitalized." The classifications depend upon a bank's ratios of its (i) Tier 1 Capital (generally consisting of shareholders' equity and qualifying preferred stock, less certain goodwill items and other intangible assets) to risk-weighted assets, (ii) Total Capital to its risk-weighted assets, (iii) Common Equity Tier 1 Capital to risk-weighted assets, and (iv) leverage ratio (e.g., the ratio of its Tier 1 Capital to its adjusted average consolidated assets). A bank's Total Capital consists of the sum of its Tier 1 Capital and Tier 2 Capital (up the extent of its Tier 1 Capital), less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the appropriate regulator. Tier 2 Capital generally consists of a bank's (i) allowance for loan losses of up to 1.25% of risk-weighted assets (ii) preferred stock not qualifying as Tier 1 Capital, (iii) hybrid capital instruments, (iv) perpetual debt, (v) mandatory convertible securities, and (vi) certain subordinated debt and intermediate – term preferred stock up to 50% of Tier 1 Capital. Common Equity Tier 1 Capital generally consists of common stock, retained earnings, certain qualifying capital instruments issued by consolidated subsidiaries, and accumulated other comprehensive income, subject to certain adjustments.

The OCC has issued regulations to implement the "prompt corrective action" provisions of FDICIA. A bank is deemed "well-capitalized" if its leverage ratio, Common Equity Tier 1 ratio, Tier 1 Capital Ratio, and Total Capital ratio meet or exceed 5%, 6.5%, 8%, and 10%, respectively. A bank is deemed to be "adequately capitalized” or better if its leverage, Common Equity Tier 1, Tier 1, and Total Capital ratios meet or exceed the minimum federal regulatory capital requirements, and “undercapitalized” if it fails to meet these minimal capital requirements. An institution is “significantly undercapitalized” if its leverage, Common Equity Tier 1, Tier 1, and Total Capital Ratios fall below 3%, 3%, 4%, and 6%, respectively and “critically undercapitalized” if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The OCC and the FDIC, after an opportunity for a hearing, have authority to downgrade an institution from “well capitalized” to “adequately capitalized” or to subject an “adequately capitalized” or “undercapitalized” institution to the supervisory actions applicable to the next lower category, for supervisory concerns.

Generally, FDICIA requires that an “undercapitalized” institution must submit an acceptable capital restoration plan to the appropriate federal banking agency. The appropriate federal banking agency may not accept a capital restoration plan unless, among other requirements, each company having control of the institution has guaranteed that the institution will comply with the plan until the institution has been adequately capitalized on average during each of the three consecutive calendar quarters and has provided adequate assurances of performance.

An “undercapitalized” institution may not acquire an interest in any company or any other insured depository institution, establish or acquire additional branch offices or engage in any new business unless the appropriate federal banking agency has accepted its capital restoration plan, the institution is implementing the plan, and the agency determines that the proposed action is consistent with and will further the achievement of the plan, or the appropriate Federal banking agency determines the proposed action will further the purpose of the “prompt corrective action” sections of FDICIA.

If an institution is “critically undercapitalized,” it must comply with the restrictions described above. In addition, the appropriate Federal banking agency is authorized to restrict the activities of any “critically undercapitalized” institution and to prohibit such an institution, without the appropriate Federal banking agency’s prior written approval, from:

- entering into any material transaction other than in the usual course of business;
- engaging in any covered transaction with affiliates (as defined in Section 23A(b) of the Federal Reserve Act);
- paying excessive compensation or bonuses; and
- paying interest on new or renewed liabilities at a rate that would increase the institution’s weighted average costs of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the institution’s normal market areas.

The “prompt corrective action” provisions of FDICIA also provide that in general no institution may make a capital distribution if it would cause the institution to become “undercapitalized.” Capital distributions include cash (but not stock) dividends, stock purchases, redemptions, and other distributions of capital to the owners of an institution.

Additionally, FDICIA requires, among other things, that:

- only a “well capitalized” depository institution may accept brokered deposits without prior regulatory approval and
- the appropriate federal banking agency annually examine all insured depository institutions, with some exceptions for small, “well capitalized” institutions and state-chartered institutions examined by state regulators.

FDICIA also contains a number of consumer banking provisions, including disclosure requirements and substantive contractual limitations with respect to deposit accounts.

As of December 31, 2014, our subsidiary Bank met the capital requirements of a “well capitalized” institution. Our subsidiary bank has agreed with its primary regulator, OCC, to maintain a Tier 1 leverage ratio (Tier 1 Capital divided by average assets) of at least 8%. At December 31, 2014, its Tier 1 leverage ratio was 9.4%.

Enforcement Powers. Congress has provided the federal bank regulatory agencies with an array of powers to enforce laws, rules, regulations and orders. Among other things, the agencies may require that institutions cease and desist from certain activities, may preclude persons from participating in the affairs of insured depository institutions, may suspend or remove deposit insurance, and may impose civil money penalties against institution-affiliated parties for certain violations.

Maximum Legal Interest Rates. Like the laws of many states, Florida law contains provisions on interest rates that may be charged by banks and other lenders on certain types of loans. Numerous exceptions exist to the general interest limitations imposed by Florida law. The relative importance of these interest limitation laws to the financial operations of the Banks will vary from time to time, depending on a number of factors, including conditions in the money markets, the costs and availability of funds, and prevailing interest rates.

Change of Control. Federal law restricts the amount of voting stock of a bank holding company and a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Federal law also imposes restrictions on acquisitions of stock in a bank holding company and a state bank. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, and the OCC before acquiring control of any national bank. Upon receipt of such notice, the bank regulatory agencies may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company’s or bank’s voting stock, or if one or more other control factors set forth in the Act are present.

Anti-Money Laundering Requirements. Under federal law, including the Bank Secrecy Act, the PATRIOT Act and the International Money Laundering Abatement and Anti-Terrorist Financing Act, certain types of financial institutions, including insured depository 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. Among other things, these laws are intended to strengthen the ability of U.S. law enforcement agencies and intelligence communities to work together to combat terrorism on a variety of fronts. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with non-U.S. financial institutions and non-U.S. customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution’s compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The regulatory authorities have imposed “cease and desist” orders and civil money penalty sanctions against institutions found to be violating these obligations.

The OFAC is responsible for helping to insure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If we or our Bank find a name on any transaction, account or wire transfer that is on an OFAC list, we or our Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

Consumer Laws and Regulations. Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the following consumer protection statutes: Truth in Lending Act, Truth in Savings Act, Electronic Funds Transfer Act, Expedited Funds Availability Act, Equal Credit Opportunity Act, Fair and Accurate Credit Transactions Act, Fair Housing Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, GLB Act, Home Mortgage Disclosure Act, Right to Financial Privacy Act and Real Estate Settlement Procedures Act.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

Sarbanes-Oxley Act. In 2002, the Sarbanes-Oxley Act was enacted which imposes a myriad of corporate governance and accounting measures designed that shareholders are treated and have full and accurate information about the public companies in which they invest. All public companies are affected by the Act. Some of the principal provisions of the Act include:

- the creation of an independent accounting oversight board ("PCAOB") to oversee the audit of public companies and auditors who perform such audits;
- auditor independence provisions which restrict non-audit services that independent accountants may provide to their audit clients;
- additional corporate governance and responsibility measures which (a) require the chief executive officer and chief financial officer to certify financial statements and internal controls and to forfeit salary and bonuses in certain situations, and (b) protect whistleblowers and informants;
- expansion of the authority and responsibilities of the company's audit, nominating and compensation committees;
- mandatory disclosure by analysts of potential conflicts of interest; and
- enhanced penalties for fraud and other violations.

Effect of Governmental Policies. Our earnings and businesses are affected by the monetary and fiscal policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans, other extensions of credit, and deposits, and the interest rates paid on liabilities and received on assets. We cannot project the impact that future changes in monetary and fiscal policies would have on our earnings and business.

Future Legislation and Regulation. Proposals that could further intensify the regulation of the financial services industry have been and are expected to continue to be introduced in the United States Congress, in state legislatures, and by applicable regulatory authorities, from time to time. These proposals may change banking statutes and regulations and the banking environment in substantial and unpredictable ways. If enacted, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of these proposals will be enacted and, if enacted, the effect that these proposals, or any implementing regulations, would have on our business, results of operations or financial condition.

Competition

We encounter strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws which permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of its business, our Company competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that we do not currently provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. Legislation has continued to heighten the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly.

To compete, we rely upon specialized services, responsive handling of customer needs, and personal contacts by its officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and location of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service.

Employees

As of December 31, 2014, we had a total of approximately 785 full-time equivalent employees. The employees are not represented by a collective bargaining unit. We consider relations with employees to be good.

Statistical Profile and Other Financial Data

Reference is hereby made to the statistical and financial data contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," for statistical and financial data providing a review of our Company's business activities.

Availability of Reports furnished or filed with the Securities and Exchange Commission (SEC)

Our annual report 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 Exchange Act are available on our internet website at www.centerstatebanks.com.

Item 1A. Risk Factors

We have identified risk factors described below, which should be viewed in conjunction with the other information contained in this document and information incorporated by reference, including our consolidated financial statements and related notes. If any of the following risks or other risks which have not been identified or which we may believe are immaterial or unlikely, actually occur, our business, financial condition and results of operations could be harmed. As noted previously, this report contains forward-looking statements that involve risks and uncertainties, including statements about our future plans, objectives, intentions and expectations. Many factors, including those described below, could cause actual results to differ materially from those discussed in forward-looking statements.

Risks relating to our industry and operations

A resumption of recessionary economic conditions could have an adverse effect on our business in the future.

The economic crisis that began several years ago caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. This economic turmoil and tightening of credit led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and the lack of confidence in the financial markets adversely affected the banking industry, as well as financial condition and operating results. Although economic conditions have been improving, future market developments could affect consumer confidence levels and cause adverse changes in loan payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and the provision for credit losses. Changes in the financial services industry and the effects of the Dodd-Frank Act, Basel III and other regulatory responses to the credit crisis also could negatively affect us by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various agencies, including the Federal Reserve, the OCC, the FDIC, FINRA, and the SEC. This regulation is to protect depositors, the FDIC deposit insurance fund and the banking system as a whole. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid and deposits and locations of our offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain sufficient capital to support our growth. Regulation of the financial services industry has increased significantly since the global financial crisis. The laws and regulations applicable to the banking industry could change at any time. The extent and timing of any regulatory reform as well as any effect on our business and financial results, are uncertain. Additionally, legislation or regulation may impose unexpected or unintended consequences, the impact of which is difficult to predict. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

Our processes for managing risk may not be effective in mitigating risk or losses to us.

The objectives of our risk management processes are to mitigate risk and loss to our organization. We have established procedures that are intended to identify, measure, monitor report and analyze the types of risks to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management processes, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. The ongoing developments in the financial institutions industry continue to highlight both the importance and some of the limitations of managing unanticipated risks. If our risk management processes prove ineffective, we could suffer unexpected losses and could be materially adversely affected.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of other banks' difficulties or failure, which would increase the capital we need to support our growth.

Our loan portfolio includes commercial and commercial real estate loans that may have higher risks.

Our commercial and commercial real estate loans at December 31, 2014 and 2013 were $1.43 billion and $672.0 million, respectively, or 66% and 54% of total loans, excluding purchased credit impaired loans. Commercial and commercial real estate loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. As a result, banking regulators continue to give greater scrutiny to lenders with a high concentration of commercial real estate loans in their portfolios, and such lenders are expected to implement stricter underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher capital levels and loss allowances. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans.

The federal bank regulatory agencies have guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance"). The Guidance defines commercial real estate loans as exposures secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property (that is, loans for which 50% or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. This could include enhanced strategic planning, underwriting policies, risk management, internal controls, portfolio stress testing and risk exposure limits as well as appropriately designed compensation and incentive programs. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when commercial real estate loan concentrations exceed either:

total reported loans for construction, land development, and other land of 100% or more of a bank's total capital (as of December 31, 2014, our consolidated ratio was 21%); or

Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300% or more of a bank's total capital (as of December 31, 2014, our consolidated ratio was 206%).

The Guidance applies to the lending activities of our subsidiary bank. Regulators have the right to request banks to maintain elevated levels of capital or liquidity due to commercial real estate loan concentrations, and could do so, especially if there is a further downturn in our local real estate markets.

In addition, when underwriting a commercial or industrial loan, we may take a security interest in commercial real estate, and, in some instances upon a default by the borrower, we may foreclose on and take title to the property, which may lead to potential financial risks for us under applicable environmental laws. If hazardous substances were discovered on any of these properties, we may be liable to governmental agencies or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether the Company knew of, or were responsible for, the contamination.

Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

Our business is subject to the success of the local economies where we operate.

Our success significantly depends upon the growth in population, income levels, deposits and housing starts in our primary and secondary markets. During the recent economic downturn, the rate of growth of each of these four factors has decreased substantially and in some cases has turned negative. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally continue to remain challenging, our business may be adversely affected. Our specific market areas have experienced decreased growth, which has affected the ability of our customers to repay their loans to us and has generally affected our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

A significant portion of our loan portfolio is secured by real estate, substantially all of which is located in Florida, and events that negatively impact the real estate market could hurt our resultant business.

Substantially all of our loans are concentrated in Florida and subject to the volatility of the state's economy and real estate market. With our loans concentrated in Florida, the decline in local economic conditions has adversely affected the values of our real estate collateral and will likely continue to do so for the foreseeable future. Consequently, a continued decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to relying on the financial strength and cash flow characteristics of the borrower in each case, we often secure loans with real estate collateral. At December 31, 2014, approximately 85% of our loans have 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 but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

An inadequate allowance for loan losses would reduce our earnings.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb losses, or if bank regulatory authorities require us to increase the allowance for loan losses as a part of their examination process, our earnings and capital could be significantly and adversely affected.

We will realize future losses if the proceeds we receive upon liquidation of non-performing assets ("NPAs") are less than the carrying value of such assets.

We record our NPAs on our financial statements at the estimated net realizable valuable that we expect to receive from ultimately disposing of these assets. We could realize losses in the future as a result of deteriorating market conditions if the proceeds we receive upon disposition of the NPAs are less than our carrying value of such assets.

While we use appraisals in deciding whether to make a loan that is secured by real estate, they do not ensure the value of the real property collateral.

In deciding whether to make a loan secured by real property, we generally require an appraisal. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraised amount does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

Our accounting policies and processes are critical to how we report our financial condition and results of operations and require our management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how we record and report our financial condition and results of operations. Some of these polices require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Several of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. Pursuant to generally accepted accounting principles, we are required to make certain assumptions and estimates in preparing our financial statements, including and determining credit loss reserves, reserves related to litigation and the fair value of certain assets and liabilities, among other items. If the assumptions or estimates underling our financial statements are incorrect, we may experience material losses.

Certain of our financial instruments, including trading assets and liabilities, securities, and certain loans, among other items, require a determination of their fair value in order to prepare our financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment. Some of these and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, some illiquidity in markets and declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment, it could lead to declines in our earnings.

A lack of liquidity could affect our operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our funding sources include federal funds purchased, securities sold under repurchase agreements, non-core deposits, and short- and long-term debt. There are other sources of liquidity available to us should they be needed, including our ability to acquire additional non-core deposits, the issuance and sale of debt securities, and the issuance and sale of preferred or common securities in public or private transactions. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Our ability to borrow could be impaired by factors that are not specific to us, such as further disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

Our bank holding company and our subsidiary bank must meet regulatory capital requirements and maintain sufficient liquidity. Banking organizations experiencing growth, especially those making acquisitions are expected to hold additional capital, above regulatory minimums. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines, such as through the Dodd-Frank Act and the Basel III initiatives described above. It is anticipated that these standards will result in higher and more stringent capital requirements for us and our banking subsidiary. In particular, Basel III will require us to maintain an increased minimum ratio of Tier 1 common equity to risk weighed assets.

Actions (if necessary) to increase capital, may adversely affect us. Our ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

Our failure to remain "well capitalized" for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common stock and make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition. Under FDIC rules, if our subsidiary bank ceases to be a "well capitalized" institution for bank regulatory purposes, the interest rates that it pays and its ability to accept brokered deposits may be restricted. Although we had no wholesale brokered deposits as of December 31, 2014, we had approximately $44 million of in-market CDARs deposits and approximately $94 million of deposits related to our prepaid card business, which are considered brokered deposits for regulatory purposes.

Our business strategy includes continued growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. Particularly in light of prevailing economic conditions, we cannot assure you we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

Our ability to successfully grow will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas, our ability to continue to implement and improve our operational, credit, financial, management and other risks controls and processes and our reporting systems and procedures in order to manage a growing number of client relationships, and our ability to integrate our acquisitions and develop consistent policies throughout our various businesses. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed. In addition, if we are unable to manage future expansion in our operations, we may experience compliance and operational problems, have to slow the pace of growth, or have to incur additional expenditures beyond current projections to support such growth, any of which could adversely affect our business.

We may face risks with respect to future expansion.

We have historically pursued acquisitions, and in the future we may acquire other financial institutions or parts of those institutions and we may engage in additional de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We also may receive future inquiries and have discussions with potential acquirers of us. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- inaccurate estimates and judgments regarding credit, operations, management and market risks of the target institution;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to receive regulatory approvals on terms that are acceptable to us;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;

entry into new markets where we lack experience;

the strain of growth on our infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures;

exposure to potential asset quality issues with acquired institutions;

the introduction of new products and services into our business;

the possibility of unknown or contingent liabilities;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock, in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders and to investors purchasing common stock in this offering. There is no assurance that, following any future mergers or acquisitions, our integration efforts will be successful or our company, after giving effect to the acquisition, will achieve profits comparable to or better than our historical experience.

The FDIC-assisted transactions we have engaged in or may engage in could present additional risks to our business.

We have closed six FDIC-assisted transactions and assumed the FDIC covered loan portfolios of two others pursuant to our June 2014 acquisition of First Southern Bank. We continue to seek opportunities to continue to acquire the assets and liabilities of other failed banks in FDIC-assisted transactions, although opportunities are becoming scarce. Current and future FDIC-assisted transactions present the risks of acquisitions, generally, as well as some risks specific to these transactions. These FDIC-assisted transactions typically provide for FDIC assistance, including potential loss-sharing, to an acquirer to mitigate the credit risks of acquired loans and securities, which, may include loss-sharing. FDIC-assisted transactions have many of the same risks we could face in acquiring another open bank without FDIC assistance, including risks associated with competitive bidding and pricing of such transactions, the risk of loss of deposits and, liquidity through runoff or customer attrition, and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these acquisitions provide for limited diligence and negotiation of terms, these transactions may pose risks not present in open bank transactions. Loss sharing with the FDIC reduces the credit risks of, and capital required for, FDIC-assisted transactions, but requires additional resources and time to service acquired problem loans, costs related to integration of personnel and operating systems, and the establishment of processes and internal controls to service acquired assets in accordance with FDIC standards. We are subject to audit by the FDIC at its discretion to insure we are in compliance with the terms of our FDIC agreements. We may experience difficulties with complying with the requirements of the loss sharing agreements, the terms of which are extensive and failure to comply with any of the terms could result in a specific asset or group of assets losing their loss sharing coverage. The FDIC also has the right to refuse or delay payment partially or in full for such loan losses if we fail to comply with the terms of the loss sharing agreements, which are extensive. Our loss sharing agreements also impose limitations on how we manage loans covered by loss sharing. If we are unable to manage these risks, FDIC-assisted acquisitions could have material adverse effect on our business, financial condition and results of operations.

Attractive acquisition opportunities may not be available to us in the future.

While we seek continued organic growth, as our earnings and capital position improve, we may consider the acquisition of other businesses, including, as discussed above, failed depository institutions offered for sale in FDIC-assisted transactions. The FDIC determines the timing and terms of the sale of failed institutions, and selects the winning bidder based on the "least cost" to the FDIC. The failed banks offered for sale may or may not meet our business objectives. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire financial services businesses. This competition could increase prices for potential acquisitions, including the premiums on deposits and the prices paid for assets in FDIC-assisted transactions. This could reduce our potential returns, and reduce the attractiveness of these opportunities and increase their credit and other risks. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and shareholders' equity per share of our common stock.

Our recent results may not be indicative of our future results.

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit 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 due to a high percentage of our operating costs being fixed expenses.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, there is no assurance as to our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Our asset and liability structures are monetary in nature and are affected by a variety of factors, including changes in interest rates, which can impact the value of our assets.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earnings assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Because different types of assets and liabilities may react differently and at different times to market interest rate changes, changes in interest rates can increase or decrease net interest income. Interest rates are sensitive to many factors that are beyond our control, including general economic conditions, competition and policies of various governmental and regulatory agencies and, in particular, the policies of the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest our Banks receive on loans and investment securities and the amount of interest they pay on deposits and borrowings, but such changes could also affect (i) the Bank's ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, including the available for sale securities portfolio, and (iii) the average duration of our interest-earning assets. Changes in monetary policy could also expose us to the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rates indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk), including a prolonged flat or inverted yield curve environment. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

The FDIC insures deposits at FDIC-insured depository institutions, such as our subsidiary bank, up to applicable limits. 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. Market developments have significantly depleted the deposit insurance fund of the FDIC (which is referred to as the "DIF") and reduced the ratio of reserves to insure deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. 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. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue business opportunities.

We are periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, we may be required to make adjustments to our business that could adversely affect us.

The banking agencies periodically conduct examinations of our business, including compliance with applicable laws and regulations. If, as a result of an examination, a banking agency were to determine that the financial condition, capital resources, asset quality, asset concentration, earning prospects, management, liquidity, sensitivity to market risk or other aspects of any of our operations has become unsatisfactory, or that we or our management is in violation of any law or regulation, it could take a number or different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the asset composition of our portfolio or balance sheet, to assess civil money penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

Market volatility could adversely affect our operations or ability to access capital.

The capital and credit markets have experienced volatility and disruption from time to time during the past several years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial condition or performance. If these periodic market disruptions and volatility continue or worsen, we may experience adverse effects, which may be material, on our ability to maintain or access capital and on our business, financial condition and results of operations.

Our cost of funds may increase as a result of general economic conditions, FDIC insurance assessments, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, FDIC insurance assessments, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a less expensive and more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders and reflect a mix of transaction and time deposits, whereas brokered deposits typically are higher cost time deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected, if and to the extent we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive and we experience competition in our markets from many other financial institutions. We compete with commercial banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere. Some of these competitors may have a long history of successful operation in our markets, greater ties to local businesses and more expansive banking relationships, as well as better established depositor bases. Competitors with greater resources may possess an advantage by being capable of maintaining numerous banking locations and more convenient sites, operating more ATMs and conducting extensive promotional and advertising campaigns or operating a more developed Internet platform.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, we can give no assurance this strategy will be successful.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Federal Reserve regulates the supply of money and credit in the U.S. as its policies determine in large part the cost of funds for lending and investing and return earned on those loans and investments, both of which affect our net interest margin. They can also materially decrease the value of financial assets we hold. Federal Reserve policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans, or could result in volatile markets and rapid declining collateral values. Changes in Federal Reserve policies are beyond our control and difficult to predict. Accordingly, the impact of these changes on our activities and results of operations is difficult to predict.

We are dependent upon the services of our management team.

Our future success and profitability are substantially dependent upon the management and banking abilities of our senior executives. Although we currently have employment agreements in place with our senior management team, we cannot guarantee you that our senior executives will remain with us. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management and sales and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in retaining such personnel.

Technological changes affect our business, and we may have fewer resources than many competitors to invest in technological improvements.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to serving clients better, the effective use of technology may increase efficiency and may enable financial institutions to reduce costs. Our future success will depend, in part, upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology-driven products and services. Many competitors have substantially greater resources to invest in technological improvements.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business infrastructure such as banking services, processing, and internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle currently or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. Further, in some instances we may responsible for the failure of such third parties to comply with government regulations. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may not be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business structure could interrupt the operations or increase the cost of doing business.

A failure and/or breach of our operational or securities systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber-attacks, could disrupt our business, result in a disclosure or misuse of confidential or propriety information, damage our reputation, increase our costs and cause losses.

We depend on our ability to process, record and monitor a large number of client transactions on a continuous basis. 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, data processing, 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. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and clients.

Information security risks for financial institutions 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 hackers, terrorists, activists, and other external parties. As noted, above, our operations rely on the secure processing, transmission, and storage of confidential information in our computer systems and networks. Our banking and other businesses rely on our digital technologies, computer and e-mail systems, software and networks to conduct our operations. In addition, to access our products and services, our clients may use personal smartphones, tablets, personal computers, and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in places, our technologies, systems, networks and our client's devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss of destruction of our or our client's confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations.

Although to date we have not experienced any material losses related to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure control and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports we file or submit with the SEC is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

These inherent limitations include the reality that judgments and decision making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an authorized override of the controls. Accordingly, because of the inherent limitations in our controls systems, misstatements due to error or fraud may occur and not be detected, which could result in a material weakness in our internally controls over financial reporting and the restatement of previously filed financial statements.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers, and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

Hurricanes or other adverse weather events would negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Our market areas in Florida are susceptible to hurricanes and tropical storms and related flooding and wind damage. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where they operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes will affect our operations or the economies in our current or future market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of future hurricanes or tropical storms, including flooding and wind damage. Many of our customers have incurred significantly higher property and casualty insurance premiums on their properties located in our markets, which may adversely affect real estate sales and values in those markets.

Risks Relating to our Common Stock

We have provisions in our articles of incorporation that could impede a takeover of CenterState.

Our articles of incorporation contain provisions providing for the ability to issue preferred stock without shareholder approval. Although these provisions were not adopted for the express purpose of preventing or impeding the takeover of CenterState without the approval of our board of directors, such provisions may have that effect. Such provisions may prevent our shareholders from taking part in a transaction in which our shareholders could realize a premium over the current price of our common stock.

Future capital needs could result in dilution of shareholder investment.

Our board of directors may determine from time to time there is a need to obtain additional capital through the issuance of additional shares of our common stock or other securities. These issuances would dilute the ownership interest of our shareholders and may dilute the per share book value of our common stock. New investors also may have rights, preferences and privileges senior to our shareholders which may adversely impact our shareholders.

The trading volume in our common stock and the sale of substantial amounts of our common stock in the public market could depress the price of our common stock

We cannot predict the effect, if any, that future sales of our common stock in the market, or availability of shares of our common stock for sale in the market, will have on the market price of our common stock. Our stock price can fluctuate widely in response to a variety of factors. General market fluctuations, industry factors, and general economic and political conditions and events, such as terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends, or currency fluctuations, also could cause our stock price to decrease regardless of operating results. We therefore can give no assurance that sales of substantial amounts of our common stock in the market, or the potential for large amounts of sales in the market, or any of the other factors discussed above, would not cause the price of our common stock to decline or impair our ability to raise capital through sales of our common stock.

Our ability to pay dividends is limited and we may be unable to pay future dividends

During the last 23 fiscal quarters, we paid cash dividends of $0.01 per common share. Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to us is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to national banks that are regulated by the OCC. If we do not satisfy these regulatory requirements, or if the Bank does not have sufficient earnings to make payments to us while maintaining adequate capital levels, we will be unable to pay dividends on our common stock.

Holders of our junior subordinated debentures have rights that are senior to those of our common stockholders

We have helped support our continued growth through the issuance of, and the acquisition of, through prior mergers, trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2014, we had outstanding trust preferred securities and accompanying junior subordinated debentures totaling $27.5 million. Payments of the principal and interest on these debt instruments are conditionally guaranteed by us. Further, the accompanying junior subordinated debentures we issued to the special purpose trusts are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on our junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock.

At December 31, 2014, our shareholders include five funds owning approximately 33% of our common stock and they may exercise significant influence over us and their interests may be different from our other shareholders.

Based on their 13F forms filed for the year end December 31, 2014, our shareholders include five funds that collectively own approximately 33% of the outstanding shares of our common stock, and the top ten institutional owners collectively own approximately 50% of our outstanding shares of common stock. While the federal banking laws require prior bank regulatory approval if shareholders owning in excess of 9.9% of a bank holding company's outstanding voting shares desire to act in concert, nonetheless the five or ten institutional owners could vote the same way on matters submitted to our shareholders without being deemed to be acting in concert and, if so, could exercise significant influence over us and actions taken by our shareholders. Interests of institutional funds may be different from our other shareholders. Accordingly, given their collective ownership, the funds could have significant influence over whether or not a proposal submitted to our shareholders receives required shareholder approval.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our Holding Company owns no real property. Our corporate office is leased from our subsidiary bank, and is located at 42745 U.S. Highway 27, Davenport, Florida 33837. At the end of 2014, our Company, through our subsidiary bank, operated a total of 58 full service banking offices in 20 counties in central, southeast and northeast Florida. We own 41 and lease 17 of these offices. We also have four loan production offices of which we own 1 and lease 3. In addition to our banking locations, we lease non-banking office space in Winter Haven, Florida for IT and operations purposes. We also lease office space for our Correspondent banking division, primarily in Birmingham, Alabama and in Atlanta, Georgia. *See* Note 8 to the Consolidated Financial Statements of our Company included in this Annual Report on Form 10-K and Managements Discussion and Analysis – Bank Premises and Equipment, for additional information regarding our premises and equipment.

Item 3. Legal Proceedings

Our bank subsidiary is periodically a party to or otherwise involved in legal proceedings arising in the normal course of business, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to their respective businesses. We do not believe any pending or threatened legal proceedings in the ordinary course against the bank would have a material adverse effect on our consolidated results of operations or consolidated financial position.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The shares of our Common Stock are traded on the NASDAQ Global Select Market. The following sets forth the high and low trading prices for trades of our Common Stock that occurred during 2014 and 2013.

	2014		2013	
	High	Low	High	Low
1st Quarter	$11.65	$ 9.87	$ 8.98	$8.33
2nd Quarter	$11.60	$10.28	$ 9.39	$7.38
3rd Quarter	$11.60	$10.03	$10.42	$8.67
4th Quarter	$12.00	$10.10	$10.80	$9.16

As of December 31, 2014, there are 45,323,553 shares of common stock outstanding. As of this same date we have approximately 964 shareholders of record, as reported by our transfer agent, Continental Stock Transfer & Trust Company.

Dividends

We have historically paid cash dividends on a quarterly basis, on the last business day of the calendar quarter. The following sets forth per share cash dividends paid during 2014 and 2013.

	2014	2013
1st Quarter	$0.01	$0.01
2nd Quarter	$0.01	$0.01
3rd Quarter	$0.01	$0.01
4th Quarter	$0.01	$0.01

The payment of dividends is a decision of our Board of Directors based upon then-existing circumstances, including our rate of growth, profitability, financial condition, existing and anticipated capital requirements, the amount of funds legally available for the payment of cash dividends, regulatory constraints and such other factors as the Board determines relevant. Our source of funds for payment of dividends is dividends received from our Bank, or excess cash available to us. Payments by our subsidiary Bank to us are limited by law and regulations of the bank regulatory authorities. There are various statutory and contractual limitations on the ability of our Bank to pay dividends to us. The bank regulatory agencies also have the general authority to limit the dividends paid by banks if such payment may be deemed to constitute an unsafe and unsound practice. Our Bank may not pay dividends from its paid-in surplus. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one/tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

Share Repurchases

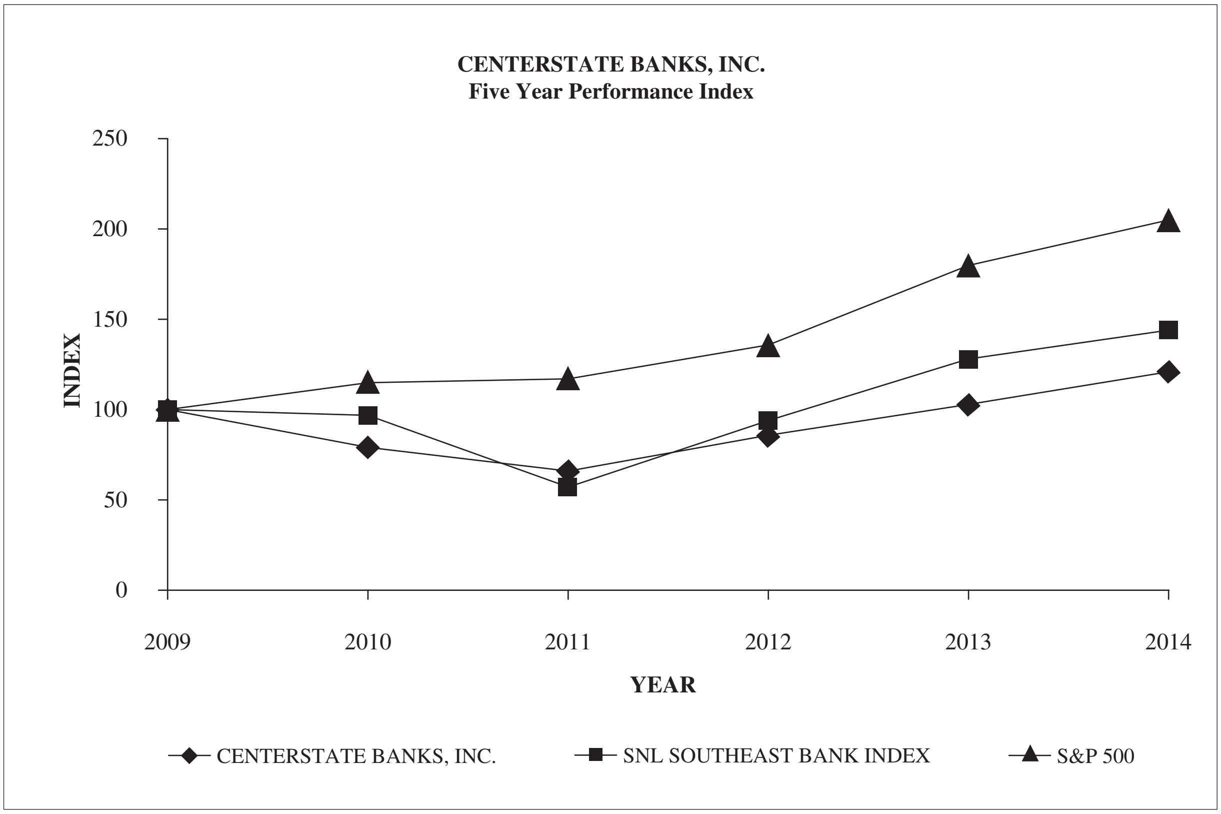
We did not repurchase any shares of our common stock during 2014. We repurchased 2,451 shares of our common stock during February of 2015 for settlement of certain tax withholding obligations related to equity based compensation awards.

Stock Plans

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled “Equity Compensation Plan Information” in our Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders is incorporated herein by reference.

Performance Graph

Shares of our common stock are traded on the NASDAQ Global Select Market. The following graph compares the yearly percentage change in cumulative shareholder return on the Company’s common stock, with the cumulative total return of the S&P 500 Index and the SNL Southeast Bank Index, since December 31, 2009 (assuming a $100 investment on December 31, 2009 and reinvestment of all dividends).



	2009	2010	2011	2012	2013	2014
CenterState Banks, Inc.	100	79	66	86	103	121
S&P 500	100	115	117	136	180	205
SNL Southeast Bank Index	100	97	57	94	128	144

Item 6. Selected Consolidated Financial Data

Use of Non-GAAP Financial Measures and Ratios

The accounting and reporting policies of the Company conform to generally accepted accounting principles ("GAAP") in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures and ratios are used by management to evaluate and measure the Company's performance. These include taxable-equivalent net interest income (including its individual components), net interest margin (including its individual components), the efficiency ratio, tangible assets, tangible shareholders' equity, tangible book value per common share, and tangible equity to tangible assets. Management believes that these measures and ratios provide users of the Company's financial information with a more meaningful view of the performance of the interest-earning assets and interest-bearing liabilities and of the Company's operating efficiency. Other financial holding companies may define or calculate these measures and ratios differently. Management also uses non-GAAP financial measures to help explain the variance in total non-interest expenses excluding merger and acquisition related expenses, impairment of bank property held for sale, credit related expenses and correspondent banking division expenses between the periods presented. Management uses this non-GAAP financial measure in its analysis of the Company's performance and believes this presentation provides useful supplemental information, and a clearer understanding of the Company's non-interest expense between periods presented.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable equivalent basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures the comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a fully taxable equivalent basis is also used in the calculation of the Company's efficiency ratio. The efficiency ratio is calculated by dividing non-interest expense (less nonrecurring items, credit related expenses and intangible amortization) by total taxable-equivalent net interest income and non-interest income (less securities gains or losses, FDIC indemnification income and nonrecurring items). The efficiency ratio is also calculated excluding correspondent income and expense from the calculation. These measures provide an estimate of how much it costs to produce one dollar of revenue. The items excluded from this calculation provide a better match of revenue from daily operations to operational expenses.

Tangible assets is defined as total assets reduced by goodwill and other intangible assets. Tangible common equity is defined as total common equity reduced by goodwill and other intangible assets. Tangible common equity to tangible assets is defined as tangible common equity divided by tangible assets. These measures are important to many investors in the marketplace who are interested in the common equity to assets ratio exclusive of the effect of changes in intangible assets on common equity and total assets.

Tangible common equity per common share outstanding is defined as tangible common equity divided by total common shares outstanding. This measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing our tangible book value.

These disclosures should not be considered in isolation or a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures which may be presented by other bank holding companies. Management compensates for these limitations by providing detailed reconciliations between GAAP information and the non-GAAP financial measures.

The following tables present a reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company's performance to the most directly comparable GAAP financial measures:

(Dollars in thousands, except per share data)	Years ended December 31, 2014	2013	2012	2011	2010
Income Statement Non-GAAP measures and ratios					
Interest income (GAAP)					
Loans, excluding purchase credit impaired ("PCI") loans	$ 87,094	$ 55,549	$ 56,376	$ 54,235	$ 51,414
PCI loans	34,168	32,725	25,216	11,658	4,283
Securities—taxable	13,991	9,889	11,297	14,296	16,833
Securities—tax-exempt	1,435	1,430	1,423	1,422	1,424
Federal funds sold and other	1,539	785	638	632	626
Total Interest income (GAAP)	138,227	100,378	94,950	82,243	74,580
Taxable equivalent adjustment					
Non PCI loans	628	628	646	539	113
Securities—tax-exempt	746	744	697	678	645
Total tax equivalent adjustment	1,374	1,372	1,343	1,217	758
Interest income—tax equivalent					
Loans excluding PCI loans	87,722	56,177	57,022	54,774	51,527
PCI loans	34,168	32,725	25,216	11,658	4,283
Securities—taxable	13,991	9,889	11,297	14,296	16,833
Securities—tax-exempt	2,181	2,174	2,120	2,100	2,069
Federal funds sold and other	1,539	785	638	632	626
Total interest income—tax equivalent	139,601	101,750	96,293	83,460	75,338
Total Interest expense (GAAP)	(7,356)	(5,885)	(8,481)	(12,207)	(16,742)
Net interest income—tax equivalent	$132,245	$ 95,865	$ 87,812	$ 71,253	$ 58,596
Net interest income (GAAP)	$130,871	$ 94,493	$ 86,469	$ 70,036	$ 57,838
Yields and costs					
Yield on Loans excluding PCI—tax equivalent	4.69%	4.77%	5.07%	5.30%	5.49%
Yield on loans—tax equivalent	5.64%	6.18%	5.67%	5.46%	5.45%
Yield on securities tax-exempt—tax equivalent	5.04%	5.19%	5.41%	5.88%	5.94%
Yield on interest earning assets (GAAP)	4.61%	4.93%	4.58%	4.30%	4.30%
Yield on interest earning assets—tax equivalent	4.66%	5.00%	4.65%	4.36%	4.34%
Cost of interest bearing liabilities (GAAP)	0.36%	0.39%	0.51%	0.81%	1.22%
Net interest spread (GAAP)	4.25%	4.54%	4.07%	3.49%	3.08%
Net interest spread—tax equivalent	4.30%	4.61%	4.14%	3.55%	3.12%
Net interest margin (GAAP)	4.37%	4.64%	4.18%	3.66%	3.33%
Net interest margin—tax equivalent	4.41%	4.71%	4.24%	3.72%	3.38%
Efficiency ratio					
Non interest income (GAAP)	26,226	$ 33,946	$ 59,261	$101,972	$ 54,933
Gain on sale of securities	(46)	(1,060)	(2,423)	(3,464)	(7,034)
FDIC indemnification income	(2,982)	(5,542)	(6,017)	(1,132)	
Nonrecurring income	—	—	(453)	(57,020)	(1,377)
Adjusted non interest income	23,198	27,344	50,368	40,356	46,522
Correspondent banking non interest income	(20,153)	(20,410)	(35,707)	(27,066)	(34,314)
Adjusted non interest income, ex. Correspondent	3,045	6,934	14,661	13,290	12,208
Net interest income before provision (GAAP)	130,871	94,493	86,469	70,036	57,838
Total tax equivalent adjustment	1,374	1,372	1,343	1,217	758
Adjusted net interest income	132,245	95,865	87,812	71,253	58,596
Correspondent net interest income	(3,239)	(2,854)	(4,023)	(3,822)	(4,967)
Adjusted net interest income, ex. correspondent	129,006	93,011	83,789	67,431	53,629

Income Statement Non-GAAP measures and ratios *(continued)*

continued from previous page	Years ended December 31, 2014	2013	2012	2011	2010
Non interest expense	136,181	$110,762	$121,980	$114,689	$93,325
CDI and Trust intangible amortization	(2,284)	(1,191)	(1,372)	(804)	(519)
Credit related expenses	(5,282)	(12,730)	(11,206)	(12,696)	(6,278)
Nonrecurring expense	(14,306)	(722)	(3,328)	(7,696)	(769)
Adjusted non interest expense	114,309	96,119	106,074	93,493	85,759
Correspondent banking non interest expense	(20,638)	(22,491)	(30,651)	(25,467)	(28,837)
Adjusted non interest expense, ex. Correspondent	$ 93,671	$ 73,628	$ 75,423	$ 68,026	$ 56,922
Efficiency ratio (GAAP)	74%	78%	77%	84%	82%
Efficiency ratio—tax equivalent	71%	74%	77%	84%	86%

Analysis of changes in interest income and expense

	Net change Dec. 31, 2014 versus 2013		
	Volume	Rate	Net change
Loans—tax equivalent	$41,257	$(8,269)	$32,988
Securities—tax-exempt—tax equivalent	72	(65)	7
Total interest income—tax equivalent	45,119	(7,268)	37,851
Net interest income—tax equivalent	43,247	(6,867)	36,380

Analysis of changes in interest income and expense

	Net change Dec. 31, 2013 versus 2012		
	Volume	Rate	Net change
Loans—tax equivalent	$ (709)	$7,373	$6,664
Securities—tax-exempt—tax equivalent	143	(89)	54
Total interest income—tax equivalent	(1,551)	7,008	5,457
Net interest income—tax equivalent	149	7,904	8,053

Non interest expense analysis

	2014	2013	$ increase (decrease)	% increase (decrease)
Total non-interest expense	$136,181	$110,762	$ 25,419	22.95%
Less: merger, acquisition, and conversion expense	(11,542)	(722)	(10,820)	1498.61%
Less: nonrecurring expenses	(2,764)	—	(2,764)	n/a
Subtotal	121,875	110,040	11,835	10.76%
Less: credit related expenses	(5,282)	(12,730)	7,448	-58.51%
Less: correspondent segment	(19,470)	(20,498)	1,028	-5.02%
Non-interest expense excluding credit cost,correspondent segment, merger related expenses,and nonrecurring expenses	$ 97,123	$ 76,812	$ 20,311	26.44%

(Dollars in thousands, except per share data)	Years ended December 31, 2014	2013	2012	2011	2010
Balance Sheet Non-GAAP measures and ratios					
Total assets	$3,776,869	$2,416,011	$2,363,240	$2,284,459	$2,062,924
Goodwill	(76,739)	(44,924)	(44,924)	(38,035)	(38,035)
Intangible assets, net	(15,401)	(6,116)	(7,307)	(5,203)	(3,921)
Tangible assets	$3,684,729	$2,364,971	$2,311,009	$2,241,221	$2,020,968
Common stockholders' equity	452,477	$ 273,379	$ 273,531	$ 262,633	$ 252,249
Goodwill	(76,739)	(44,924)	(44,924)	(38,035)	(38,035)
Intangible assets, net	(15,401)	(6,116)	(7,307)	(5,203)	(3,921)
Tangible common stockholders' equity	$ 360,337	$ 222,339	$ 221,300	$ 219,395	$ 210,293
Book value per common share	$ 9.98	$ 9.08	$ 9.09	$ 8.74	$ 8.41
Effect of intangible assets	$ (2.03)	$ (1.69)	$ (1.74)	$ (1.44)	$ (1.40)
Tangible book value per common share	$ 7.95	$ 7.38	$ 7.36	$ 7.30	$ 7.01
Equity to total assets	11.98%	11.32%	11.57%	11.50%	12.23%
Effect of intangible assets	-2.20%	-1.91%	-2.00%	-1.71%	-1.82%
Tangible common equity to tangible assets	9.78%	9.40%	9.58%	9.79%	10.41%

The selected consolidated financial data presented below should be read in conjunction with management's discussion and analysis of financial condition and results of operations, and the consolidated financial statements and footnotes thereto, of the Company at December 31, 2014 and 2013, and the three year period ended December 31, 2014, presented elsewhere herein. Operating results for prior periods are not necessarily indicative of results that might be expected for any future period.

Selected Consolidated Financial Data
For the twelve month period ending or as of December 31

(Dollars in thousands except for share and per share data)	2014	2013	2012	2011	2010
SUMMARY OF OPERATIONS:					
Total interest income	138,227	$ 100,378	$ 94,950	$ 82,243	$ 74,580
Total interest expense	(7,356)	(5,885)	(8,481)	(12,207)	(16,742)
Net interest income	130,871	94,493	86,469	70,036	57,838
Provision for loan losses	(826)	76	(9,220)	(45,991)	(29,624)
Net interest income after provision for loan losses	130,045	94,569	77,249	24,045	28,214
Non-interest income	9,780	15,666	23,237	16,599	13,826
Income-correspondent banking capital markets division	16,400	17,189	32,806	24,889	32,696
Net gain on sale of securities available for sale	46	1,060	2,423	3,464	7,034
Bargain purchase gain, acquisition of institution	—	—	453	57,020	1,377
Gain on sale of bank branch office real estate	—	31	342	—	—
Credit related expenses	(5,282)	(12,730)	(11,206)	(12,696)	(6,278)
Non-interest expense	(130,899)	(98,032)	(110,774)	(101,993)	(87,047)
Income (loss) before income taxes	20,090	17,753	14,530	11,328	(10,178)
Income tax (expense) benefit	(7,126)	(5,510)	(4,625)	(3,419)	4,240
Net income (loss)	$ 12,964	$ 12,243	$ 9,905	$ 7,909	$ (5,938)
PER COMMON SHARE DATA:					
Basic earnings (loss) per share	$ 0.32	$ 0.41	$ 0.33	$ 0.26	$ (0.22)
Diluted earnings (loss) per share	$ 0.31	$ 0.41	$ 0.33	$ 0.26	$ (0.22)
Common equity per common share outstanding	$ 9.98	$ 9.08	$ 9.09	$ 8.74	$ 8.41
Tangible common equity per common share outstanding	$ 7.95	$ 7.38	$ 7.36	$ 7.30	$ 7.01
Dividends per common share	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04
Actual shares outstanding	45,323,553	30,112,475	30,079,767	30,055,499	30,004,761
Weighted average common shares outstanding	40,852,002	30,102,777	30,073,959	30,034,573	27,608,211
Diluted weighted average common shares outstanding	41,235,552	30,220,127	30,141,863	30,039,187	27,608,211
BALANCE SHEET DATA:					
Assets	$ 3,776,869	$ 2,416,011	$ 2,363,240	$ 2,284,459	$ 2,062,924
Total loans	2,429,525	1,474,179	1,435,863	1,283,766	1,128,955
Allowance for loan losses	19,898	20,454	26,682	27,944	26,267
Total deposits	3,092,040	2,056,231	1,997,232	1,919,789	1,685,594
Short-term borrowings	179,014	50,366	57,724	69,276	97,284
Corporate debentures	23,917	16,996	16,970	16,945	12,500
Common stockholders' equity	452,477	273,379	273,531	262,633	252,249
Total stockholders' equity	452,477	273,379	273,531	262,633	252,249
Tangible capital	360,337	222,339	221,300	219,395	210,293
Goodwill	76,739	44,924	44,924	38,035	38,035
Core deposit intangible (CDI)	14,417	4,958	5,944	5,203	3,921
Trust intangible	984	1,158	1,363	—	—
Average total assets	3,419,541	2,381,620	2,445,902	2,176,571	1,935,495
Average loans	2,160,155	1,439,069	1,451,492	1,216,086	1,023,597
Average interest earning assets	2,995,845	2,034,542	2,070,990	1,914,812	1,734,746
Average deposits	2,891,459	2,087,004	2,062,682	1,800,998	1,517,302
Average interest bearing deposits	1,942,299	1,425,858	1,555,755	1,407,942	1,214,435
Average interest bearing liabilities	2,046,061	1,502,481	1,652,460	1,512,898	1,369,417
Average total stockholders' equity	391,574	273,852	269,282	253,398	243,063

Selected Consolidated Financial Data—continued
For the twelve month period ending or as of December 31

(Dollars in thousands)	2014	2013	2012	2011	2010
SELECTED FINANCIAL RATIOS:					
Return on average assets	0.38%	0.51%	0.40%	0.36%	-0.31%
Return on average equity	3.31%	4.47%	3.68%	3.12%	-2.44%
Dividend payout	13%	10%	12%	15%	na
Efficiency ratio (1)	74%	78%	77%	84%	82%
Efficiency ratio, excluding correspondent (2)	71%	74%	77%	84%	86%
Net interest margin, tax equivalent basis (3)	4.41%	4.71%	4.24%	3.72%	3.38%
Net interest spread, tax equivalent basis (4)	4.30%	4.61%	4.14%	3.55%	3.12%
CAPITAL RATIOS:					
Tier 1 leverage ratio	10.11%	10.38%	9.91%	10.49%	10.33%
Risk-based capital					
Tier 1	14.36%	16.64%	16.63%	17.79%	18.01%
Total	15.14%	17.89%	17.89%	19.05%	19.28%
Tangible common equity ratio	9.78%	9.40%	9.58%	9.79%	10.41%
ASSET QUALITY RATIOS:					
Net charge-offs to average loans (5)	0.07%	0.42%	0.93%	4.28%	2.83%
Allowance to period end loans (5)	0.90%	1.58%	2.11%	2.46%	2.82%
Allowance for loan losses to non-performing loans (5)	76%	73%	93%	71%	40%
Non-performing assets to total assets (5)	0.92%	1.39%	1.41%	2.16%	3.81%
OTHER DATA:					
Banking locations	58	55	55	58	53
Full-time equivalent employees	785	693	689	655	602

(1) Efficiency ratio is non-interest expense (less non-recurring items, credit related expenses and intangible amortization) divided by the sum of the tax equivalent net interest income before the provision for loan losses plus non-interest income (less non-recurring items and FDIC indemnification income).

(2) Efficiency ratio is same as (1) above excluding correspondent banking non-interest expense (including indirect expense allocations) from the numerator and excluding correspondent banking net interest income and non-interest income from the denominator.

(3) Net interest margin is net interest income divided by total average earning assets.

(4) Net interest spread is the difference between the average yield on earning assets and the average yield on average interest bearing liabilities.

(5) Excludes purchased credit impaired loans.

Quarterly Financial Information

The following table sets forth, for the periods indicated, certain consolidated quarterly financial information. This information is derived from our unaudited financial statements which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods. The sum of the four quarters of earnings per share may not equal the total earnings per share for the full year due to rounding and the issuance of stock related to the Gulfstream and FSB acquisitions in 2014. This information should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this document. The results for any quarter are not necessarily indicative of results for future periods.

Selected Quarterly Data
(unaudited)

(Dollars in thousands except for per share data)	2014				2013			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Interest income	$ 38,019	$ 37,347	$ 33,079	$ 29,782	$ 25,479	$ 26,034	$ 24,487	$ 24,378
Interest expense	(1,848)	(2,097)	(1,822)	(1,589)	(1,398)	(1,424)	(1,507)	(1,556)
Net interest income	36,171	35,250	31,257	28,193	24,081	24,610	22,980	22,822
Provision for loan losses	(18)	(955)	106	41	(183)	1,273	(1,374)	360
Net interest income after provision for loan losses	36,153	34,295	31,363	28,234	23,898	25,883	21,606	23,182
Non-interest income	1,740	1,417	1,041	1,829	2,105	5,698	3,951	4,109
Correspondent banking and capital markets division income	5,795	5,142	5,285	3,931	3,070	2,909	4,904	6,140
Gain on sales of securities available for sale	—	—	46	—	22	—	1,008	30
Non-interest expenses	(31,660)	(32,090)	(31,227)	(26,898)	(25,910)	(29,667)	(27,373)	(27,090)
Merger and acquisition related expense	(848)	(3,450)	(4,897)	(2,347)	(539)	(183)	—	—
Branch closure and efficiency initiatives	417	6	(29)	(3,158)	—	—	—	—
Income before income tax	11,597	5,320	1,582	1,591	2,646	4,640	4,096	6,371
Income tax expense	(4,316)	(1,727)	(545)	(538)	(846)	(1,531)	(1,338)	(1,795)
Net income	$ 7,281	$ 3,593	$ 1,037	$ 1,053	$ 1,800	$ 3,109	$ 2,758	$ 4,576
Basic earnings per common share	$ 0.16	$ 0.08	$ 0.03	$ 0.03	$ 0.06	$ 0.10	$ 0.09	$ 0.15
Diluted earnings per common share	$ 0.16	$ 0.08	$ 0.03	$ 0.03	$ 0.06	$ 0.10	$ 0.09	$ 0.15

The 2014 results were impacted by the merger and acquisition related expenses due to the 2014 acquisitions of Gulfstream and FSB as reflected in the table above. The acquisitions resulted in an increase in net interest income to the extent of the earning assets and deposits acquired while limiting the additional noninterest expense due to significant cost reductions related to the consolidation of back office operations and elimination of branch redundancies created by the acquisitions. In addition, expenses were incurred, primarily in the first quarter of 2014 as reflected above, for branch closures and efficiency initiatives unrelated to the acquisitions. The significant improvement of the fourth quarter 2014 results compared to the fourth quarter 2013 are primarily a reflection of the benefits of the acquisitions noted above and the realization of the expense reductions and efficiencies initiated during the first quarter of 2014.

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

(All dollar amounts in this Item 7 are in thousands of dollars, except shares and per share data or when specifically identified.)

Some of the statements in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities Exchange Act of 1934. These statements related to future events, other future financial performance or business strategies, and include statements containing terminology such as "may," "will," "should," "expects," "scheduled," "plans," "intends," "anticipates," "believes," "estimates," "potential," or "continue" or the negative of such terms or other comparable terminology. Actual events or results may differ materially from the results anticipated in these forward looking statements, due to a variety of factors, including, without limitation: the effects of future economic conditions; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and the level and composition of deposits, loan demand, and the values of loan collateral; and the effects of competition from other commercial banks, thrifts, consumer finance companies, and other financial institutions operating in our market area and elsewhere. All forward looking statements attributable to our Company are expressly qualified in their entirety by these cautionary statements. We disclaim any intent or obligation to update these forward looking statements, whether as a result of new information, future events or otherwise. There is no assurance that future results, levels of activity, performance or goals will be achieved.

Our discussion and analysis of earnings and related financial data are presented herein to assist investors in understanding the financial condition of our Company at December 31, 2014 and 2013, and the results of operations for the years ended December 31, 2014, 2013 and 2012. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein.

Executive Summary

Organizational structure

Our consolidated financial statements include the accounts of CenterState Banks, Inc. (the "Parent Company," "Company," "Corporate," "CenterState," "Holding Company", "CSFL", "we' or "our"), and our wholly owned subsidiary bank ("CSB" or the "Bank") and our non bank subsidiary R4ALL, Inc. ("R4ALL").

As background, in December 2010 we merged our three national chartered banks together, with CSB as the surviving bank. In June of 2012 we merged our state charted bank, Valrico State Bank, into CSB. We currently have one subsidiary bank, and one non bank subsidiary, R4ALL. R4ALL has no employees and its sole purpose is to acquire and dispose of troubled assets from our only surviving subsidiary bank. The general administrative and recording keeping activities are performed by one of our employees, and the managing of the troubled assets and disposition thereof is managed by the special asset disposition team employed by CSB.

At the Holding Company level, we perform functions that include strategic planning, merger and acquisition functions, investor relations, capital management, financial reporting, income tax management and reporting, loan review, internal audit, risk assessment and monitoring, and generally oversee and monitor the activities of our subsidiary bank. All of the operating activities associated with and related to the commercial and retail banking business, as well as the correspondent banking business, is performed and managed at the subsidiary bank level.

A condensed consolidating balance sheet at December 31, 2014 and a condensed consolidating statement of operations for the year ending December 31, 2014 are presented below.

Condensed Consolidating Balance Sheet

At December 31, 2014	CSB	R4ALL	PARENT COMPANY	Eliminations	Consolidated
Cash and due from banks	$ 52,067	$ 6	$ 2,808	$ (2,814)	$ 52,067
Federal funds sold and Federal Reserve deposits	106,346	—	—	—	106,346
Cash and cash equivalents	158,413	6	2,808	(2,814)	158,413
Investment securities	758,239	—	—	—	758,239
Purchase credit impaired (“PCI”) loans	276,766	—	—	—	276,766
Loans, excluding PCI loans	2,152,657	102	—	—	2,152,759
Allowance for loan losses	(19,890)	(8)	—	—	(19,898)
Bank premises and equipment, net	98,437	—	411	—	98,848
Goodwill	76,739	—	—	—	76,739
Core deposit intangibles	14,417	—	—	—	14,417
OREO covered by FDIC loss share agreements	19,404	—	—	—	19,404
OREO not covered by FDIC loss share agreements	7,736	1,160	—	—	8,896
Investment in subsidiaries	—	—	443,091	(443,091)	—
All other assets	222,794	121	36,371	(27,000)	232,286
Total assets	$3,765,712	$1,381	$482,681	$(472,905)	$3,776,869
Deposits	$3,094,854	$ —	$ —	$ (2,814)	$3,092,040
Other borrowings	179,014	—	23,917	—	202,931
All other liabilities	50,134	—	6,287	(27,000)	29,421
Total stockholders’ equity	441,710	1,381	452,477	(443,091)	452,477
Total liabilities and stockholders’ equity	$3,765,712	$1,381	$482,681	$(472,905)	$3,776,869

Condensed Consolidating Statement of Operations

For the 12 month period ending December 31, 2014	CSB	R4ALL	PARENT COMPANY	Eliminations	Consolidated
Interest income	$ 138,227	$ —	$ —	$ —	$ 138,227
Interest expense	(6,414)	—	(942)	—	(7,356)
Net interest income	131,813	—	(942)	—	130,871
Provision for loan losses	(827)	1	—	—	(826)
Net interest income after loan loss provision	130,986	1	(942)	—	130,045
Non interest income	26,350	—	15,983	(16,107)	26,226
Non interest expense	(132,779)	349	(3,875)	124	(136,181)
Net income before income tax provision	24,557	350	11,166	(15,983)	20,090
Income tax (provision) benefit	(8,789)	(135)	1,798	—	(7,126)
Net income	$ 15,768	$ 215	$ 12,964	$ (15,983)	$ 12,964

Through our subsidiary bank, we conduct commercial and retail banking business consisting of attracting deposits from the general public and applying those funds to the origination of commercial real estate loans, residential real estate loans, construction, development and land loans, and commercial loans and consumer loans. Most of our loans are secured by real estate located in Florida.

Our profitability depends primarily on net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) less the interest expense incurred on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned and paid on these balances. Net interest income is dependent upon the interest rate spread which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities. The interest rate spread is impacted by interest rates, deposit flows, and loan demand. Additionally, our profitability is affected by such factors as the level of non-interest income and expenses, the provision for credit losses, and the effective tax rate. Non-interest income consists primarily of service fees on deposit accounts and related services, and also includes commissions earned on bond sales, brokering single family home loans, Trust services, sale of mutual funds, annuities and other non-traditional and non-insured investments. Non-interest expense consists of compensation, employee benefits, occupancy and equipment expenses, and other operating expenses.

At December 31, 2014, our subsidiary bank operated through 58 bank branch locations in 20 counties in Florida as summarized in the table below:

Broward	Indian River	Orange	Putnam
Duval	Lake	Osceola	St. Lucie
Hendry	Marion	Palm Beach	Seminole
Hernando	Martin	Pasco	Sumter
Hillsborough	Okeechobee	Polk	Volusia

In addition to full service bank branches, we also originate loans in four loan production offices located in Tampa, Gainesville, Crystal River and Ft. Myers, Florida.

On January 17, 2014, we acquired Gulfstream Bancshares, Inc. (“Gulfstream”) which added four additional branches (approximately $479 million of deposits) and two additional counties, Palm Beach and Martin, to our market area.

On January 21, 2014, we announced efficiency and enhanced profitability initiatives including the closing and consolidation of seven smaller branches plus a standalone drive thru facility (counted as a branch for regulatory purposes). The branches were closed in mid-April 2014.

On June 1, 2014, we acquired First Southern Bancorp, Inc. (“FSB”) with approximately $600 million in loans, $853 million in deposits and 17 branches, of which 10 were either sold or closed in September 2014, and added Broward County to our market area.

Correspondent banking division

We also operate a correspondent banking and capital markets division. The division is integrated with and part of our subsidiary bank, CSB, located in Winter Haven, Florida, although the majority of our bond salesmen, traders and operations personnel are physically housed in leased facilities located in Birmingham, Alabama and Atlanta, Georgia. Its primary revenue generating activities are related to the capital markets division which includes commissions earned on fixed income security sales, fees from hedging services, loan brokerage fees and consulting fees for services related to these activities. Income generated related to the correspondent banking services includes spread income earned on correspondent bank deposits (i.e. federal funds purchased) and fees generated from safe-keeping activities, bond accounting services, asset/liability consulting services, international wires, clearing and corporate checking account services and other correspondent banking related services. The fees derived from the correspondent banking services are less volatile than those generated through the capital markets group. The customer base includes small to medium size financial institutions primarily located in Southeastern United States.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. Accounting policies are described in detail in Note 1 of the notes to the consolidated financial statements. The critical accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable incurred losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance for loan losses is determined based on our assessment of several factors: reviews and evaluation of individual loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry concentrations, historical loan loss experiences and the level of classified and nonperforming loans.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

We use a standardized loan grading system which is integral to our risk assessment function related to lending. Loan officers assign a loan grade to newly originated loans in accordance with the standard loan grades. Throughout the lending relationship, the loan officer is responsible for periodic reviews, and if warranted he/she will downgrade or upgrade a particular loan based on specific events and/or analyses. We use a loan grading system of 1 through 7. Grade 1 is "excellent" and grade 7 is "doubtful." Loans graded 5 or higher are placed on a watch list each month end and reported to the bank's board of directors. Our loan review officers, who are independent of the lending function and are not employees of our subsidiary bank, periodically review loan portfolios and lending relationships. The loan review officer may disagree with the bank's grade on a particular loan and subsequently downgrade or upgrade such loan(s) based on his risk analysis.

Our Chief Credit Officer ("CCO"), our Chief Special Asset Disposition Manager ("CSPA") and their teams are responsible for identifying and reporting all impaired loans, non-accrual loans, TDRs and OREO. They hold monthly meetings with our CEO, our subsidiary bank CEO, and a senior level accounting officer who along with the CCO and CSPA is ultimately responsible for preparing the Company's allowance for loan loss calculations each quarter. The Company's CFO and others also attend these meetings periodically. The CCO, CSPA and their teams make sure that all non-performing loans, subject to ASC 310, as well as OREO properties have a current appraisal (less than one year old) and that the asset is written down to 90% of the current appraisal, or less under certain circumstances, such as a listing price in the case of OREO, or a time value adjustment in the case of loans with appraisals approaching their one year life, and the related collateral is either in a type of category or in a market area with declining values. When these monthly meetings start, these teams have already evaluated their positions and have identified the course of action on each of the troubled assets listed. The purpose of the meetings is to allow the sharing of information and allow our CEO and the CEO of our lead subsidiary bank to review these evaluations with our CCO and CSPA, and either approve or modify their recommendations.

We maintain an allowance for loan losses that we believe is adequate to absorb probable incurred losses inherent in our loan portfolio. The allowance consists of three components. The first component consists of amounts specifically reserved ("specific allowance") for specific loans identified as impaired, as defined by FASB Accounting Standards Codification No. 310 ("ASC 310"). Impaired loans are those loans that management has estimated will not repay as agreed pursuant to the loan agreement. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principal and interest eventually, and therefore no specific reserve is warranted.

The second component is a general reserve (“general allowance”) on all of the Company’s loans other than those identified as impaired. We group these loans into categories with similar characteristics and then apply a loss factor to each group which is derived from our historical loss factor for that category adjusted for current internal and external environmental factors, as well as for certain loan grading factors.

The third component consists of amounts reserved for purchased credit-impaired loans. On a quarterly basis, the Company updates the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the pool’s effective interest rate. Impairments that occur after the acquisition date are recognized through the provision for loan losses. Probable and significant increases in expected principal cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the purchased credit impaired portfolio. The aggregate of these three components results in our total allowance for loan losses.

Goodwill and Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected November 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet. We have $77 million of goodwill on our consolidated balance sheet at December 31, 2014. Other intangible assets consist of core deposit intangible and trust intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then amortized on an accelerated method over their estimated useful lives, generally 10 years.

Goodwill and intangible assets are described further in Note 9 of the notes to the consolidated financial statements.

Income Taxes

We determine our income tax expense based on management’s judgments and estimates regarding permanent differences in the treatment of specific items of income and expense for financial statement and income tax purposes. These permanent differences result in an effective tax rate, which differs from the federal statutory rate. In addition, we recognize deferred tax assets and liabilities, recorded in the Consolidated Statements of Financial Condition, based on management’s judgment and estimates regarding timing differences in the recognition of income and expenses for financial statement and income tax purposes.

We must also assess the likelihood that any deferred tax assets will be realized through the reduction or refund of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more likely than not. In making this assessment, management must make judgments and estimates regarding the ability to realize the asset through carryback to taxable income in prior years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. Management believes that it is more likely than not that deferred tax assets included in the accompanying Consolidated Statements of Financial Condition will be fully realized, although there is no guarantee that those assets will be recognizable in future periods. We have a net deferred tax asset of $49.6 million in our consolidated balance sheet at December 31, 2014. For additional discussion of income taxes, see Notes 1 and 15 of "Notes to Consolidated Financial Statements" in Item 8 of this Form 10-K.

Purchased Credit-Impaired ("PCI") Loans

We account for acquisitions under the purchase accounting method. All identifiable assets acquired and liabilities assumed are recorded at fair value. We review each loan or loan pool acquired to determine whether there is evidence of deterioration in credit quality since inception and if it is probable that the Company will be unable to collect all amounts due under the contractual loan agreements. We consider expected prepayments and estimated cash flows including principal and interest payments at the date of acquisition. The amount in excess of the estimated future cash flows is not accreted into earnings. The amount in excess of the estimated future cash flows over the book value of the loan is accreted into interest income over the remaining life of the loan (accretable yield). The Company records these loans on the acquisition date at their net realizable value. Thus, an allowance for estimated future losses is not established on the acquisition date. We refine our estimates of the fair value of loans acquired for up to one year from the date of acquisition. Subsequent to the date of acquisition, we update the expected future cash flows on loans acquired on a quarterly basis. Losses or a reduction in cash flow which arise subsequent to the date of acquisition are reflected as a charge through the provision for loan losses. An increase in the expected cash flows adjusts the level of the accretable yield recognized on a prospective basis over the remaining life of the loan.

FDIC Loss Share Receivable

We have entered into agreements with the FDIC for reimbursement of losses within acquired loan portfolios. The FDIC loss share receivable is recorded at fair value on the date of acquisition based upon the expected reimbursements to be received from the FDIC adjusted by a discount rate which reflects counter party credit risk and other uncertainties. Changes in the underlying credit quality of the loans covered by the FDIC loss share receivable result in either an increase or a decrease in the FDIC loss share receivable. Deterioration in loan credit quality increases the FDIC loss share receivable; increases in credit quality decrease the FDIC loss share receivable. Proceeds received for reimbursement of incurred losses reduce the FDIC loss share receivable.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013.

Net Income

Our net income for the year ended December 31, 2014 was $12,964 or $0.32 and $0.31 per share basic and diluted, respectively, compared to $12,243 or $0.41 per share basic and diluted for the year ended December 31, 2013. Our net income, excluding merger related and efficiency initiative expenses and gain on sale of securities, for year 2014 was $22,403 ($0.54 per share diluted), compared to $12,010 ($0.40 per share diluted) for year 2013. The increase of $10,393 was primarily due to the January 2014 acquisition of Gulfstream and the June 2014 acquisition of FSB.

Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income increased $36,378, or 38% to $130,871 during the year ended December 31, 2014 compared to $94,493 for the same period in 2013. The increase was the result of a $37,849 increase in interest income less a $1,471 increase in interest expense.

Interest earning assets averaged $2,995,845 during the year ended December 31, 2014 as compared to $2,034,542 for the same period in 2013, an increase of $961,303, or 47%. The yield on average interest earning assets decreased 32 basis points ("bps") to 4.61% (34 bps to 4.66% tax equivalent basis) during the year ended December 31, 2014, compared to 4.93% (5.00% tax equivalent basis) for the same period in 2013. The combined net effects of the $961,303 increase in average interest earning assets and the decrease in yields on average interest earning assets resulted in the $37,849 ($37,851 tax equivalent basis) increase in interest income between the two years.

Interest bearing liabilities averaged $2,046,061 during the year ended December 31, 2014 as compared to $1,502,481 for the same period in 2013, an increase of $543,580, or 36%. The cost of average interest bearing liabilities decreased 3 bps to 0.36% during the year ended December 31, 2014, compared to 0.39% for 2013. The combined net effects of the $543,580 increase in average interest bearing liabilities and the 3 bps decrease in cost of average interest bearing liabilities resulted in the $1,471 increase in interest expense between the two years. See the tables "Average Balances – Yields & Rates," and "Analysis of Changes in Interest Income and Expenses" below.

Average Balances (8) – Yields & Rates

	Years Ended December 31,					
	2014			2013		
	Average Balance	Interest Inc / Exp	Average Rate	Average Balance	Interest Inc / Exp	Average Rate
ASSETS:						
Loans, excluding PCI (1) (2) (7)	$1,869,859	$ 87,722	4.69%	$1,177,493	$ 56,177	4.77%
Purchased credit impaired loans (9)	290,296	34,168	11.77%	261,576	32,725	12.51%
Securities available for sale—taxable	534,326	13,991	2.62%	413,840	9,889	2.39%
Securities available for sale—tax exempt (7)	43,303	2,181	5.04%	41,888	2,174	5.19%
Federal funds sold and other	258,061	1,539	0.60%	139,745	785	0.56%
TOTAL INTEREST EARNING ASSETS	$2,995,845	$139,601	4.66%	$2,034,542	$101,750	5.00%
Allowance for loan losses	(20,690)			(23,985)		
All other assets	444,386			371,063		
TOTAL ASSETS	$3,419,541			$2,381,620		
LIABILITIES & STOCKHOLDERS' EQUITY						
Deposits:						
Now	$ 560,813	$ 470	0.08%	$ 457,856	$ 362	0.08%
Money market	645,420	1,628	0.25%	312,151	476	0.15%
Savings	233,977	125	0.05%	238,497	132	0.06%
Time deposits	502,089	3,959	0.79%	417,354	4,215	1.01%
Repurchase agreements	30,316	181	0.60%	21,693	78	0.36%
Federal funds purchased	49,899	51	0.10%	37,941	20	0.05%
Other borrowed funds (3)	—	—	—	5	—	0.00%
Corporate debenture (4)	23,547	942	4.00%	16,984	602	3.54%
TOTAL INTEREST BEARING LIABILITIES	$2,046,061	$ 7,356	0.36%	$1,502,481	$ 5,885	0.39%
Demand deposits	949,160			584,523		
Other liabilities	32,746			20,764		
Total stockholders' equity	391,574			273,852		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,419,541			$2,381,620		
NET INTEREST SPREAD (tax equivalent basis) (5)			4.30%			4.61%
NET INTEREST INCOME (tax equivalent basis)		$132,245			$ 95,865	
NET INTEREST MARGIN (tax equivalent basis) (6)			4.41%			4.71%

(1) Loan balances are net of deferred origination fees and costs. Non-accrual loans are included in total loan balances.
(2) Interest income on average loans includes loan fee recognition of $665 and $408 for the years ended December 31, 2014 and 2013, respectively.
(3) Includes short-term (usually overnight) Federal Home Loan Bank advances and other short term borrowings.
(4) Includes net amortization of origination costs and amortization of purchase accounting adjustment of $176 and $26 during year ended December 31, 2014 and 2013, respectively.
(5) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(6) Represents net interest income divided by total earning assets.
(7) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.
(8) Averages balances are average daily balances.
(9) Purchased credit-impaired ("PCI") loans are loans accounted for under ASC Topic 310-30.

Non-accrual loans: A loan is moved to nonaccrual status in accordance with our policy typically after 90 days of non-payment, or less than 90 days of non-payment if management determines that the full timely collection of principal and interest becomes doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Analysis of Changes in Interest Income and Expenses

	Net Change Dec 31, 2014 versus 2013		
	Volume	Rate	Net Change
INTEREST INCOME			
Loans (tax equivalent basis)	$41,257	$(8,269)	$32,988
Securities available for sale—taxable	3,087	1,015	4,102
Securities available for sale—tax exempt	72	(65)	7
Federal funds sold and other	703	51	754
TOTAL INTEREST INCOME (tax equivalent basis)	$45,119	$(7,268)	$37,851
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 85	$ 24	$ 109
Money market accounts	714	438	1,152
Savings	(2)	(5)	(7)
Time deposits	766	(1,022)	(256)
Repurchase agreements	39	64	103
Federal funds purchased	8	22	30
Other borrowed funds	—	—	—
Corporate debenture	263	77	340
TOTAL INTEREST EXPENSE	$ 1,873	$ (402)	$ 1,471
NET INTEREST INCOME (tax equivalent basis)	$43,246	$(6,866)	$36,380

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses increased $902 to $826 during the year ending December 31, 2014 compared to a negative provision of $(76) for the comparable period in 2013. The provision for loan losses for the current year included $1,682 for the Gulfstream loans acquired in 2014. Our policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings, and is decreased by charge-offs, net of recoveries on prior loan charge-offs. Therefore, the provision for loan losses (Income Statement effect) is a residual of management's determination of allowance for loan losses (Balance Sheet approach). In determining the adequacy of the allowance for loan losses, we consider those levels maintained by conditions of individual borrowers, the historical loan loss experience, the general economic environment, the overall portfolio composition, and other information. As these factors change, the level of loan loss provision changes. Our loss factors associated with our general allowance for loan losses is the primary reason causing the decrease in our provision expense due to our continued improvement in substantially all of our credit metrics, in particular our historical loss factors which is a derivative of our historical charge-off rates. See "credit quality and allowance for loan losses" regarding the allowance for loan losses for additional information.

Non-Interest Income

Non-interest income for the year ended December 31, 2014 was $26,226 compared to $33,946 for the comparable period in 2013. This decrease was the result of the following components listed in the table below.

	2014	2013	$ increase (decrease)	% increase (decrease)
Correspondent banking capital markets revenue	$ 16,400	$ 17,189	$ (789)	-4.6%
Other correspondent banking related revenue	3,753	3,221	532	16.5%
Wealth management related revenue	4,239	4,551	(312)	-6.9%
Service charges on deposit accounts	9,542	8,457	1,085	12.8%
Debit, prepaid, ATM and merchant card related fees	6,250	5,420	830	15.3%
Bank owned life insurance income	1,767	1,328	439	33.1%
Other service charges and fees	1,990	985	1,005	102.0%
Gain on sale of securities	46	1,060	(1,014)	-95.7%
Subtotal	43,987	42,211	1,776	4.2%
FDIC indemnification asset- amortization	(20,743)	(13,807)	(6,936)	50.2%
FDIC indemnification income	2,982	5,542	(2,560)	-46.2%
Total non-interest income	$ 26,226	$ 33,946	$(7,720)	-22.7%

As shown in the table above, the primary reason for the decrease in non-interest income year to year is the increase in FDIC indemnification asset amortization.

The FDIC indemnification asset ("IA") is producing amortization (versus accretion) due to reductions in the estimated losses in the FDIC covered loan portfolio. To the extent current projected losses in the covered loan portfolio are less than previously projected losses, the related projected reimbursements from the FDIC contemplated in the IA are less, which produces a negative income accretion in non-interest income. This event corresponds to the increase in yields in the FDIC covered loan portfolio, although there is not perfect correlation.

Higher expected cash flows (i.e. less expected future losses) on the loan side of the equation is accreted into interest income over the life of the related loan pool. The lower expected reimbursement from the FDIC is amortized over the lesser of the remaining life of the related loan pool(s) or the remaining term of the loss share period.

At December 31, 2014, the total IA on our balance sheet was $49,054. Of this amount, we estimate to receive reimbursements from the FDIC of approximately $21,682 related to future estimated losses, and estimates to expense approximately $27,372 for previously estimated losses that are no longer expected. The $27,372 is now estimated to be paid, or has been paid, by the borrower (or has been or is estimated to be realized upon the sale of OREO) instead of a reimbursement from the FDIC. At December 31, 2014, the $27,372 previously estimated reimbursements from the FDIC will be amortized as expense (negative accretion) in our non-interest income as summarized below.

Year		Year	
2015	$12,216	2019	$ 1,851
2016	6,561	2020	1,201
2017	2,781	2021 thru 2022	556
2018	2,206	Total	$27,372

The table above is based on our most recent quarterly updated projections of possible future losses, cash flows and timing of cash flows. The above amounts are subject to change, and have changed in past quarters, primarily due to the FDIC covered loan pools performing better than previously estimated.

Our other FDIC income related line item in the table above, FDIC indemnification income, has two components. The first relates to losses on FDIC covered OREO. To the extent we incur a loss on the sale of OREO, the FDIC is obligated to reimburse us at various coverage rates pursuant to the applicable loss sharing agreements. The reimbursable amount is recognized as FDIC indemnification income in this line item during the same period the expense or loss on OREO is recognized in our non-interest expenses. The second component relates to provision for loan loss expenses related to impairments on any of our covered loan pools. To the extent we incur a loan loss provision expense, we recognize FDIC indemnification income pursuant to the applicable coverages outlined in the loss sharing agreements during the same period the expense was recognized in provision for loan loss expense.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2014 increased $25,419, or 22.9%, to $136,181, compared to $110,762 for 2013. The table below breaks down the individual components.

	2014	2013	$ increase (decrease)	% increase (decrease)
Employee salaries and wages	$ 53,939	$ 47,175	$ 6,764	14.3%
Employee incentive/bonus compensation	5,036	4,965	71	1.4%
Employee stock based compensation	1,577	609	968	159.0%
Employer 401K matching contributions	1,398	1,219	179	14.7%
Deferred compensation expense	580	569	11	1.9%
Health insurance and other employee benefits	5,072	3,557	1,515	42.6%
Payroll taxes	3,823	3,018	805	26.7%
Other employee related expenses	1,257	1,293	(36)	-2.8%
Incremental direct cost of loan origination	(2,307)	(2,036)	(271)	13.3%
Total salaries, wages and employee benefits	70,375	60,369	10,006	16.6%
(Gain) loss on sale of OREO	(67)	228	(295)	-129.4%
(Gain) loss on sale of FDIC covered OREO	(721)	2,894	(3,615)	-124.9%
Valuation write down of OREO	985	1,085	(100)	-9.2%
Valuation write down of FDIC covered OREO	2,265	4,927	(2,662)	-54.0%
Loss on repossessed assets other than real estate	45	401	(356)	-88.8%
Loan put back expense	—	4	(4)	-100.0%
Foreclosure and repossession related expenses	1,722	1,732	(10)	-0.6%
Foreclosure and repo expenses, FDIC (note 1)	1,053	1,459	(406)	-27.8%
Total credit related fees	5,282	12,730	(7,448)	-58.5%
Occupancy expense	10,163	7,702	2,461	32.0%
Depreciation of premises and equipment	6,066	5,876	190	3.2%
Supplies, stationary and printing	1,319	1,121	198	17.7%
Marketing expenses	2,731	2,517	214	8.5%
Data processing expense	5,484	3,784	1,700	44.9%
Legal, auditing and other professional fees	4,066	3,754	312	8.3%
Bank regulatory related expenses	3,209	2,369	840	35.5%
Postage and delivery	1,413	1,084	329	30.4%
ATM and debit card related expenses	1,918	1,802	116	6.4%
CDI amortization	2,110	986	1,124	114.0%
Trust intangible amortization	174	204	(30)	-14.7%
Internet and telephone banking	1,698	1,083	615	56.8%
Operational write-offs and losses	242	118	124	105.1%
Correspondent accounts and Federal Reserve charges	641	459	182	39.7%
Conferences/Seminars/Education/Training	409	584	(175)	-30.0%
Director fees	601	405	196	48.4%
Travel expenses	396	399	(3)	-0.8%
Other expenses	3,578	2,694	884	32.8%
Subtotal	121,875	110,040	11,835	10.8%
Merger, acquisition and conversion related expenses	11,542	722	10,820	1498.6%
Nonrecurring expenses	2,764	—	2,764	n/a
Total non-interest expense	$136,181	$110,762	$25,419	23.0%

note 1: These are foreclosure related expenses related to FDIC covered assets, and are shown net of FDIC reimbursable amounts pursuant to FDIC loss share agreements.

Excluding merger, acquisition and conversion related expenses and nonrecurring expenses related to branch closure and efficiency initiatives, total non-interest expense increased $11,835 or 10.8% year to year as shown in the above table. The increase is primarily due to our acquisition of Gulfstream in January 2014 and of FSB in June 2014.

Income Tax Provision

We recognized an income tax expense for the year ended December 31, 2014 of $7,126 (an effective tax rate of 35.5%) compared to $5,510 (an effective tax rate of 31.0%) for the year ended December 31, 2013. The primary reason for the increase was due to a smaller percentage of tax exempt interest income relative to total revenue and higher non-deductible expenses for tax purposes, primarily related to certain merger related expenses.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012.

Net Income

Our net income for the year ended December 31, 2013 was $12,243 or $0.41 per share basic and diluted, compared to $9,905 or $0.33 per share basic and diluted for the year ended December 31, 2012. Some of the primary reasons for the increase included higher net interest income due to a higher net interest margin and lower loan loss provision expense due to improved credit metrics and credit environment, which partially offset lower bond sales revenue from our correspondent division and higher FDIC indemnification asset ("IA") amortization expense. These and other factors contributing to our 2013 results are discussed below.

Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income increased $8,024, or 9% to $94,493 during the year ended December 31, 2013 compared to $86,469 for the same period in 2012. The increase was the result of a $5,428 increase in interest income plus a $2,596 decrease in interest expense.

Interest earning assets averaged $2,034,542 during the year ended December 31, 2013 as compared to $2,070,990 for the same period in 2012, a decrease of $36,448, or 1.8%. The yield on average interest earning assets increased 35 basis points ("bps") to 4.93% (35 bps to 5.00% tax equivalent basis) during the year ended December 31, 2013, compared to 4.58% (4.65% tax equivalent basis) for the same period in 2012. The combined net effects of the $36,448 decrease in average interest earning assets and the increase in yields on average interest earning assets resulted in the $5,428 ($5,457 tax equivalent basis) increase in interest income between the two years.

Interest bearing liabilities averaged $1,502,481 during the year ended December 31, 2013 as compared to $1,652,460 for the same period in 2012, a decrease of $149,979, or 9.1%. The cost of average interest bearing liabilities decreased 12 bps to 0.39% during the year ended December 31, 2013, compared to 0.51% for 2012. The combined net effects of the $149,979 decrease in average interest bearing liabilities and the 12 bps decrease in cost of average interest bearing liabilities resulted in the $2,596 decrease in interest expense between the two years. See the tables “Average Balances – Yields & Rates,” and “Analysis of Changes in Interest Income and Expenses” below.

Average Balances (8) – Yields & Rates

	Years Ended December 31,					
	2013			2012		
	Average Balance	Interest Inc / Exp	Average Rate	Average Balance	Interest Inc / Exp	Average Rate
ASSETS:						
Noncovered loans (1) (2) (7)	$1,179,796	$ 56,525	4.79%	$1,126,784	$58,696	5.21%
Covered loans (9)	259,273	32,377	12.49%	324,708	23,542	7.25%
Securities available for sale—taxable	413,840	9,889	2.39%	458,946	11,297	2.46%
Securities available for sale—tax exempt (7)	41,888	2,174	5.19%	39,183	2,120	5.41%
Federal funds sold and other	139,745	785	0.56%	121,369	638	0.53%
TOTAL INTEREST EARNING ASSETS	$2,034,542	$101,750	5.00%	$2,070,990	$96,293	4.65%
Allowance for loan losses	(23,985)			(26,872)		
All other assets	371,063			401,784		
TOTAL ASSETS	$2,381,620			$2,445,902		
LIABILITIES & STOCKHOLDERS’ EQUITY						
Deposits:						
Now	$ 457,856	$ 362	0.08%	$ 410,384	$ 457	0.11%
Money market	312,151	476	0.15%	331,449	730	0.22%
Savings	238,497	132	0.06%	239,147	266	0.11%
Time deposits	417,354	4,215	1.01%	574,775	6,076	1.06%
Repurchase agreements	21,693	78	0.36%	21,388	86	0.40%
Federal funds purchased	37,941	20	0.06%	53,803	28	0.05%
Other borrowed funds (3)	5	—	0.00%	4,556	201	4.41%
Corporate debenture (4)	16,984	602	3.54%	16,958	637	3.76%
TOTAL INTEREST BEARING LIABILITIES	$1,502,481	5,885	0.39%	$1,652,460	8,481	0.51%
Demand deposits	584,523			506,927		
Other liabilities	20,764			17,233		
Total stockholders’ equity	273,852			269,282		
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$2,381,620			$2,445,902		
NET INTEREST SPREAD (tax equivalent basis) (5)			4.61%			4.14%
NET INTEREST INCOME (tax equivalent basis)		$ 95,865			$87,812	
NET INTEREST MARGIN (tax equivalent basis) (6)			4.71%			4.24%

(1) Loan balances are net of deferred origination fees and costs. Non-accrual loans are included in total loan balances.
(2) Interest income on average loans includes loan fee recognition of $408 and $511 for the years ended December 31, 2013 and 2012, respectively.
(3) Includes short-term (usually overnight) Federal Home Loan Bank advances and other short term borrowings.
(4) Includes net amortization of origination costs and amortization of purchase accounting adjustment of $26 and $25 during year ended December 31, 2013 and 2012, respectively.
(5) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(6) Represents net interest income divided by total earning assets.
(7) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.
(8) Averages balances are average daily balances.
(9) Covered loans are loans purchased from the FDIC pursuant to assisted acquisitions of failed financial institutions, and are covered with respect to certain loss sharing agreements with the FDIC.

Non-accrual loans: A loan is moved to nonaccrual status in accordance with our policy typically after 90 days of non-payment, or less than 90 days of non-payment if management determines that the full timely collection of principal and interest becomes doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Analysis of Changes in Interest Income and Expenses

	Net Change Dec 31, 2013 versus 2012		
	Volume	**Rate**	**Net Change**
INTEREST INCOME			
Loans (tax equivalent basis)	$ (709)	$7,373	$ 6,664
Securities available for sale—taxable	(1,085)	(323)	(1,408)
Securities available for sale—tax exempt	143	(89)	54
Federal funds sold and other	101	46	147
TOTAL INTEREST INCOME (tax equivalent basis)	$(1,550)	$7,007	$ 5,457
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 48	$ (143)	$ (95)
Money market accounts	(40)	(214)	(254)
Savings	(1)	(133)	(134)
Time deposits	(1,600)	(261)	(1,861)
Repurchase agreements	1	(9)	(8)
Federal funds purchased	(8)	—	(8)
Other borrowed funds	(100)	(101)	(201)
Corporate debenture	1	(36)	(35)
TOTAL INTEREST EXPENSE	$(1,699)	$ (897)	$(2,596)
NET INTEREST INCOME (tax equivalent basis)	$ 149	$7,904	$ 8,053

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses decreased $9,296 to a negative provision of $(76) during the year ending December 31, 2013 compared to $9,220 for the comparable period in 2012. Our policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings, and is decreased by charge-offs, net of recoveries on prior loan charge-offs. Therefore, the provision for loan losses (Income Statement effect) is a residual of management's determination of allowance for loan losses (Balance Sheet approach). In determining the adequacy of the allowance for loan losses, we consider those levels maintained by conditions of individual borrowers, the historical loan loss experience, the general economic environment, the overall portfolio composition, and other information. As these factors change, the level of loan loss provision changes. Our loss factors associated with our general allowance for loan losses is the primary reason causing the decrease in our provision expense due to our continued improvement in substantially all of our credit metrics, in particular our historical loss factors which is a derivative of our historical charge-off rates. See "credit quality and allowance for loan losses" regarding the allowance for loan losses for additional information.

Non-Interest Income

Non-interest income for the year ended December 31, 2013 was $33,946 compared to $59,261 for the comparable period in 2012. This decrease was the result of the following components listed in the table below

	2013	2012	$ increase (decrease)	% increase (decrease)
Correspondent banking capital markets revenue	$ 17,189	$32,806	$ (15,617)	-47.6%
Other correspondent banking related revenue	3,221	2,901	320	11.0%
Wealth management related revenue	4,551	3,760	791	21.0%
Service charges on deposit accounts	8,457	6,598	1,859	28.2%
Debit, prepaid, ATM and merchant card related fees	5,420	4,623	797	17.2%
Bank owned life insurance income	1,328	1,436	(108)	-7.5%
Other service charges and fees	985	1,340	(355)	-26.5%
Gain on sale of securities	1,060	2,423	(1,363)	-56.3%
Bargain purchase gain	—	453	(453)	-100.0%
Subtotal	42,211	56,340	(14,129)	-25.1%
FDIC indemnification asset- amortization	(13,807)	(3,096)	(10,711)	346.0%
FDIC indemnification income	5,542	6,017	(475)	-7.9%
Total non-interest income	$ 33,946	$59,261	($ 25,315)	-42.7%

As shown in the table above, the primary reasons for the decrease in non-interest income year to year are decreases in revenue from our correspondent banking division (i.e. bond sales) and FDIC indemnification asset amortization.

Income from correspondent banking and bond sales division means the spread earned from buying and selling fixed income securities among our correspondent bank customers. We do not take a position in the transaction, but merely earn a spread for facilitating it. Gross revenue depends on the amount of sales volume, which is volatile from period to period. Sales volume was substantially less in the current year compared to 2012. The decrease in volume is likely due to increases in market interest rates thereby causing unrealized losses in our correspondent bank customers' securities portfolios. Many of our correspondent bank customers may be reluctant to execute sales and realize the loss if there are other possible strategies they can use which is likely a primary contributing factor to reduced sales volume.

The FDIC indemnification asset ("IA") is producing amortization (versus accretion) due to reductions in the estimated losses in the FDIC covered loan portfolio. To the extent current projected losses in the covered loan portfolio are less than previously projected losses, the related projected reimbursements from the FDIC contemplated in the IA are less, which produces a negative income accretion in non-interest income. This event corresponds to the increase in yields in the FDIC covered loan portfolio, although there is not perfect correlation. Higher expected cash flows (i.e. less expected future losses) on the loan side of the equation is accreted into interest income over the life of the related loan pool. The lower expected reimbursement from the FDIC (i.e. 80% of the lower expected future losses) is amortized over the lesser of the remaining life of the related loan pool(s) or the remaining term of the loss share period.

Future estimated losses and future estimated cash flows related to our FDIC covered loan portfolio are analyzed by management each quarter and adjusted accordingly. Historically, management has been adjusting future estimated losses downward, due to improvement in the economy, real estate market and recent historical payment performance of the underlying loans. The result has been higher interest accretion in the covered loan portfolio and higher IA amortization expense than previously estimated.

Our other FDIC income related line item in the table above, FDIC indemnification income, has two components. The first relates to losses on FDIC covered OREO. To the extent we incur a loss on the sale of OREO, 80% of the loss is reimbursable from the FDIC. The 80% reimbursable amount is recognized as FDIC indemnification income in this line item during the same period the expense or loss on OREO is recognized in our non-interest expenses. The second component relates to provision for loan loss expenses related to impairments on any of our covered loan pools. To the extent we incur a loan loss provision expense we recognize FDIC indemnification income in an amount equal to approximately 80% of such expense during the same period the expense was recognized in provision for loan loss expense.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2013 decreased $11,218, or 9.2%, to $110,762, compared to $121,980 for 2012. The table below breaks down the individual components.

	2013	2012	$ increase (decrease)	% increase (decrease)
Employee salaries and wages	$ 47,175	$ 56,232	$ (9,057)	-16.1%
Employee incentive/bonus compensation	4,965	3,938	1,027	26.1%
Employee stock based compensation	609	631	(22)	-3.4%
Employer 401K matching contributions	1,219	1,144	75	6.6%
Deferred compensation expense	569	501	68	13.5%
Health insurance and other employee benefits	3,557	3,985	(428)	-10.7%
Payroll taxes	3,018	3,235	(217)	-6.7%
Other employee related expenses	1,293	1,051	242	23.1%
Incremental direct cost of loan origination	(2,036)	(779)	(1,257)	161.4%
Total salaries, wages and employee benefits	$ 60,369	$ 69,938	$ (9,569)	-13.7%
Loss (gain) on sale of OREO	228	(140)	368	-262.9%
Loss on sale of FDIC covered OREO	2,894	1,325	1,569	118.4%
Valuation write down of OREO	1,085	1,011	74	7.3%
Valuation write down of FDIC covered OREO	4,927	3,247	1,680	51.7%
Loss on repossessed assets other than real estate	401	123	278	226.0%
Loan put back expense	4	1,632	(1,628)	-99.8%
Foreclosure and repossession related expenses	1,732	2,487	(755)	-30.4%
Foreclosure and repo expenses, FDIC (note 1)	1,459	1,521	(62)	-4.1%
Total credit related fees	12,730	11,206	1,524	13.6%
Occupancy expense	7,702	8,697	(995)	-11.4%
Depreciation of premises and equipment	5,876	5,678	198	3.5%
Supplies, stationary and printing	1,121	1,124	(3)	-0.3%
Marketing expenses	2,517	2,564	(47)	-1.8%
Data processing expense	3,784	3,988	(204)	-5.1%
Legal, auditing and other professional fees	3,754	2,527	1,227	48.6%
Bank regulatory related expenses	2,369	2,429	(60)	-2.5%
Postage and delivery	1,084	1,148	(64)	-5.6%
ATM and debit card related expenses	1,802	1,347	455	33.8%
CDI amortization	986	1,155	(169)	-14.6%
Trust intangible amortization	204	217	(13)	-6.0%
Internet and telephone banking	1,083	945	138	14.6%
Operational write-offs and losses	118	697	(579)	-83.1%
Correspondent accounts and Federal Reserve charges	459	527	(68)	-12.9%
Conferences/Seminars/Education/Training	584	510	74	14.5%
Director fees	405	374	31	8.3%
Travel expenses	399	317	82	25.9%
Other expenses	2,694	3,264	(570)	-17.5%
Subtotal	$110,040	$118,652	$ (8,612)	-7.3%
Merger, acquisition and conversion related expenses	722	2,714	(1,992)	-73.4%
Nonrecurring expenses	—	614	(614)	-100.0%
Total non-interest expense	$110,762	$121,980	$(11,218)	-9.2%

note 1: These are foreclosure related expenses related to FDIC covered assets, and are shown net of FDIC reimbursable amounts pursuant to FDIC loss share agreements.

Excluding merger, acquisition and conversion related expenses and nonrecurring expenses related to impairment on bank property held for sale identified above, total non-interest expense decreased $8,612 or 7.3% year to year as shown in the above table. The table below removes credit related expenses and correspondent segment expenses, which is primarily compensation related and varies significantly with levels of bond sales volumes.

	2013	2012	$ increase (decrease)	% increase (decrease)
Total non-interest expense	$110,762	$121,980	$(11,218)	-9.2%
Less: merger, acquisition, conversion, expenses	(722)	(2,714)	1,992	-73.4%
Less: nonrecurring expenses	—	(614)	614	-100.0%
Subtotal	110,040	118,652	(8,612)	-7.3%
Less: credit related expenses	(12,730)	(11,206)	(1,524)	13.6%
Less: correspondent segment	(20,498)	(28,168)	7,670	-27.3%
Non-interest expense, excluding credit cost, correspondent segment, and merger, acquisition and conversion related expenses, and nonrecurring expenses	$ 76,812	$ 79,278	$ (2,466)	-3.1%

Excluding merger, acquisition and conversion related expense and impairment of bank property held for sale, and excluding credit cost and our correspondent division, the remaining non-interest expense approximates the operating expense of our core commercial and consumer banking segment. As shown in the table above, this expense decreased approximately $2,466, or 3.1% year to year. The reasons for this decrease include the following:

The Company closed a total of 15 branches in 2012 (four in the first quarter, six in the second quarter, and four in the third quarter). We incurred the related expenses in 2012 for these branches until the offices were closed.

In addition, the two failed banks we acquired in 2012 operated on two different core processing systems, which were not converted to our core processing system until May and June of 2012, adding elevated cost in terms of data processing, personnel and other temporary inefficiencies above the normalized incremental operating expenses.

In addition to consolidating and closing branches, and a reduction in workforce, we also initiated other cost efficiencies and revenue enhancements during 2012 that were fully implemented during the entire year of 2013.

Income Tax Provision

We recognized an income tax expense for the year ended December 31, 2013 of $5,510 (an effective tax rate of 31.0%) compared to $4,625 (an effective tax rate of 31.8%) for the year ended December 31, 2012.

COMPARISON OF BALANCE SHEETS AT DECEMBER 31, 2014 AND DECEMBER 31, 2013

Overview

Our total assets grew by $1,360,858, or 56%, from $2,416,011 at December 31, 2013 to $3,776,869 at December 31, 2014, primarily due to our January 2014 acquisition of Gulfstream and our June 2014 acquisition of FSB.

Investment securities available for sale

We have an available for sale securities portfolio which we account at fair value. Unrealized holding gains and losses are included as a separate component of shareholders' equity, net of the effect of deferred income taxes.

We invest primarily in direct obligations of the United States, obligations guaranteed as to the principal and interest by the United States, mortgage backed securities, municipal securities and obligations of government sponsored entities and agencies of the United States. The Federal Reserve Bank and the Federal Home Loan Bank also require equity investments to be maintained by us, which are shown separately in our consolidated balance sheet.

Our available for sale portfolio totaled $517,457 at December 31, 2014 and $457,086 at December 31, 2013, or 14% and 19%, respectively, of total assets. See note (3) in our Consolidated Financial Statements for a summary of security type, maturity, amortized cost basis, gross unrealized gains and gross unrealized losses.

We use our security portfolio primarily as a tool to manage our balance sheet, manage our regulatory capital ratios, as a source of liquidity and a base from which to pledge assets for repurchase agreements and public deposits. When our liquidity position exceeds expected loan demand, other investments are considered as a secondary earnings alternative. Approximately 92% of investment securities available for sale are mortgage backed securities. The cash flows from these securities are used to meet cash needs or will be reinvested to maintain a desired liquidity position. We classify the majority of our securities as "available-for-sale" to provide for greater flexibility to respond to changes in interest rates as well as future liquidity needs. We believe the composition of the portfolio offers flexibility in managing our liquidity position and interest rate sensitivity, without adversely impacting our regulatory capital levels. The available for sale portfolio is carried at fair market value and had a net unrealized gain of approximately $6,598 (which includes gross unrealized losses of $1,711) at December 31, 2014, compared to a net unrealized loss of approximately $7,300 at December 31, 2013.

If our management intends to sell or it is more likely than not we will be required to sell the security before recovery of our amortized cost basis, less any current period credit loss, the other than temporary impairment ("OTTI") will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If our management does not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because we do not have the intent to sell these securities and its more likely than not we will be required to sell these securities before their anticipated recovery, we do not consider any of our securities, that have an unrealized loss associated with them, to be other than temporarily impaired.

Trading Securities

We also have a trading securities portfolio. For this portfolio, realized and unrealized gains and losses are included in trading securities revenue, a component of non interest income in our Consolidated Statement of Operations and Comprehensive Income. Securities purchased for this portfolio have primarily been municipal securities and are held for short periods of time. This activity was initiated to take advantage of market opportunities, when presented, for short term revenue gains. See note (2) in our Consolidated Financial Statements for a summary of purchases, sales and revenue recognized for the year ending December 31, 2014 and 2013.

Investment securities held to maturity

During 2014, we initiated a held to maturity securities portfolio. At December 31, 2014 the portfolio had securities of $237,362 at amortized cost. We anticipate that this portfolio will generally hold longer term securities for the primary purpose of yield. This classification was chosen to minimize temporary effects on our tangible equity and tangible equity ratio due to increases and decreases in general market interest rates. At December 31, 2014, these securities had gross unrecognized gains of approximately $1,080 and $12 of gross unrecognized losses. Similar to our available for sale portfolio, because the decline in fair value is attributable to changes in interest rates and not credit quality, and because we do not have the intent to sell these securities and its more likely than not we will be required to sell these securities before their anticipated recovery, we do not consider any of our securities, that have an unrealized loss associated with them, to be other than temporarily impaired. See note (3) in our Consolidated Financial Statements for a summary of security type, maturity, estimated fair value, gross unrecognized gains and gross unrecognized losses.

Loans

Lending-related income is the most important component of our net interest income and is a major contributor to profitability. The loan portfolio is the largest component of earning assets, and it therefore generates the largest portion of revenues. The absolute volume of loans and the volume of loans as a percentage of earning assets is an important determinant of net interest margin as loans are expected to produce higher yields than securities and other earning assets. Average loans during the year ended December 31, 2014, were $2,160,155, or 72% of average earning assets, as compared to $1,439,069, or 71% of average earning assets, for the year ending December 31, 2013. Total loans at December 31, 2014 and 2013 were $2,429,525 and $1,474,179, respectively, an increase of $955,346, or 65%. This also represents a loan to total asset ratio of 64% and 61% and a loan to deposit ratio of 79% and 72%, at December 31, 2014 and 2013, respectively.

Approximately 11.3% of our total loans, or $274,521, are covered by FDIC loss sharing agreements related to the acquisition of three failed financial institutions during the third quarter of 2010, two during the first quarter of 2012 and two acquired pursuant to our acquisition of FSB. Pursuant to the terms of the loss sharing agreements, the FDIC is obligated to reimburse us for certain losses with respect to the covered loans beginning with the first dollar of loss incurred, subject to the terms of the individual loss share agreements. We will reimburse the FDIC for its share of recoveries with respect to the covered loans. The loss sharing agreements applicable to single family residential mortgage loans provide for FDIC loss sharing and our reimbursement to the FDIC for recoveries for ten years. The loss sharing agreements applicable to commercial loans provides for FDIC loss sharing for five years and our reimbursement to the FDIC for a total of eight years for recoveries.

FDIC covered loans are included in both our PCI loan portfolio and non-PCI loan portfolio. Approximately 86% of our PCI loan portfolio are FDIC covered loans.

In the aggregate, approximately 85% are collateralized by real estate, 12% are commercial non real estate loans and the remaining 3% are consumer and other non real estate loans. The loans collateralized by real estate are further delineated as follows.

Residential real estate loans: These are single family home loans primarily originated within our local market areas by employee loan officers or acquired pursuant to an acquisition of either an FDIC assisted transaction, a whole bank transaction or an acquisition of branches including selected performing loans (i.e. loans purchased from TD Bank, N.A. in 2011). We do not use loan brokers to originate loans for our own portfolio, nor do we generally acquire loans outside of our geographical markets. The aggregate size of this category is $691,077 representing approximately 28% of our total loans. Approximately $102,009 of this total amount is included in our PCI loan portfolio. Of the remaining $589,068 that are not PCI loans, approximately $11,901 or 2% are non performing (non-accrual) at December 31, 2014.

Commercial real estate loans: This is the largest category ($1,273,910) of our loan portfolio representing approximately 52% of our total loans. This category, along with commercial non real estate lending, is our primary business. There is no significant concentration by type of property in this category but there is a geographical concentration such that the properties are substantially all located within Florida. The borrowers are a mix of professionals, doctors, lawyers, and other small business owners. Approximately 37% of these loans are owner occupied. Approximately $140,977 are included in our PCI loan portfolio. Of the remaining $1,132,933 that are not PCI loans, approximately $8,470 or 0.7% are non performing (non-accrual) at December 31, 2014.

Land, development and construction loans: We have no construction or development loans with national builders. We do business with local builders and developers that have typically been long time customers. This category represents approximately 4% ($103,034) of our total loan portfolio. The majority of this amount is land development, lots, and other land loans. Approximately $24,032 of these loans are included in our PCI loan portfolio. Of the remaining $79,002 that are not PCI loans, approximately $2,374 or 3% are non performing (non-accrual) at December 31, 2014.

Loan concentrations are considered to exist where there are amounts loaned to multiple borrowers engaged in similar activities, which collectively could be similarly impacted by economic or other conditions and when the total of such amounts would exceed 25% of total capital. Due to the lack of diversified industry and the relative proximity of markets served, we have concentrations in geographic regions as well as in types of loans funded. The tables below provide a summary of the loan portfolio composition and maturities for the periods provided below.

Loan Portfolio Composition

Types of Loans

at December 31:	2014	2013	2012	2011	2010
Loans excluding PCI loans					
Real estate loans:					
Residential	$ 589,068	$ 458,331	$ 428,554	$ 405,923	$ 255,571
Commercial	1,132,933	528,710	480,494	447,459	410,162
Land, development and construction	79,002	62,503	55,474	89,517	109,380
Total real estate loans	1,801,003	1,049,544	964,522	942,899	775,113
Commercial	294,493	143,263	124,225	126,064	100,906
Consumer and other loans	56,334	49,547	48,547	49,999	52,115
Total loans—gross	2,151,830	1,242,354	1,137,294	1,118,962	928,134
Less: unearned fees/costs	929	404	(458)	(639)	(728)
Total loans excluding PCI loans	2,152,759	1,242,758	1,136,836	1,118,323	927,406
PCI loans					
Real estate loans:					
Residential	102,009	120,030	142,480	99,270	110,586
Commercial	140,977	100,012	134,413	54,184	68,286
Land, development and construction	24,032	6,381	13,259	8,231	13,653
Total real estate loans	267,018	226,423	290,152	161,685	192,525
Commercial	8,953	3,850	6,143	2,366	5,760
Consumer and other loans	795	1,148	2,732	1,392	3,264
Total PCI loans	276,766	231,421	299,027	165,443	201,549
Total loans	$2,429,525	$1,474,179	$1,435,863	$1,283,766	$1,128,955

The repayment of loans is a source of additional liquidity for us. The following table sets forth the loans maturing within specific intervals at December 31, 2014, excluding unearned net fees and costs.

Loan Maturity Schedule

	December 31, 2014			
	0 – 12 Months	1–5 Years	Over 5 Years	Total
All loans other than construction, development, land	$247,272	$770,719	$1,307,572	$2,325,562
Real estate—land, development and construction	27,340	37,882	37,812	103,034
Total	$274,612	$808,600	$1,345,384	$2,428,596
Fixed interest rate	$145,745	$653,592	$ 428,220	$1,227,556
Variable interest rate	128,867	155,009	917,164	1,201,040
Total	$274,612	$808,600	$1,345,384	$2,428,596

The information presented in the above table is based upon the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity structure of the loan portfolio. *See* "Liquidity and Market Risk Management" for a discussion regarding the repricing structure of the loan portfolio.

Credit Quality and Allowance for Loan Losses

We maintain an allowance for loan losses that we believe is adequate to absorb probable incurred losses inherent in our loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings and decreased by loan charge-offs net of recoveries of prior period loan charge-offs. Loans are charged against the allowance when management believes collection of the principal is unlikely.

The allowance consists of three components. The first component consists of amounts reserved for impaired loans, as defined by ASC 310. Impaired loans are those loans that management has estimated will not repay as agreed pursuant to the loan contract. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principal and interest eventually, and therefore no specific reserve is warranted.

The second component is a general reserve on all of our loans other than those identified as impaired and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced over the most recent two years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. The following portfolio segments have been identified:

Residential real estate

Commercial real estate

Construction and land development

Commercial and industrial (not collateralized by real estate)

Consumer (not collateralized by real estate)

The historical loss factors for each portfolio segment is adjusted for current internal and external environmental factors, as well as for certain loan grading factors. The environmental factors that we consider are listed below.

We consider changes in the levels of and trends in past due loans, non-accrual loans and impaired loans, and the volume and severity of adversely classified or graded loans. Also, we consider changes in the value of underlying collateral for collateral-dependent loans.

We consider levels of and trends in charge-offs and recoveries.

We consider changes in the nature and volume of the portfolio and in the terms of loans.

We consider changes in lending policies, procedures and practices, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses. We also consider changes in the quality of our loan review system.

We consider changes in the experience, ability, and depth of our lending management and other relevant staff.

We consider changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments (national and local economic trends and conditions).

We consider the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio (industry conditions).

We consider the existence and effect of any concentrations of credit, and changes in the level of such concentrations.

The third component consists of amounts reserved for purchased credit-impaired loans. On a quarterly basis, we update the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the pool's effective interest rate. Impairments that occur after the acquisition date are recognized through the provision for loan losses. Probable and significant increases in expected principal cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the purchased credit impaired portfolio. The aggregate of these three components results in our total allowance for loan losses.

In the table below we have shown the components, as discussed above, of our allowance for loan losses at December 31, 2014 and 2013.

	December 31, 2014			**December 31, 2013**			**increase (decrease)**		
	loan balance	**ALLL balance**	**%**	**loan balance**	**ALLL balance**	**%**	**loan balance**	**ALLL balance**	
Non impaired loans	$1,407,781	$16,587	1.18%	$1,218,648	$17,883	1.47%	$189,133	$(1,296)	-29 bps
Gulfstream loans (note 1)	280,331	1,682	0.60%	—	—	—%	280,331	1,682	60 bps
FSB loans (note 2)	439,397	—	—%	—	—	—%	439,397	—	
Impaired loans	25,250	1,115	4.42%	24,110	1,811	7.51%	1,140	(696)	-309 bps
Non-PCI loans	2,152,759	19,384	0.90%	1,242,758	19,694	1.58%	910,001	(310)	-68 bps
PCI loans (note 3)	276,766	514		231,421	760		45,345	(246)	
Total loans	$2,429,525	$19,898	0.82%	$1,474,179	$20,454	1.39%	$955,346	$ (556)	-57 bps

* The significant decrease in this ratio compared to the prior period end is primarily due to the addition of the Gulfstream and FSB loans.

note 1: Loans acquired pursuant to the January 17, 2014 acquisition of Gulfstream that are not PCI loans. These are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment at the acquisition date was approximately $7,680, or approximately 2.3% of the outstanding aggregate loan balances. This amount is accreted into interest income over the remaining lives of the related loans on a level yield basis. At December 31, 2014, management evaluated the performance of this group of loans over an eleven month period subsequent to the acquisition date and based on this evaluation has estimated a probable incurred loss amount at December 31, 2014 as listed in the table above.

note 2: Loans acquired pursuant to the June 1, 2014 acquisition of FSB that are not PCI loans. These are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment at the acquisition date was approximately $10,081, or approximately 2% of the outstanding aggregate loan balances. This amount is accreted into interest income over the remaining lives of the related loans on a level yield basis and no provision for loan loss was recorded related to these loans at December 31, 2014. Included in the $439,397 of FSB non-PCI loans are $39,620 of loans that are covered by FDIC loss sharing agreements and $38,522 of loans that are guaranteed by the California University System.

note 3: Included in the $276,766 PCI loans at December 31, 2014 are $234,901 of loans that are covered by FDIC loss sharing agreements.

The general loan loss allowance (non-impaired loans, which includes Gulfstream and FSB acquired loans) increased by a net amount of $386. Excluding Gulfstream and FSB loans, the general loan loss allowance decreased by $1,296 resulting primarily from a decrease in the loss factors due to the continued improvement in the local economy and real estate market, and the continued decline in the Company's two year charge-off history. At December 31, 2014, the Company's qualitative factors increased the current two year historical loss ratios that are used to estimate the general loan loss allowance.

As of the end of the current year, the Company has an eleven month history with the performing loans acquired from Gulfstream as discussed in note 1 above. The Company estimated the probable incurred losses in this group of loans and this estimate exceeded the fair value discount at December 31, 2014. As a result, an initial general loan loss allowance of $1,682 was recorded at December 31, 2014. Management considered the levels of and trends in non-performing loans, past-due loans, adverse loan grade classification changes and impaired loans in arriving at its estimate. There were no charge-offs in this group of loans during 2014.

Performing loans acquired in our June acquisition of FSB were recorded at estimated fair value at the acquisition date. The fair value adjustment at the acquisition date was approximately $10,081, or approximately 2% of the outstanding aggregate loan balances. As described in note 2 above, this amount is accreted into interest income over the remaining lives of the related loans on a level yield basis. The fair value adjustment exceeds the Company's estimate of probable incurred losses in this group of loans at December 31, 2014, and therefore no provision for loan loss was recorded related to these loans at December 31, 2014.

The specific loan loss allowance (impaired loans) is the aggregate of the results of individual analyses prepared for each one of the impaired loans, excluding PCI loans. The Company recorded partial charge offs in lieu of specific allowance for a number of the impaired loans. The Company's impaired loans have been written down by $1,333 to $25,250 ($24,135 when the $1,115 specific allowance is considered) from their legal unpaid principal balance outstanding of $26,583. In the aggregate, total impaired loans have been written down to approximately 91% of their legal unpaid principal balance, and non-performing impaired loans have been written down to approximately 82% of their legal unpaid principal balance. The Company's total non-performing loans (non-accrual loans plus loans past due greater than 90 days and still accruing, $25,595 at December 31, 2014) have been written down to approximately 85% of their legal unpaid principal balance, when the related specific allowance is also considered.

Approximately $16,395 of the Company's impaired loans (65%) are accruing performing loans. This group of impaired loans is not included in the Company's non-performing loans or non-performing assets categories.

PCI loans, including those covered by FDIC loss sharing agreements, are accounted for pursuant to ASC Topic 310-30. PCI loan pools are evaluated for impairment each quarter. If a pool is impaired, an allowance for loan loss is recorded.

The allowance is increased by the provision for loan losses, which is a charge to current period earnings and decreased by loan charge-offs net of recoveries of prior period loan charge-offs. Loans are charged against the allowance when management believes collection of the principal is unlikely. We believe our allowance for loan losses was adequate at December 31, 2014. However, we recognize that many factors can adversely impact various segments of the Company's markets and customers, and therefore there is no assurance as to the amount of losses or probable losses which may develop in the future. The tables below summarize the changes in allowance for loan losses during the periods presented.

Activity in Allowance for Loan Losses

	2014	2013	2012	2011	2010
Loans excluding PCI loans					
Balance, beginning of year	$19,694	$24,033	$ 27,559	$ 26,267	$ 23,289
Loans charged-off:					
Residential real estate	(1,382)	(3,701)	(3,968)	(9,306)	(4,306)
Commercial real estate	(353)	(1,144)	(2,862)	(11,179)	(8,131)
Construction & land development	(124)	(310)	(4,646)	(7,717)	(4,994)
Commercial & industrial	(699)	(120)	(231)	(1,971)	(774)
Consumer	(879)	(903)	(807)	(1,091)	(523)
Total loans charged-off	(3,437)	(6,178)	(12,514)	(31,264)	(18,728)
Loans charged-off—loan sales:					
Residential real estate	—	—	—	(3,019)	—
Commercial real estate	—	—	—	(11,153)	(8,361)
Construction & land development	—	—	—	(456)	—
Commercial & industrial	—	—	—	(220)	—
Total loans charged-off—loan sales	—	—	—	(14,848)	(8,361)
Recoveries on loans previously charged-off:					
Residential real estate	1,018	432	378	542	178
Commercial real estate	763	417	871	665	42
Construction & land development	106	193	604	251	167
Commercial & industrial	85	51	22	82	11
Consumer	184	181	157	258	45
Total loan recoveries	2,156	1,274	2,032	1,798	443
Net charge-offs	(1,281)	(4,904)	(10,482)	(44,314)	(26,646)
Provision for loan losses charged to expense	971	565	6,956	45,606	29,624
Allowance for loan losses for loans that are not PCI loans	$19,384	$19,694	$ 24,033	$ 27,559	$ 26,267
PCI loans					
Balance, beginning of year	$ 760	$ 2,649	$ 385	$ —	$ —
Loans charged-off:					
Residential real estate	—	—	—	—	—
Commercial real estate	—	(1,248)	—	—	—
Construction & land development	—	—	—	(293)	—
Commercial & industrial	(101)	—	—	—	—
Consumer	—	—	—	—	—
Total loans charged-off	(101)	(1,248)	—	(293)	—
Recoveries on loans previously charged-off:					
Residential real estate	—	—	—	—	—

Activity in Allowance for Loan Losses—continued

	2014	2013	2012	2011	2010
Commercial real estate	—	—	—	—	—
Construction & land development	—	—	—	293	—
Commercial & industrial	—	—	—	—	—
Consumer	—	—	—	—	—
Total loan recoveries	—	—	—	293	—
Net charge-offs	(101)	(1,248)	—	—	—
Provision for loan losses charged to expense	(145)	(641)	2,264	385	—
Allowance for loan losses on PCI loans	$ 514	$ 760	$ 2,649	$ 385	$ —
Total allowance at end of period	$ 19,898	$ 20,454	$ 26,682	$ 27,944	$ 26,267

	2014	2013	2012	2011	2010
Loans at year end (note 1)	$2,152,759	$1,242,758	$1,136,836	$1,118,323	$927,406
Average loans outstanding (note 1)	$1,869,859	$1,177,493	$1,124,251	$1,032,959	$937,931
Net charge-offs (note 1)	$ 1,281	$ 4,904	$ 10,482	$ 44,314	$ 26,646
Allowance for loan losses as percentage of year end loans (note 1)	0.90%	1.58%	2.11%	2.46%	2.82%
Net charge-offs as a percentage of average loans outstanding (note 1)	0.07%	0.42%	0.93%	4.28%	2.83%

Note 1: Excludes PCI loans.

Non-performing loans consist of non-accrual loans and loans past due 90 days or more and still accruing interest, excluding loans covered by FDIC loss share agreements. Non-performing assets consist of non-performing loans plus (a) OREO (i.e. real estate acquired through foreclosure or deed in lieu of foreclosure); (b) other repossessed assets that are not real estate; and (c) are not covered by FDIC loss share agreements. We place loans on non-accrual status when they are past due 90 days and management believes the borrower's financial condition, after giving consideration to economic conditions and collection efforts, is such that collection of interest is doubtful. When we place a loan on non-accrual status, interest accruals cease and uncollected interest is reversed and charged against current income. Subsequent collections reduce the principal balance of the loan until the loan is returned to accrual status or interest is recognized only to extent received in cash.

The largest component of non-performing loans is non-accrual loans, which as of December 31, 2014 totaled $25,595 (207 loans). This amount is further delineated by loan category as follows:

Non-accrual loans at 12/31/14	aggregate loan amounts	% of non-accrual by category	number of loans
Residential real estate	$11,901	47%	99
Commercial real estate	8,470	33%	39
Land, development, construction	2,374	9%	17
Commercial	2,475	10%	22
Consumer and other	375	1%	30
Total	$25,595	100%	207

The other component of non-performing loans are loans past due greater than 90 days and still accruing interest. Loans which are past due greater than 90 days are placed on non-accrual status, unless they are both well secured and in the process of collection.

At December 31, 2014, total OREO was $28,300. Of this amount, $19,404 is covered by FDIC loss share agreements. Pursuant to the terms of the loss share agreements, the FDIC is obligated to reimburse the Company for a percentage of losses with respect to the covered OREO beginning with the first dollar of loss incurred, subject to the terms of the individual agreements. The Company will reimburse the FDIC for its share of recoveries with respect to the covered OREO. The loss share agreements applicable to single family residential mortgage loans provide for FDIC loss share and our reimbursement to the FDIC for recoveries for ten years. The loss share agreements applicable to commercial loans provides for FDIC loss sharing for five years and our reimbursement to the FDIC for a total of eight years for recoveries.

OREO not covered by FDIC loss share agreements was $8,896 at December 31, 2014, and is included in our non-performing assets ("NPA"). OREO is carried at the lower of cost or market less the estimated cost to sell. Further declines in real estate values can affect the market value of these assets. Any further decline in market value beyond its cost basis is recorded as a current expense in our Consolidated Statement of Operations and Comprehensive Income. OREO is further delineated in the following table.

Description of repossessed real estate (OREO)	carrying amount at Dec 31, 2014
9 single family homes	$1,853
4 residential building lots	1,005
8 commercial buildings	3,654
Land / various acreages	2,384
Total, excluding OREO covered by FDIC loss share agreements	$8,896

At December 31, 2014 we also had repossessed assets other than real estate with an aggregate estimated fair value of approximately $87. Interest income not recognized on non-accrual loans was approximately $982, $827 and $1,080 for the years ended December 31, 2014, 2013 and 2012, respectively. The table below summarizes non performing loans and assets for the periods provided.

Non Performing Loans and Non Performing Assets

	December 31,				
	2014	2013	2012	2011	2010
Non-accrual loans (note 1)	$25,595	$27,077	$25,448	$38,858	$62,553
Past due loans 90 days or more and still accruing interest (note 1)	—	—	293	120	3,200
Total non-performing loans (note 1)	**25,595**	**27,077**	**25,741**	**38,978**	**65,753**
Repossessed real estate ("OREO") (note 1)	8,896	6,409	6,875	8,712	12,239
Repossessed assets other than real estate (note 1)	87	150	770	1,619	532
Total non-performing assets (note 1)	**$34,578**	**$33,636**	**$33,386**	**$49,309**	**$78,524**
OREO covered by FDIC loss share agreements:					
80% covered	7,264	19,111	26,783	9,469	11,104
75% covered	606	—	—	—	—
70% covered	1,755	—	—	—	—
30% covered	9,779	—	—	—	—
Total non-performing assets including FDIC covered OREO	**$53,982**	**$52,747**	**$60,169**	**$58,778**	**$89,628**
Non-performing loans as percentage of total loans excluding PCI loans	1.19%	2.18%	2.26%	3.48%	7.06%
Non-performing assets as percentage of total assets					
Excluding FDIC covered OREO	0.92%	1.39%	1.41%	2.16%	3.81%
Including FDIC covered OREO	1.43%	2.18%	2.55%	2.57%	4.34%
Non-performing assets as percentage of loans and OREO plus other repossessed assets (note 1)					
Excluding FDIC covered OREO	1.60%	2.69%	2.92%	4.37%	8.35%
Including FDIC covered OREO	2.47%	4.16%	5.14%	5.16%	9.42%
Loans past due 30 thru 89 days and accruing interest as a percentage of total loans (note 1)	0.61%	0.85%	0.65%	1.45%	1.96%
Allowance for loan losses as a percentage of non-performing loans (note 1)	76%	73%	93%	71%	40%

note 1: Excludes PCI loans.
note 2: Excludes OREO covered by FDIC loss share agreements.

Management considers a loan to be impaired when it is probable that we will not be repaid as agreed pursuant to the contractual terms of the loan agreement. Once the loan has been identified as impaired, a written analysis is performed to determine if there is a potential for a loss. If it is probable that a loss may occur, a specific allowance, or a partial charge down, for that particular loan is then recognized. The loan is then placed on non-accrual status and included in non-performing loans. If the analysis indicates that a loss is not probable, then no specific allowance, or partial charge down, is recognized. If the loan is still accruing, it is not included in non-performing loans.

Loans that are monitored for impairment pursuant to ASC 310 generally include commercial, commercial real estate, land, acquisition & development of land, and construction loans greater than $500,000. Smaller homogeneous loans, such as single family first and second mortgages, consumer loans, and small business and commercial related loans are not generally subject to impairment monitoring pursuant to ASC 310, but are analyzed for potential losses based on historical loss factors, current environmental factors and to some extent loan grading.

Interest income recognized on impaired loans was approximately $579, $1,223 and $1,671 for the years ended December 31, 2014, 2013 and 2012, respectively. The average recorded investment in impaired loans during 2014, 2013 and 2012 were $26,301, $38,674 and $48,515, respectively.

We may restructure or modify the terms of certain loans under certain conditions. In certain circumstances it may be more beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in a distressed sale. When we have modified the terms of a loan, we usually reduce the monthly payment and/or interest rate for generally twelve to 24 months. At December 31, 2014, we had approximately $15,066 of troubled debt restructures ("TDRs"). Of this amount $11,418 were performing pursuant to their modified terms, and $3,648 were not performing and have been placed on non-accrual status and included in our non performing loans ("NPLs"). TDRs are included in our impaired loans, whether they are performing or not performing. Only non performing TDRs are included in our NPLs. The table below summarizes our impaired loans and TDRs for the periods provided.

Impaired Loans and Troubled Debt Restructure ("TDRs")

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Performing TDRs	$11,418	$10,763	$ 8,841	$ 6,554	$10,591
Non performing TDRs	3,648	4,684	5,819	5,807	11,731
Total TDRs	$15,066	$15,447	$14,660	$12,361	$22,322
Impaired loans that are not TDRs	10,184	$ 8,663	$33,519	$41,307	$64,655
Impaired loans that are TDRs	15,066	15,447	14,660	12,361	22,322
Recorded investment in impaired loans	$25,250	$24,110	$48,179	$53,668	$86,977
Allowance for loan losses related to impaired loans	$ 1,115	$ 1,811	$ 1,022	$ 3,304	$ 4,584

TDRs as of December 31, 2014 quantified by loan type classified separately as accrual (performing loans) and non-accrual (non-performing loans) are presented in the table below.

TDRs	**Accruing**	**Non-Accrual**	**Total**
Real estate loans:			
Residential	$ 7,201	$1,523	$ 8,724
Commercial	2,762	1,794	4,556
Construction, development, land	547	241	788
Total real estate loans	10,510	3,558	14,068
Commercial	706	37	743
Consumer and other	202	53	255
Total TDRs	$11,418	$3,648	$15,066

Our policy is to return non-accrual TDR loans to accrual status when all the principal and interest amounts contractually due, pursuant to its modified terms, are brought current and future payments are reasonably assured. Our policy also considers the payment history of the borrower, but is not dependent upon a specific number of payments.

Loans are modified to minimize loan losses when we believe the modification will improve the borrower's financial condition and ability to repay the loan. We typically do not forgive principal. We generally either reduce interest rates or decrease monthly payments for a temporary period of time and those reductions of cash flows are capitalized into the loan balance. We may also extend maturities, convert balloon loans to longer term amortizing loans, or vice versa, or change interest rates between variable and fixed rate. Each borrower and situation is unique and we try to accommodate the borrower and minimize the Company's potential losses. Approximately 76% of our TDRs at December 31, 2014 were current pursuant to their modified terms, and about $3,648, or approximately 24% of our total TDRs are not performing pursuant to their modified terms. There does not appear to be any significant difference in success rates with one type of concession versus another.

We are continually analyzing our loan portfolio in an effort to recognize and resolve our problem assets as quickly and efficiently as possible. While we believe we use the best information available at the time to make a determination with respect to the allowance for loan losses, we recognize that many factors can adversely impact various segments of our markets, and subsequent adjustments in the allowance may be necessary if future economic indications or other factors differ from the assumptions used in making the initial determination or if regulatory policies change. We continuously focus our attention on promptly identifying and providing for potential problem loans, as they arise.

The table below summarizes our accruing loans past due greater than 30 days and less than 90 days for the periods presented, excluding loans covered by FDIC loss share agreements.

	December 31,				
	2014	2013	2012	2011	2010
past due loans 30-89 days	$13,108	$10,516	$7,422	$16,257	$18,249
as percentage of total loans	0.61%	0.85%	0.65%	1.45%	1.96%

Although the total allowance for loan losses is available to absorb losses from all loans, management allocates the allowance among loan portfolio categories for informational and regulatory reporting purposes. Regulatory examiners may require us to recognize additions to the allowance based upon the regulators' judgments about the information available to them at the time of their examination, which may differ from our judgments about the allowance for loan losses.

While no portion of the allowance is in any way restricted to any individual loan or group of loans, and the entire allowance is available to absorb losses from any and all loans, the following table summarizes our allocation of allowance for loan losses by loan category and loans in each category as a percentage of total loans, for the periods presented, excluding PCI loans.

	December 31,									
	2014		2013		2012		2011		2010	
Real estate loans:										
Residential	$ 6,743	27%	$ 8,785	37%	$ 6,831	28%	$ 6,700	24%	$ 7,704	27%
Commercial	8,269	53%	6,441	42%	8,272	35%	8,825	32%	8,587	44%
Land, development, construction	752	4%	3,069	5%	6,211	26%	9,098	33%	6,893	12%
Total real estate loans	15,764	84%	18,295	84%	21,314	89%	24,623	89%	23,184	83%
Commercial loans	$ 2,330	14%	510	12%	1,745	7%	1,984	7%	2,182	11%
Consumer and other loans	$ 1,290	2%	889	4%	974	4%	952	4%	896	6%
Unallocated	—		—		—		—		5	
Total	$19,384	100%	$19,694	100%	$24,033	100%	$27,559	100%	$26,267	100%

Bank Premises and Equipment

Bank premises and equipment was $98,848 at December 31, 2014 compared to $96,619 at December 31, 2013, an increase of $2,229 or 2.3%. We acquired Gulfstream in January 2014 which included bank premises and equipment of $5,781 on the acquisition date. In April of 2014 we closed 8 branches of which we owned 7. We transferred 5 of the 7 to bank property held-for-sale. We acquired FSB in June of 2014 which included bank premises and equipment of $9,995 on the acquisition date. We closed 10 of the 17 branches acquired. Of the 10 branches, 3 were leased and 7 were owned. We transferred the 7 to bank property held-for-sale (5 of the 7 properties were immediately sold subsequent to the data processing conversion to an unaffiliated bank. We also constructed two additional branch buildings to replace existing branches. A summary of the activity for 2014 is presented in the table below.

$ 96,619	balance at 12/31/13
5,781	acquisition of Gulfstream
9,995	acquisition of FSB
(14,091)	transfers to held-for-sale
6,610	net additions, includes construction of 2 branch offices
(6,066)	depreciation
$ 98,848	balance at 12/31/14

At December 31, 2014, we operated from 58 full service banking offices in 20 counties in central, southeast and northeast Florida. We own 41 and lease 17 of these offices. We also have four loan production offices of which we own 1 and lease 3. In addition to our banking locations, we lease non-banking office space in Winter Haven, Florida for IT and operations purposes. We also lease office space for our Correspondent banking division, primarily in Birmingham, Alabama and in Atlanta, Georgia.

At December 31, 2014 we have 5 pieces of bank property (closed branches) included in our bank property held for sale with an aggregate carrying balance of $2,675.

Deposits

Total deposits increased $1,035,809, or 50%, to $3,092,040 as of December 31, 2014, compared to $2,056,231 at December 31, 2013. We assumed deposits of $478,999 pursuant to the acquisition of Gulfstream on January 17, 2014 and $852,633 pursuant to the acquisition of FSB on June 1, 2014. We also sold deposits of approximately $185,646 to Fidelity Southern Bank on September 19, 2014. Our strategy has been to attract and grow relationships in our core deposit accounts, which we define as non-time deposits, and not aggressively seek deposits based on pricing. The results of this focus is that in light of our total deposits increasing by 50% during the current year, our time deposits represent only 16% of our total deposits at December 31, 2014 compared to 19% at December 31, 2013. In addition, our total checking accounts represent approximately 54% of our total deposits at December 31, 2014. Our cost of deposits, including non-interest bearing checking accounts, was approximately 0.19% during the fourth quarter of 2014. The tables below summarize selected deposit information for the periods indicated.

	December 31,					
	2014		2013		2012	
Non time deposits	$2,604,228	84%	$1,671,356	81%	$1,521,928	76%
Time deposits	487,812	16%	384,875	19%	475,304	24%
Total deposits	$3,092,040	100%	$2,056,231	100%	$1,997,232	100%

Average deposit balance by type and average interest rates

	2014		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non interest bearing demand deposits	$ 949,160	— %	$ 584,523	— %	$ 506,927	— %
NOW accounts	560,813	0.08%	457,856	0.08%	410,384	0.11%
Money market accounts	645,420	0.25%	312,151	0.15%	331,449	0.22%
Savings accounts	233,977	0.05%	238,496	0.06%	239,147	0.11%
Time deposits	502,089	0.79%	417,354	1.01%	574,775	1.06%
Total	$2,891,459	0.21%	$2,010,380	0.26%	$2,062,682	0.37%

Maturity of time deposits of $100,000 or more

	December 31,		
	2014	2013	2012
Three months or less	$ 56,062	$ 29,092	$ 56,587
Three through six months	51,270	34,617	38,295
Six through twelve months	63,011	54,265	44,722
Over twelve months	98,448	85,266	106,102
Total	$268,791	$203,240	$245,706

Repurchase Agreements

We enter into borrowing arrangements with retail business customers by agreements to repurchase ("repurchase agreements") under which we pledge investment securities owned and under our control as collateral against the one-day borrowing arrangement. These arrangements are not transactions with investment bankers or brokerage firms, but rather, with several of our larger commercial customers who periodically have excess cash balances and do not want to keep those balances in non-interest bearing checking accounts. We offer an arrangement through a repurchase agreement whereby balances are transferred from a checking account into a repurchase agreement arrangement on which we will pay a negotiated daily adjustable interest rate generally tied to the federal funds rate.

The daily average balance of these short-term borrowing agreements for the years ended December 31, 2014, 2013 and 2012, was approximately $30,289, $21,693and $21,388, respectively. Interest expense for the same periods was approximately $181, $78 and $86, respectively, resulting in an average rate paid of 0.60%, 0.36% and 0.40% for the years ended December 31, 2014, 2013, and 2012, respectively. The following table summarizes our repurchase agreements for the periods presented.

Schedule of short-term borrowing (1)

	Maximum Outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2014	$34,681	$30,289	0.60%	$27,022	0.72%
2013	$24,483	$21,693	0.36%	$20,457	0.40%
2012	$24,989	$21,388	0.40%	$18,792	0.40%

(1) Consist of securities sold under agreements to repurchase

Other borrowed funds

From time to time we borrow on a short-term basis, usually overnight, either through Federal Home Loan Bank advances or Federal Funds Purchased. Included in Federal Funds Purchased are overnight deposits from correspondent banks. We began accepting correspondent bank deposits (classified as Federal Funds Purchased) in September 2008 pursuant to the initiation of our new correspondent banking division. At December 31, 2014 we had $151,992 overnight Federal Funds Purchased correspondent bank deposits. During the year, these deposits had a daily average balance of approximately $49,899. These accounts are included with other Federal Funds Purchased and Federal Home Loan Bank advances in the table below, which summarizes our other borrowings for the periods presented. For additional information refer to Notes 12 and 13 in our Notes to Consolidated Financial Statements.

Schedule of short-term borrowing (1)

	Maximum outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2014	$151,992	$49,899	0.10%	$151,992	0.29%
2013	$ 53,274	$37,941	0.06%	$ 29,909	0.05%
2012	$ 82,473	$53,803	0.05%	$ 38,932	0.05%

(1) Consist of Federal Home Loan Bank advances and Federal Funds Purchased

Corporate debenture

We formed CenterState Banks of Florida Statutory Trust I (the "Trust") for the purpose of issuing trust preferred securities. On September 22, 2003, we issued a floating rate corporate debenture in the amount of $10,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture of the Company. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 305 basis points). The rate is subject to change quarterly. The rate in effect during the quarter ended December 31, 2014 was 3.30%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option, subject to prior approval by the Federal Reserve Board, if then required. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2004, Valrico Bancorp Inc. ("VBI") formed Valrico Capital Statutory Trust ("Valrico Trust") for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2014 was 2.94%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Valrico Trust, at their respective option, subject to prior approval by the Federal Reserve, if then required. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI by merger, including VBI's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2003, Federal Trust Corporation ("FTC") formed Federal Trust Statutory I ("FTC Trust") for the purpose of issuing trust preferred securities. On September 17, 2003, FTC issued a floating rate corporate debenture in the amount of $5,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 295 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2014 was 3.19%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the FTC Trust, at their respective option, subject to prior approval by the Federal Reserve, if then required. On November 1, 2011, the Company acquired certain assets and assumed certain liabilities of FTC by merger, including FTC's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In January 2005, Gulfstream Bancshares, Inc. ("GBI") formed Gulfstream Bancshares Capital Trust I ("GBI Trust I") for the purpose of issuing trust preferred securities. On January 18, 2005, GBI issued a floating rate corporate debenture in the amount of $7,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 190 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2014 was 2.13%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the GBI Trust I, at their respective option, subject to prior approval by the Federal Reserve, if then required. On January 17, 2014, the Company acquired all the assets and assumed all the liabilities of GBI by merger, including GBI's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In March 2007, Gulfstream Bancshares, Inc. ("GBI") formed Gulfstream Bancshares Capital Trust II ("GBI Trust I") for the purpose of issuing trust preferred securities. On March 6, 2007, GBI issued a floating rate corporate debenture in the amount of $3,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 170 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2014 was 1.94%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the GBI Trust II, at their respective option, subject to prior approval by the Federal Reserve, if then required. On January 17, 2014, the Company acquired all the assets and assumed all the liabilities of GBI by merger, including GBI's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

Liquidity and Market Risk Management

Market and public confidence in our financial strength and financial institutions in general will largely determine our access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily and weekly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations cost-effectively and to meet current and future potential obligations such as loan commitments, lease obligations, and unexpected deposit outflows. In this process, we focus on both assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

Interest rate sensitivity refers to the responsiveness of interest-earning assets and interest-bearing liabilities to changes in market interest rates. The rate sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities, at a given time interval, including both floating rate instruments and instruments which are approaching maturity. The measurement of our interest rate sensitivity, or gap, is one of the principal techniques we use in our asset/liability management effort. Our bank generally attempts to maintain a range set by policy between rate-sensitive assets and liabilities by repricing periods. The range set by the bank has been approved by its board of directors. If our bank falls outside their pre-approved range, it requires board action and board approval, by the bank's board of directors. The asset mix of our balance sheet is evaluated continually in terms of several variables: yield, credit quality, and appropriate funding sources and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

Our gap and liquidity positions are reviewed periodically to determine whether or not changes in policies and procedures are necessary to achieve financial goals. At December 31, 2014, approximately 49% of total gross loans were adjustable rate. Approximately 85% of our investment securities ($641,014 fair value) are invested in U.S. Government Agency mortgage backed securities. Although most of these have maturities in excess of five years, these are amortizing instruments that generate cash flows each month. The duration (average life of expected cash flows) of our securities at December 31, 2014 was approximately 3.8 years. Deposit liabilities, at that date, consisted of approximately $607,359 (19%) in NOW accounts, $947,995 (31%) in money market accounts and savings, $487,812 (16%) in time deposits and $1,048,874 (34%) in non-interest bearing demand accounts.

The table below presents the market risk associated with our financial instruments. In the "Rate Sensitivity Analysis" table, rate sensitive assets and liabilities are shown by repricing periods.

RATE SENSITIVITY ANALYSIS

December 31, 2014

	0-1Yr	1-2Yrs	2-3Yrs	3-4Yrs	4-5Yrs	5Yrs+	Total
Interest earning assets							
Fixed rate loans (1)	$ 145,745	$135,148	$153,787	$180,709	$183,947	$ 428,220	$1,227,556
Variable rate loans (1)	671,468	82,577	121,917	132,705	119,223	73,151	1,201,040
Investment securities (2)	5,202	934	1,495	1,507	10,807	728,275	748,220
Federal funds sold and other (3)	106,346	—	—	—	—	—	106,346
Other earning assets (4)	17,639	—	—	—	—	—	17,639
Total interest earning assets	$ 946,400	$218,659	$277,199	$314,921	$313,977	$1,229,645	$3,300,801
Interest bearing liabilities							
NOW accounts	$ 607,359	$ —	$ —	$ —	$ —	$ —	$ 607,359
Money market accounts	231,039	—	—	—	—	—	231,039
Savings accounts	716,956	—	—	—	—	—	716,956
Time deposits (5)	320,629	91,988	35,948	17,902	21,345	—	487,812
Repurchase agreements (6)	27,022	—	—	—	—	—	27,022
Federal funds purchased	151,992	—	—	—	—	—	151,992
Corporate debentures	27,500	—	—	—	—	—	27,500
Total interest bearing liabilities	$2,082,497	$ 91,988	$ 35,948	$ 17,902	$ 21,345	$ 0	$2,249,680

RATE SENSITIVITY ANALYSIS—continued

December 31, 2014

	0-1Yr	1-2Yrs	2-3Yrs	3-4Yrs	4-5Yrs	5Yrs+	Total
Interest sensitivity gap	(1,136,097)	126,671	241,251	297,019	292,632	1,229,645	
Cumulative gap	(1,136,097)	(1,009,426)	(768,175)	(471,156)	(178,524)	1,051,121	
Cumulative gap RSA/RSL (7)	0.45	0.54	0.65	0.79	0.92	1.47	

(1) Loans are shown at gross values and do not include $929 of net deferred origination fees and costs. Estimated fair value of fixed loans and variable rate loans combined at December 31, 2014 is approximately $2,418,372.

(2) Securities are shown at amortized cost. Includes $635,123 (amortized cost basis) of mortgage backed securities of which the majority are fixed rate. Although most have maturities greater than five years, these are amortizing instruments which generate cash flows on a monthly basis. Estimated fair value of securities at December 31, 2014 is approximately $755,888.

(3) Includes Federal Funds sold and interest bearing deposits at the Federal Reserve Bank.

(4) Includes Federal Home Loan Bank stock and Federal Reserve Bank Stock.

(5) Time deposits are shown at carrying value. Estimated fair value at December 31, 2014 is approximately $491,999.

(6) Includes securities sold under agreements to repurchase. These are short-term borrowings, generally overnight, from our retail business customers.

(7) Rate sensitive assets (RSA) divided by rate sensitive liabilities (RSL), cumulative basis.

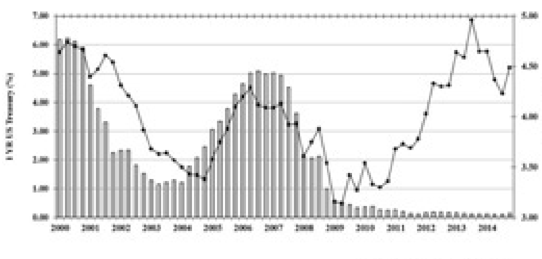
As stated earlier, the rate sensitivity table above summarizes our interest earning assets and interest bearing liabilities by repricing periods at a point in time. It does not include assumptions about sensitivity to changes in various interest rates by asset or liability type, correlation between macro environment market rates and specific product types, lag periods, cash flows or other assumptions and projections. However, in addition to static gap analysis, our Bank also uses simulation models to estimate the sensitivity of its net interest income to changes in interest rates. Simulation is a better technique than gap analysis because variables are changed for the various rate conditions. Each category's interest change is calculated as rates ramp up and down. In addition, the repayment speeds and repricing speeds are changed. Rate Shock is a method for stress testing the net interest margin over the next four quarters under several rate change levels. These levels span in 100bps increments up and down from the current interest rates. In order to simulate activity, maturing balances are replaced with the new balances at the new rate level, and repricing balances are adjusted to the new rate shock level. The interest is recalculated for each level along with the new average yield. Net interest margin is then calculated and a margin risk profile is developed. The result of these calculations, as of December 31, 2014 looking four quarters into the future, for our combined Bank, is summarized in the table below.

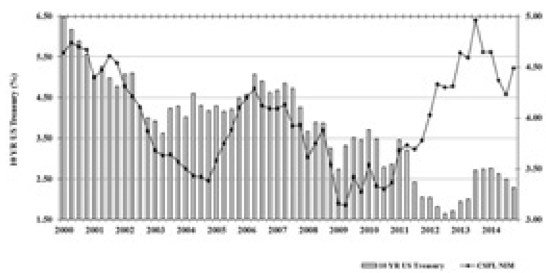
change in interest rates	-300 bps	-200 bps	-100 bps	0 bps	+100 bps	+200 bps	+300 bps
resulting effect on net interest income (a)	-8.25%	-6.21%	-2.76%	current	+0.60%	-0.20%	-1.35%

(a) The percentage change in each of these boxes represents a percentage change from the net interest income (dollars) that the model projected for the next four quarters. To put this in perspective, as an example, our net interest income for 2014 was $130,871. Assuming a 100bps decrease in rates, our model is suggesting that our net interest income would decrease by 2.76%, or approximately $3,612. Likewise, assuming a 100bps increase in rates, our model is suggesting that our net interest income would increase by 0.60%, or approximately $785. It is important to reiterate again, that these models are built on a multitude of assumptions and predictions. This is not an exact science. The benefit that we see is measuring our overall interest rate risk profile. Although we are by no means suggesting the exactness of the numbers above, what we see as a take away is that in general, it appears that if market interest rates increase, it would suggest a benefit to our net interest income. If market interest rates decrease, it would suggest a negative effect on our net interest income. We believe that our interest rate risk is manageable as of December 31, 2014.

Simulation and rate shock stress testing our net interest income ("NIM") is a forward looking analysis. That is, it estimates, based on various assumptions, what the effect on our NIM might be given various changes in future interest rates. Another way of analyzing our interest rate risk profile is looking at history. The tables below measures the correlation between our NIM and market interest rates over a 15 year period starting at the beginning of 2000 and ending on December 31, 2014. We used the one and ten year U.S. Treasury rates as surrogates for market interest rates. This simple correlation is not perfect because we ignore changes in duration of our asset/liability portfolio over time and changes in the slope of the yield curve over time, as well as other significant environmental changes that may occur, such as the recent banking crisis. However, it will demonstrate that over time our asset/liability portfolio generally tended to be asset sensitive. That is, in general, over this historical period, when market interest rates increased, our NIM increased, and when market interest rates decreased, our NIM decreased. In the following tables, the U.S. Treasury rates are measured by the vertical bars, and their scale is on the left hand side of the graph. Each bar represents a quarterly average. Our NIM is represented by the line graph and its scale is on the right hand side of the graph. The line graph is connecting a series of dots, which represents our NIM for a given quarter.

Net Interest Margin vs. U.S. Treasury Rates[(1)]





(1) US Treasury rates obtained from Statistical Releases and Historical Data as provided by the Federal Reserve Bank.

Managing interest rate risk is a dynamic process. Our philosophy is to not try to guess the market in either direction. We do not want to be excessively assets sensitive or excessively liability sensitive. We try to manage our asset/liability portfolio with the goal of optimizing our yield without taking on excessive interest rate risk.

Contractual Obligations

While our liquidity monitoring and management considers both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on our future obligations. In the table, all deposits with indeterminate maturities, such as demand deposits, checking accounts, savings accounts and money market accounts, are presented as having a maturity of one year or less.

	December 31, 2014				
	Total	Due in one year or less	Due over one year and less than three years	Due over three years and less than five years	Due over five Years
Contractual commitments:					
Deposit maturities	$3,092,040	$2,924,858	$127,936	$39,246	—
Securities sold under agreements to repurchase	27,022	27,022	—	—	—
Corporate debenture	23,917	—	—	—	23,917
Federal funds purchased	151,992	151,992	—	—	—
Deferred compensation	25,919	10,219	829	780	14,091
Operating lease obligations	13,380	2,318	3,581	2,552	4,929
Total	$3,334,270	$3,116,409	$132,346	$42,578	$42,937

Primary Sources and Uses of Funds

Our primary sources and uses of funds during the year ended December 31, 2014 are summarized in the table below.

Sale of investments	$327,548
Net cash from acquisitions	130,494
Net increase in federal funds purchased	122,083
Mortgage backed securities pay-downs	83,510
Proceeds from the sale of OREO	36,995
Decrease in loans, net	24,191
Net decrease in cash and cash equivalents	16,476
Proceeds from sale of bank property held for sale	10,783
Cash received from FDIC loss share agreements	10,014
Calls and maturities of securities	2,050
Net cash from operations	1,377
Net increase in payable to shareholders for acquisitions	1,256
Proceeds from stock options exercised	984
Proceeds from sale of equipment and property	19
Total sources of funds	$767,780
Purchases of investments	$437,554
Net decrease in deposits	294,811
Purchased on bank owned life insurance	25,000
Net decrease in other borrowings	5,708
Purchase equipment	1,987
Cash dividends paid on common stock	1,709
Net decrease repurchase agreements	1,011
Total uses of funds	$767,780

Capital Resources

Total stockholders' equity at December 31, 2014 was $452,477, or 12.0% of total assets compared to $273,379, or 11.3% of total assets at December 31, 2013. The $179,098 increase was the result of the following items: net income of $12,964, plus $8,537 net change in unrealized gains in securities available for sale, plus $1,903 stock based compensation, plus $53,150 for shares issued pursuant to our January 2014 acquisition of Gulfstream, plus $3,617 for the fair value of the Gulfstream stock options acquired, plus $100,636 for the shares issued pursuant to our June 2014 acquisition of FSB less $1,709 cash dividends paid on our common stock.

The bank regulatory agencies have established risk-based capital requirements for banks. These guidelines are intended to provide an additional measure of a bank's capital adequacy by assigning weighted levels of risk to asset categories. Banks are also required to systematically maintain capital against such "off- balance sheet" activities as loans sold with recourse, loan commitments, guarantees and standby letters of credit. These guidelines are intended to strengthen the quality of capital by increasing the emphasis on common equity and restricting the amount of loan loss reserves and other forms of equity such as preferred stock that may be included in capital. Our subsidiary Bank's objective is to maintain its current status as a "well-capitalized institution" as that term is defined by its regulators.

Under the terms of the guidelines, banks must meet minimum capital adequacy based upon both total assets and risk-adjusted assets. All banks are required to maintain a minimum ratio of total capital to risk-weighted assets of 8%, a minimum ratio of Tier 1 capital to risk-weighted assets of 4% and a minimum ratio of Tier 1 capital to average assets of 4% ("leverage ratio"). Adherence to these guidelines has not had an adverse impact on our Company. In addition, our bank has an agreement with its primary regulator to maintain a Tier 1 leverage ratio (Tier 1 Capital divided by average assets) of at least 8%.

Selected consolidated capital ratios at December 31, 2014, and 2013 were as follows:

	Actual Amount	Ratio	For capital adequacy purposes Amount	Ratio	Excess Amount
As of December 31, 2014:					
Total capital: (to risk weighted assets):	$384,162	15.1%	$202,946	8.0%	$181,216
Tier 1 capital: (to risk weighted assets):	$364,264	14.4%	$101,473	4.0%	$262,791
Tier 1 capital: (to average assets):	$364,264	10.1%	$144,051	4.0%	$220,213
As of December 31, 2013:					
Total capital: (to risk weighted assets):	$262,701	17.9%	$117,450	8.0%	$145,251
Tier 1 capital: (to risk weighted assets):	$244,323	16.6%	$ 58,725	4.0%	$185,598
Tier 1 capital: (to average assets):	$244,323	10.4%	$ 94,182	4.0%	$150,141

Effects of Inflation and Changing Prices

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on the performance of a financial institution than the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. In addition, inflation affects financial institutions' increased cost of goods and services purchased, the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders' equity. Commercial and other loan originations and refinancings tend to slow as interest rates increase, and can reduce our earnings from such activities.

Off-Balance Sheet Arrangements

We generally do not have any off-balance sheet arrangements, other than approved and unfunded loans and letters and lines of credit to our customers in the ordinary course of business.

Accounting Pronouncements

Refer to Note 1(ai) in our Notes to Consolidated Financial Statements for a discussion on the effects of new accounting pronouncements.

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

Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. Our market risk is composed primarily of interest rate risk. Our Asset/Liability Committee ("ALCO") is responsible for reviewing the interest rate sensitivity position, and establishing policies to monitor and limit the exposure to interest rate risk. Substantially all of our interest rate risk exposure relates to the financial instrument activity of our subsidiary Bank. As such, the board of directors of our subsidiary Bank is responsible to review and approve the policies and guidelines established by their Bank's ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is measured and monitored through gap analysis and simulation analysis, which measures the amount of repricing risk associated with the balance sheet at specific points in time. See "Liquidity and Market Risk Management" presented in Item 7 above for quantitative disclosures in tabular format, as well as additional qualitative disclosures.

Item 8. Financial Statements and Supplementary Data

The financial statements of our Company as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 are set forth in this Form 10-K beginning at page 68.

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

None.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. As of December 31, 2014, the end of the period covered by this Annual Report on Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of December 31, 2014, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures and there have been no significant changes in our internal control during our most recently completed fiscal quarter that materially affected, or is likely to materially affect, our internal control over financial reporting.

(b) Management's report on internal control over financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations in 2013, also referred to as the Treadway Commission. Based upon our evaluation under the framework in *Internal Control – Integrated Framework,* management concluded that our internal control over financial reporting was effective as of December 31, 2014. The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Company has a Code of Ethics that applies to our principal executive officer and principal financial officer (who is also our principal accounting officer), a copy of which is included on the Company's website**,** www.centerstatebanks.com, at Investor Relations / Governance Documents. The website also includes a copy of the Company's Audit Committee Charter, Compensation Committee Charter and Nominating Committee Charter. The information contained under the sections captioned "Directors" and "Senior Executive Officers" under "Proposal One – Election of Directors," and in the sections captioned "Nominating Committee," "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance," in the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2015, to be filed with the SEC pursuant to Regulation 14A within 120 days of our fiscal year end (the "Proxy Statement"), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned "Information About the Board of Directors and Its Committees" under "Proposal One – Election of Directors," and the sections captioned "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report," in the Proxy Statement, is incorporated herein by reference.

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

Information contained in the section captioned "Management and Principal Stock Ownership" under "Election of Directors," and under the table captioned "Equity Compensation Plan Information" under "Executive Compensation" in the Proxy Statement, is incorporated herein by reference.

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

The information contained in the section entitled "Certain Related Transactions" and the section entitled "Director Independence" under "Election of Directors" in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained in the section captioned "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2014 and 2013
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2014, 2013 and 2012
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

3.1 – Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4, File No. 333-95087, dated January 20, 2000 (the "Initial Registration Statement")

3.2 – Articles of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K dated April 25, 2006)

3.3 – Articles of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated December 16, 2009)

3.4 – Articles of Amendment to the Articles of Incorporation (Incorporated by reference to Exhibit 3.6 to the Company's Form 10-K dated March 4, 2010)

3.5 – Bylaws (Incorporated by reference to Exhibit 3.2 to the Initial Registration Statement)

3.6 – Amendment to Bylaws (Incorporated by reference to Exhibit 3.4 to the Company's Form 10-K dated March 7, 2008.)

3.7 – Articles of Amendment to the Articles of Incorporation authorizing the Preferred Shares (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated November 24, 2008.)

3.8 – Articles of Amendment to the Articles of Incorporation increasing the number of authorized common shares from 40,000,000 to 100,000,000 (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated December 16, 2009.)

4.1 – Specimen Stock Certificate of CenterState Banks, Inc. (Incorporated by reference to Exhibit 4.2 to the Registration Statement)

10.1 – CenterState Banks, Inc. Stock Option Plan (Incorporated by reference to Exhibit 10.1 to the Registration Statement)*

10.3 – Form of CenterState Banks, Inc. Split Dollar Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated January 11, 2006)*

10.4 – CenterState Banks, Inc. 2007 Equity Incentive Plan (Incorporated by reference to Appendix D to the Company's Proxy Statement dated March 30, 2007)*

10.5 – Executive Deferred Compensation Agreement between the Company and Ernest S. Pinner, its Chairman of the Board, Chief Executive Officer and President (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated December 31, 2008.)*

10.6 – Supplemental Executive Retirement Agreements ("SERP") between the Company and John C. Corbett and James J. Antal (Incorporated by reference to Exhibits 10.1 and 10.2 to the Company's Form 8-K dated July 14, 2010.)*

10.7 – Employment Agreements between the Company and John C. Corbett and James J. Antal (Incorporated by reference to Exhibits 10.4 and 10.5 to the Company's Form 8-K dated July 14, 2010.)*

10.8 – Supplemental Executive Retirement Agreement ("SERP") between the Company and Stephen D. Young, its Treasurer and Executive Vice President of the Company's subsidiary bank, CenterState Bank of Florida, N.A. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-K dated March 16, 2011.)*

10.9	–	Employment Agreement between the Company and Stephen D. Young, its Treasurer and Executive Vice President of the Company's subsidiary bank, CenterState Bank of Florida, N.A. (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-K dated March 16, 2011.)*
10.10	–	Employment Agreement between the Company and Ernest S. Pinner, its President, Chief Executive Officer and Chairman of the Board of Directors (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated February 14, 2011.)*
10.11	–	CenterState Banks, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Appendix A to the Company's Proxy Statement dated March 12, 2013)*
10.12	–	Employment Agreement between the Company and Daniel E. Bockhorst, its Chief Risk Officer (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated September 22, 2014.)*
14.1	–	Code of Ethics (Incorporated by reference to Exhibit 14.1 to the Company's December 31, 2003 Form 10-K dated March 26, 2004)
21.1	–	List of Subsidiaries of CenterState Banks, Inc.
23.1	–	Consent of Crowe Horwath LLP
31.1	–	Certification of President and Chief Executive Officer under Section 302 of the Sarbanes–Oxley Act of 2002
31.2	–	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	–	Certification of President and Chief Executive Officer under Section 906 of the Sarbanes–Oxley Act of 2002
32.2	–	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS		XBRL Instance Document
101.SCH		XBRL Schema Document
101.CAL		XBRL Calculation Linkbase Document
101.DEF		XBRL Definition Linkbase Document
101.LAB		XBRL Label Linkbase Document
101.PRE		XBRL Presentation Linkbase Document

* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit.

CENTERSTATE BANKS, INC. and SUBSIDIARIES

Index to consolidated financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CenterState Banks, Inc.
Davenport, Florida

We have audited the accompanying consolidated balance sheets of CenterState Banks, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's report on internal control over financial reporting contained in Item 9A. of the accompanying Form 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of authorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CenterState Banks, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Fort Lauderdale, Florida
March 5, 2015

CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013
(in thousands of dollars, except per share data)

	2014	2013
ASSETS		
Cash and due from banks	$ 52,067	$ 21,581
Federal funds sold and Federal Reserve Bank deposits	106,346	153,308
Cash and cash equivalents	158,413	174,889
Trading securities, at fair value	3,420	—
Investment securities available for sale, at fair value	517,457	457,086
Investment securities held to maturity (fair value of $238,431 and $0 at December 31, 2014 and December 31, 2013, respectively)	237,362	—
Loans held for sale, at lower of cost or fair value	1,251	1,010
Loans, excluding purchased credit impaired	2,152,759	1,242,758
Purchased credit impaired loans	276,766	231,421
Allowance for loan losses	(19,898)	(20,454)
Net Loans	2,409,627	1,453,725
Bank premises and equipment, net	98,848	96,619
Accrued interest receivable	8,999	6,337
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	14,219	8,189
Goodwill	76,739	44,924
Core deposit intangible	14,417	4,958
Trust intangible	984	1,158
Bank owned life insurance	83,544	49,285
Other repossessed real estate owned covered by FDIC loss share agreements	19,404	19,111
Other repossessed real estate owned	8,896	6,409
FDIC indemnification asset	49,054	73,877
Deferred income tax asset, net	49,587	5,296
Bank property held for sale	2,675	1,582
Prepaid expense and other assets	21,973	11,556
TOTAL ASSETS	$3,776,869	$2,416,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest bearing	$2,043,166	$1,411,316
Non-interest bearing	1,048,874	644,915
Total deposits	3,092,040	2,056,231
Securities sold under agreement to repurchase	27,022	20,457
Federal funds purchased	151,992	29,909
Corporate debentures	23,917	16,996
Accrued interest payable	336	333
Payables and accrued expenses	29,085	18,706
Total liabilities	3,324,392	2,142,632
Stockholders' equity:		
Common stock, $.01 par value: 100,000,000 shares authorized; 45,323,553 and 30,112,475 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	453	301
Additional paid-in capital	388,698	229,544
Retained earnings	59,273	48,018
Accumulated other comprehensive income (loss)	4,053	(4,484)
Total stockholders' equity	452,477	273,379
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,776,869	$2,416,011

See accompanying notes to the consolidated financial statements

CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31, 2014, 2013 and 2012
(in thousands of dollars, except per share data)

	2014	2013	2012
Interest income:			
Loans	$121,262	$ 88,274	$81,592
Investment securities available for sale:			
Taxable	13,991	9,889	11,297
Tax-exempt	1,435	1,430	1,423
Federal funds sold and other	1,539	785	638
	138,227	100,378	94,950
Interest expense:			
Deposits	6,182	5,184	7,529
Securities sold under agreement to repurchase	181	78	86
Federal funds purchased	51	21	30
Federal Home Loan Bank advances and other borrowings			199
Corporate debentures	942	602	637
	7,356	5,885	8,481
Net interest income	130,871	94,493	86,469
Provision for loan losses	826	(76)	9,220
Net interest income after loan loss provision	130,045	94,569	77,249
Non interest income:			
Correspondent banking capital markets revenue	16,400	17,023	32,806
Other correspondent banking related revenue	3,753	3,387	2,901
Service charges on deposit accounts	9,542	8,457	6,598
Debit, prepaid, ATM and merchant card related fees	6,250	5,420	4,623
Wealth management related revenue	4,239	4,551	3,760
FDIC indemnification income	2,982	5,542	6,017
FDIC indemnification asset amortization	(20,743)	(13,807)	(3,096)
Bank owned life insurance income	1,767	1,328	1,436
Other service charges and fees	1,990	985	1,340
Bargain purchase gain	—	—	453
Net gain on sale of securities available for sale	46	1,060	2,423
Total other income	26,226	33,946	59,261
Non interest expense:			
Salaries, wages and employee benefits	70,375	60,369	69,938
Occupancy expense	10,163	7,702	8,697
Depreciation of premises and equipment	6,066	5,876	5,678
Supplies, stationary and printing	1,319	1,121	1,124
Marketing expenses	2,731	2,517	2,564
Data processing expense	5,484	3,784	3,988

(Continued)

CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

Years ended December 31, 2014, 2013 and 2012
(in thousands of dollars, except per share data)

	2014	2013	2012
Legal, audit and other professional fees	4,066	3,754	2,527
Core deposit intangible (“CDI”) amortization	2,110	986	1,155
Postage and delivery	1,413	1,084	1,148
ATM and debit card related expenses	1,892	1,788	1,207
Bank regulatory expenses	3,209	2,369	2,429
(Gain)/loss on sale of repossessed real estate (“OREO”)	(788)	3,122	1,185
Valuation write down of repossessed real estate (“OREO”)	3,250	6,012	4,258
Loss on repossessed assets other than real estate	45	401	123
Foreclosure related expenses	2,775	3,191	5,640
Merger and acquisition related expenses	11,542	722	2,714
Branch closure and efficiency initiatives	2,764	—	—
Other expenses	7,765	5,964	7,605
Total other expenses	136,181	110,762	121,980
Income before provision for income taxes	20,090	17,753	14,530
Provision for income taxes	7,126	5,510	4,625
Net income	$ 12,964	$ 12,243	$ 9,905
Other comprehensive income, net of tax:			
Unrealized securities holding gain (loss), net of income taxes	$ 8,565	$ (11,132)	$ 3,097
Less: reclassified adjustments for gain included in net income, net of income taxes, of $18, $409 and $912, respectively (1)	(28)	651	1,511
Net unrealized gain (loss) on available for sale securities, net of income taxes	8,537	(11,783)	1,586
Total comprehensive income (loss)	$ 21,501	$ 460	$ 11,491
Earnings per share:			
Basic	$ 0.32	$ 0.41	$ 0.33
Diluted	$ 0.31	$ 0.41	$ 0.33
Common shares used in the calculation of earnings per share:			
Basic (2)	40,852,002	30,102,777	30,073,959
Diluted (2)	41,235,552	30,220,127	30,141,863

(1) Amounts are included in net gain on sale of securities available for sale in total non interest income. Provision for income taxes associated with the reclassification adjustment for the years ended December 31, 2014, 2013 and 2012 was $18, $409, and $912, respectively.

(2) Excludes participating securities.

See accompanying notes to the consolidated financial statements

CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2014 2013, and 2012
(in thousands of dollars, except per share data)

	Number of common shares	Common stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balances at January 1, 2012	30,055,499	$301	$228,342	$28,277	$ 5,713	$262,633
Comprehensive income:						
Net income				9,905		9,905
Unrealized holding gain on available for sale securities, net of deferred income tax of $957					1,586	1,586
Total comprehensive income						11,491
Dividends paid – common ($0.04 per share)				(1,203)		(1,203)
Stock grants issued	24,268		247			247
Stock based compensation expense			363			363
Balances at December 31, 2012	30,079,767	$301	$228,952	$36,979	$ 7,299	$273,531
Comprehensive income:						
Net income				12,243		12,243
Unrealized holding loss on available for sale securities, net of deferred income tax of $7,220					(11,783)	(11,783)
Total comprehensive income						460
Dividends paid – common ($0.04 per share)				(1,204)		(1,204)
Stock grants issued	30,994		300			300
Stock based compensation expense			292			292
Stock options exercised, including tax benefit	1,714					—
Balances at December 31, 2013	30,112,475	$301	$229,544	$48,018	$ (4,484)	$273,379
Comprehensive income:						
Net income				12,964		12,964
Unrealized holding gain on available for sale securities, net of deferred income tax of $5,361					8,537	8,537
Total comprehensive income						21,501
Dividends paid – common ($0.04 per share)				(1,709)		(1,709)
Stock grants issued	305,730	3	678			681
Stock based compensation expense			238			238
Stock options exercised, including tax benefit	233,762	2	982			984
Stock issued pursuant to Gulfstream acquisition	5,195,541	52	53,098			53,150
Stock options acquired and converted pursuant to Gulfstream acquisition			3,617			3,617
Stock issued pursuant to First Southern acquisition	9,476,045	$ 95	100,541			100,636
Balances at December 31, 2014	45,323,553	$453	$388,698	$59,273	$ 4,053	$452,477

See accompanying notes to the consolidated financial statements

CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 12,964	$ 12,243	$ 9,905
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	826	(76)	9,220
Depreciation of premises and equipment	6,066	5,876	5,678
Accretion of purchase accounting adjustments	(36,198)	(32,571)	(25,211)
Net amortization of investment securities	6,397	6,473	8,562
Net deferred loan origination fees	(525)	(862)	(181)
Net gain on sale of securities available for sale	(46)	(1,060)	(2,423)
Trading securities revenue	(169)	(255)	(690)
Purchases of trading securities	(171,089)	(198,186)	(367,105)
Proceeds from sale of trading securities	167,838	203,489	362,747
Repossessed real estate owned valuation write down	3,250	6,012	4,258
(Gain) loss on sale of repossessed real estate owned	(788)	3,122	1,185
Repossessed assets other than real estate valuation write down	32	70	133
Loss on sale of repossessed assets other than real estate	13	331	(10)
Gain on sale of loans held for sale	(511)	(333)	(270)
Loans originated and held for sale	(26,056)	(20,824)	(18,931)
Proceeds from sale of loans held for sale	26,573	22,856	20,233
(Gain) loss on disposal of and or sale of fixed assets	(19)	(12)	(233)
Gain on disposal of bank property held for sale	(174)	—	—
Impairment on bank property held for sale	2,256	—	614
Deferred income taxes	1,733	32	4,386
Stock based compensation expense	1,577	609	631
Bank owned life insurance income	(1,767)	(1,328)	(1,436)
Bargain purchase gain	—	—	(453)
Net cash from changes in:			
Net changes in accrued interest receivable, prepaid expenses, and other assets	8,467	5,966	(1,721)
Net change in accrued interest payable, accrued expense, and other liabilities	727	2,687	(851)
Net cash provided by operating activities	1,377	14,259	8,037
Cash flows from investing activities:			
Available for sale securities:			
Purchases of investment securities	—	(31,132)	(26,157)
Purchases of mortgage backed securities	(195,943)	(205,005)	(178,332)
Proceeds from maturities of investment securities	—	165	312
Proceeds from called investment securities	2,050	9,400	76,245
Proceeds from pay-downs of mortgage backed securities	82,929	101,333	126,381
Proceeds from sales of investment securities	62,111	31,804	22,758
Proceeds from sales of mortgage backed securities	261,426	37,691	146,051

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CENTERSTATE BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013 and 2012
(in thousands of dollars)

	2014	2013	2012
Held to maturity securities:			
Purchases of investment securities	(75,654)	—	—
Purchases of mortgage backed securities	(162,377)	—	—
Proceeds from pay-downs of mortgage backed securities	581	—	—
Purchases of FRB and FHLB stock	(3,580)	—	(1,986)
Proceeds from sales of FHLB and FRB stock	4,011	1,560	4,835
Net decrease (increase) in loans	24,191	(39,813)	51,482
Cash received from FDIC loss sharing agreements	10,014	42,004	21,787
Purchase of bank owned life insurance	(25,000)	—	(10,000)
Purchases of premises and equipment, net	(1,987)	(4,665)	(9,425)
Proceeds from sale of repossessed real estate	36,995	28,585	22,900
Proceeds from sale of fixed assets	19	136	1,154
Proceeds from sale of bank property held for sale	10,783	931	505
Net cash from bank acquisitions	130,494	—	81,061
Net cash provided by/(used in) investing activities	161,063	(27,006)	329,571
Cash flows from financing activities:			
Net (decrease) increase in deposits	(125,063)	59,450	(339,200)
Sale of deposits	(169,748)	—	—
Net (decrease) increase in securities sold under agreement to repurchase	(1,011)	1,665	4,140
Net increase (decrease) in federal funds purchased	122,083	(9,023)	(15,692)
Net decrease in other borrowings	(5,708)	—	—
Net increase in payable to shareholders for acquisitions	1,256	—	—
Stock options exercised, including tax benefit	984	—	—
Dividends paid	(1,709)	(1,204)	(1,203)
Net cash provided by/(used in) financing activities	(178,916)	50,888	(351,955)
Net increase (decrease) in cash and cash equivalents	(16,476)	38,141	(14,347)
Cash and cash equivalents, beginning of period	174,889	136,748	151,095
Cash and cash equivalents, end of period	$ 158,413	$174,889	$ 136,748
Transfer of loans to other real estate owned	$ 16,359	$ 29,581	$ 26,155
Transfers of bank property to held for sale	$ 4,647	$ —	$ 2,987
Cash paid during the period for:			
Interest	$ 8,543	$ 6,607	$ 10,319
Income taxes	$ 8,447	$ 3,473	$ 10

See accompanying notes to the consolidated financial statements

(1) Summary of significant accounting policies

(a) Nature of operations and principles of consolidation

The consolidated financial statements of CenterState Banks, Inc. (the "Company") include the accounts of CenterState Banks, Inc. (the "Parent Company"), and its wholly owned subsidiaries CenterState Bank of Florida, N.A. and R4ALL, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 2014, the Company, through its subsidiary banks, operates through 58 full service banking locations in 20 counties throughout Central, Northeast and Southeast Florida, providing traditional deposit and lending products and services to its commercial and retail customers. The Company's primary deposit products are checking, savings and term certificate accounts, and its primary lending products include commercial real estate loans, residential real estate loans, commercial loans and consumer loans. Substantially all loans are secured by commercial real estate, residential real estate, business assets or consumer assets. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

The Company, through its CenterState Bank of Florida, N.A. subsidiary, also operates a correspondent banking and capital markets division. The division is integrated with and part of the subsidiary bank located in Winter Haven, Florida, although the majority of the bond salesmen, traders and support personnel are physically located in leased facilities in Birmingham, Alabama and Atlanta, Georgia. The primary revenue generating activity of this division is commissions earned on fixed income security sales. Other revenue generating activities include correspondent bank deposits (i.e. federal funds purchased), fees earned on correspondent bank checking accounts, fees earned from safe-keeping activities, bond accounting services for correspondents, and asset/liability consulting related activities.

R4ALL, Inc. is a non bank subsidiary incorporated during the third quarter of 2009. The primary purpose of this subsidiary is to purchase, hold, and dispose of troubled assets acquired from the Company's subsidiary bank.

The following is a description of the basis of presentation and the significant accounting and reporting policies, which the Company follows in preparing and presenting its consolidated financial statements.

(b) Use of estimates

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided. Significant items subject to estimates and assumptions include allowance for loan losses, FDIC indemnification asset, fair values of financial instruments, useful life of intangibles and valuation of goodwill, fair value estimates of stock-based compensation, fair value estimates of OREO, and deferred tax assets. Actual results could differ from these estimates.

(c) Cash flow reporting

For purposes of the statement of cash flows, the Company considers cash and due from banks, federal funds sold, money market and non interest bearing deposits in other banks with a purchased maturity of

(Continued)

three months or less to be cash equivalents. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, federal funds purchased, repurchase agreements, proceeds from capital offering and other borrowed funds.

(d) Interest bearing deposits in other financial institutions

Interest bearing deposits in other financial institutions mature within one year and are carried at cost and are included in cash and due from banks in the Consolidated Balance Sheets.

(e) Trading securities

The Company engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest is included in net interest income.

(f) Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held to maturity or trading are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Securities are evaluated for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(g) Bond commissions revenue recognition

Bond sales transactions and related revenue and expenses are recorded on a settlement date basis. The effect on the financial statements of using the settlement date basis rather than the trade date basis is not material.

(h) Loans held for sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

(i) Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balance net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. The recorded investment in a loan excludes accrued interest receivable, deferred fees, and deferred costs because they are not considered material.

A loan is considered a troubled debt restructured loan based on individual facts and circumstances. A modification may include either an increase or reduction in interest rate or deferral of principal payments or both. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings. The Company classifies troubled debt restructured loans as impaired and evaluates the need for an allowance for loan losses on a loan-by-loan basis. An allowance for loan losses is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral. Loans retain their interest accrual status at the time of modification.

Loan origination fees and the incremental direct cost of loan origination, are deferred and recognized in interest income without anticipating prepayments over the contractual life of the loans. If the loan is prepaid, the remaining unamortized fees and costs are charged or credited to interest income. Amortization ceases for nonaccrual loans.

A loan is moved to nonaccrual status in accordance with the Company’s policy typically after 90 days of non-payment, or less than 90 days of non-payment if management determines that the full timely collection of principal and interest becomes doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Single family home loans, consumer loans and smaller commercial, land, development and construction loans (less than $500) are monitored by payment history, and as such, past due payments is generally the triggering mechanism to determine nonaccrual status. Larger (greater than $500) commercial, land, development and construction loans are monitored on a loan level basis, and therefore in these cases it is more likely that a loan may be placed on nonaccrual status before it becomes 90 days past due.

All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Non real estate consumer loans are typically charged off no later than 120 days past due.

The Company, considering current information and events regarding the borrower’s ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable

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to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the secondary market value of the loan, or the fair value of the collateral for collateral dependent loans. Interest income on impaired loans is recognized in accordance with the Company's non-accrual policy. Impaired loans are written down to the extent that principal is judged to be uncollectible and, in the case of impaired collateral dependent loans where repayment is expected to be provided solely by the underlying collateral and there is no other available and reliable sources of repayment, are written down to the lower of cost or collateral value less estimated selling costs. Impairment losses are included in the allowance for loan losses. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

(j) Purchased credit-impaired loans

As a part of business acquisitions, the Company acquires loans, some of which have shown evidence of credit deterioration since origination. These purchased credit-impaired ("PCI") loans were determined to be credit impaired based on specific risk characteristics of the loan, including product type, domicile of the borrower, past due status, owner occupancy status, geographic location of the collateral, and loan to value ratios. Purchasers are permitted to aggregate credit impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. For the loan portfolios acquired through failed bank acquisitions, the Company aggregated the commercial, consumer, and residential loans into ten pools of loans with common risk characteristics for each FDIC failed institution acquired. These acquired loans were recorded at the acquisition date fair value, and after acquisition, losses are recognized through the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each acquired loan pool and the expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan pools.

On a quarterly basis, the Company updates the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the pool's effective interest rate. Impairments that occur after the acquisition date are recognized through the provision for loan losses. Probable and significant increases in expected principal cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the purchased credit impaired portfolio.

(Continued)

(k) Concentration of credit risk

Most of the Company's business activity is with customers located within Florida. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy and the real estate market within Florida, primarily central, southeastern and northeastern Florida.

(l) Allowance for loan losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are not individually classified as impaired and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Commercial, commercial real estate, land, acquisition and development, and construction loans over $500 are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. The general component covers non-

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impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent two years. The portfolio segments identified by the Company are residential loans, commercial real estate loans, construction and land development loans, commercial and industrial and consumer and other. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; volume and severity of adversely classified or graded loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

At December 31, 2014, the Company evaluated the Gulfstream Business Bank ("GSB") loans that were not PCI loans as a separate portfolio segment. The Company evaluated this sixth loan portfolio segment during the fourth quarter of 2014 and an initial general loan loss allowance was recorded at December 31, 2014. The Company considered the levels of and trends in non-performing loans, past-due loans, adverse loan grade classification changes, historical loss rates, environmental factors and impaired loans in arriving at its estimate. The general loan loss allowance recorded for these performing loans acquired from GSB is allocated between the five portfolio segments as described below.

The Company segregates and evaluates its loan portfolio through the five portfolio segments: residential real estate, commercial real estate, land/ land development/construction, commercial and consumer/other.

Residential real estate loans are a mixture of fixed rate and adjustable rate residential mortgage loans, including first mortgages, second mortgages or home equity lines of credit. As a policy, the Company holds adjustable rate loans and sells a portion of its fixed rate loan originations into the secondary market. Changes in interest rates or market conditions may impact a borrower's ability to meet contractual principal and interest payments. Residential real estate loans are secured by real property.

Commercial real estate loans include loans secured by office buildings, warehouses, retail stores and other property located in or near our markets. These loans are originated based on the borrower's ability to service the debt and secondarily based on the fair value of the underlying collateral.

Land/land development/construction loans include residential and commercial real estate loans and include a mixture of owner occupied and non-owner occupied. The majority of the loans in this category are land related, either undeveloped land, land held for development, residential building lots and commercial building lots. Generally the terms are three to five years, with a potential for renewal at maturity.

Commercial loans consist of small-to medium-sized businesses including professional associations, medical services, retail trade, transportation, wholesale trade, manufacturing and tourism. Commercial loans are derived from our market areas and underwritten based on the borrower's ability to service debt from the business's underlying cash flows. As a general practice, we obtain collateral such as inventory, accounts receivable, equipment or other assets although such loans may be uncollateralized but guaranteed.

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Consumer and other loans include automobiles, boats, mobile homes without land, or uncollateralized but personally guaranteed loans. These loans are originated based primarily on credit scores, debt-to-income ratios and loan-to-value ratios.

(m) Transfer of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(n) Other repossessed real estate owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. Repossessed real estate is included in other repossessed real estate owned and other repossessed assets other than real estate is included in prepaid expenses and other assets in the Consolidated Balance Sheets.

(o) Premises and equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Buildings are depreciated over a 39 year period, and furniture, fixtures and equipment are depreciated over their related useful life (3 to 15 years). Leasehold improvements are depreciated over the shorter of their useful lives or the term of the lease. Major renewals and betterments of property are capitalized; maintenance, repairs, and minor renewals and betterments are expensed in the period incurred. Upon retirement or other disposition of the asset, the asset cost and related accumulated depreciation are removed from the accounts, and gains or losses are included in income.

(p) Software costs

Costs of software developed for internal use, such as those related to software licenses, programming, testing, configuration, direct materials and integration, are capitalized and included in premises and equipment. Included in the capitalized costs are those costs related to both our personnel and third party consultants involved in the software development and installation. Once placed in service, the capitalized asset is amortized on a straight-line basis over its estimated useful life, generally three to five years. Capitalized costs of software developed for internal use are reviewed periodically for impairment.

(Continued)

(q) Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock

The Company's subsidiary bank is a member of the FHLB and FRB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB and FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(r) Bank owned life insurance (BOLI)

The Company, through its subsidiary bank, has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

(s) Goodwill and other intangible assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected November 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

The core deposit intangibles are intangible assets arising from either whole bank acquisitions or branch acquisitions. They are initially measured at fair value and then amortized over a ten-year period on an accelerated basis using the projected decay rates of the underlying core deposits.

The trust intangible represents the value of the Trust business ("Trust") acquired pursuant to the Company's January 27, 2012 acquisition of First Guaranty Bank and Trust of Jacksonville ("FGB") in Jacksonville, Florida. The intangible was initially measured at fair value and then amortized over a ten-year period on an accelerated basis.

(t) FDIC Indemnification Asset

The FDIC Indemnification Asset represents the estimated amounts due from the FDIC pursuant to the Loss Share Agreements related to the acquisitions of the three failed banks acquired in 2010, two in 2012 and assumed two additional pursuant to the Company's 2014 acquisition of First Southern Bank. At acquisition, the FDIC Indemnification Asset represented the discounted value of the FDIC's reimbursed portion of the estimated losses the Company expects to realize on the loans and other real estate ("Covered Assets") acquired as a result of the acquisitions. The range of discount rates used on the FDIC Indemnification Asset was 1.21% to 4.53%. As losses are realized on Covered Assets, the portion that the

(Continued)

FDIC pays the Company in cash for principal and up to 90 days of interest reduces the FDIC Indemnification Asset. On a quarterly basis, the Company will evaluate the FDIC Indemnification Asset to determine if the estimated losses on Covered Assets support the amount recorded as the FDIC Indemnification Asset. Income accretion is recognized during the loss share period. If the expectation of future losses decline, the income accretion is reduced prospectively over the lesser of the term of the loss share agreement and the estimated remaining life of the Covered Asset.

(u) Loan commitments and related financial instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

(v) Stock-based compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. During 2014 the Company initiated a Long-Term Incentive Plan which included Performance Share Units ("PSUs"). The Monte-Carlo Simulation model was used to estimate fair value of the PSUs at the grant date. Compensation cost is recognized over the required service period, generally defined as the vesting period.

(w) Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in other expenses.

(x) Retirement plans

Employee 401(k) plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

(y) Marketing and advertising costs

Marketing and advertising costs are expensed as incurred.

(Continued)

(z) Earnings per common share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and unvested restricted stock awards where shares are not issued until vested. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

(aa) Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of shareholders' equity.

(ab) Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(ac) Restrictions on cash

Cash on hand or on deposit with the Federal Reserve Bank is generally required to meet regulatory reserve and clearing requirements.

(ad) Dividend restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the banks to the holding company or by the holding company to stockholders.

(ae) Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

(af) Segment reporting

The Company's correspondent banking and capital markets division represents a distinct reportable segment which differs from the Company's primary business of commercial and retail banking in Florida. Accordingly, a reconciliation of reportable segment revenues, expenses and profit to the Company's consolidated total has been presented in note 25.

(Continued)

(ag) Derivatives

The Company enters into interest rate swaps in order to provide commercial loan clients the ability to swap from fixed to variable interest rates. Under these agreements, the Company enters into a fixed-rate loan with a client in addition to a swap agreement. This swap agreement effectively converts the client's fixed rate loan into a variable rate. The Company then enters into a matching swap agreement with a third party dealer in order to offset its exposure on the customer swap. The Company does not use derivatives for trading purposes. The derivative transactions are considered instruments with no hedging designation, otherwise known as stand-alone derivatives. Changes in the fair value of the derivatives are reported currently in earnings.

(ah) Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior years' net income or shareholders' equity.

(ai) Effect of new pronouncements

In January 2014, the FASB amended existing guidance to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2014. Amendments in this standard can be applied using a modified retrospective or prospective transition method. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In May 2014 the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

In June 2014, the FASB amended existing guidance related to repurchase-to-maturity transactions, repurchase financings, and disclosures. These amendments align the accounting for repurchase-to-

(Continued)

maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. These amendments require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. These amendments also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. These amendments are effective for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is prohibited for a public company. Entities may elect to apply the requirements for interim periods beginning after December 15, 2014. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In June 2014, the FASB amended existing guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. These amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. These amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this amendment either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

In August 2014, the FASB amended existing guidance related to the classification of certain government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA, upon foreclosure. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure; 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the

(Continued)

guarantee, and the creditor has the ability to recover under that claim; and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. These amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted if the amendments under ASU 2014-04 *Receivables – Troubled Debt Restructurings by Creditors – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure* has been adopted. The amendments may be applied using a prospective transition method in which a reporting entity applies the guidance to foreclosures that occur after the date of adoption, or a modified retrospective transition using a cumulative-effect adjustment (through a reclassification to a separate other receivable) as of the beginning of the annual period of adoption. Prior periods should not be adjusted. A reporting entity must apply the same method of transition as elected under ASU 2014-04. The adoption of this standard is not expected to have a material effect on the Company’s operating results or financial condition.

In August 2014, the FASB amended existing guidance related to the disclosures about an entity’s ability to continue as a going concern. These amendments are intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. These amendments provide guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of this standard is not expected to have a material effect on the Company’s operating results or financial condition.

In July 2013, the FASB amended existing guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. These amendments provide that an unrecognized tax benefit, or a portion thereof, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. These amendments are effective for interim and annual reporting periods beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. Early adoption and retrospective application is permitted. The adoption of this standard did not have a material effect on the Company’s operating results or financial condition.

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(Dollar amounts in thousands, except per share data)

(2) Trading Securities

Realized and unrealized gains and losses are included in trading securities revenue, a component of non interest income. Securities purchased for this portfolio have primarily been municipal securities. A list of the activity in this portfolio for 2014 and 2013 is summarized below.

	2014	2013
Beginning balance	$ —	$ 5,048
Purchases	171,089	198,186
Proceeds from sales	(167,838)	(203,489)
Net realized gain on sales	156	255
Mark-to- market adjustment	13	—
Ending balance	$ 3,420	$ —

(3) Investment Securities

Available for Sale

All of the mortgage backed securities ("MBS") listed below are residential FNMA, FHLMC, and GNMA MBSs. The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government sponsored entities and agencies	$ 3	$ —	$ —	$ 3
Mortgage backed securities	473,396	6,897	1,660	478,633
Municipal securities	37,460	1,412	51	38,821
Total available-for-sale	$510,859	$8,309	$ 1,711	$517,457

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government sponsored entities and agencies	$ 4	$ —	$ —	$ 4
Mortgage backed securities	424,654	4,623	12,396	416,881
Municipal securities	39,728	921	448	40,201
Total available-for-sale	$464,386	$5,544	$12,844	$457,086

Sales of available for sale securities were as follows:

	2014	2013	2012
Proceeds	$323,537	$69,495	$168,809
Gross gains	$ 1,175	$ 1,060	$ 2,706
Gross losses	$ 1,129	$ —	$ 283

(Continued)

(Dollar amounts in thousands, except per share data)

The tax provisions related to these net realized gains were $18, $409 and $912, respectively.

Available for sale securities pledged at December 31, 2014 and 2013 had a carrying amount (estimated fair value) of $139,297 and $108,528, respectively. These securities were pledged primarily to secure public deposits and repurchase agreements.

At year-end 2014 and 2013, there were no holdings of held to maturity securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

The fair value and amortized cost of available for sale securities at year end 2014 by contractual maturity were as follows. Mortgage-backed securities are not due at a single maturity date and are shown separately.

	Fair Value	Amortized Cost
Investment securities available for sale:		
Due in one year or less	$ 532	$ 517
Due after one year through five years	1,565	1,498
Due after five years through ten years	17,262	16,638
Due after ten years through thirty years	19,465	18,810
Mortgage backed securities	478,633	473,396
Total available-for-sale	$517,457	$510,859

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013.

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage backed securities	$ 15,876	$ 41	$ 99,010	$1,619	$114,886	$ 1,660
Municipal securities	—	—	3,194	51	3,194	51
Total temporarily impaired available-for-sale securities	$ 15,876	$ 41	$102,204	$1,670	$118,080	$ 1,711

	December 31, 2013					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage backed securities	$239,641	$10,221	$ 18,793	$2,175	$258,434	$12,396
Municipal securities	7,603	333	1,010	115	8,613	448
Total temporarily impaired available-for-sale securities	$247,244	$10,554	$ 19,803	$2,290	$267,047	$12,844

Mortgage-backed securities: At December 31, 2014, 100% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac, and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and

(Continued)

(Dollar amounts in thousands, except per share data)

because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

Municipal securities: Unrealized losses on municipal securities have not been recognized into income because the issuers bonds are of high quality, and because management does not intend to sell these investments or more likely than not will not be required to sell these investments before their anticipated recovery. The fair value is expected to recover as the securities approach maturity.

Held to Maturity

The following reflects the fair value of held to maturity securities and the related gross unrecognized gains and losses as of December 31, 2014. There were no securities held to maturity as of December 31, 2013.

	December 31, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Obligations of U.S. government sponsored entities and agencies	$ 49,793	$ 122	$—	$ 49,915
Mortgage backed securities	161,727	653	—	162,381
Municipal securities	25,842	305	12	26,135
Total held to maturity	$237,362	$1,080	$ 12	$238,431

Held to maturity securities pledged at December 31, 2014 had an estimated fair value of $51,531. There were no securities held to maturity pledged at December 31, 2013. These securities were pledged primarily to secure public deposits and repurchase agreements.

At year-end 2014, there were no holdings of held to maturity securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

The fair value and amortized cost of held to maturity securities at year end 2014 by contractual maturity were as follows. Mortgage-backed securities are not due at a single maturity date and are shown separately.

	Fair Value	Amortized Cost
Investment securities held to maturity		
Due after five years through ten years	$ 44,515	$ 44,393
Due after ten years through thirty years	31,535	31,242
Mortgage backed securities	162,381	161,727
Total held-to-maturity	$238,431	$237,362

(Continued)

(Dollar amounts in thousands, except per share data)

The following tables show the Company's held to maturity investments' gross unrecognized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrecognized loss position, at December 31, 2014.

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Municipal securities	$2,475	$12	$—	$—	$2,475	$12
Total temporarily impaired available-for-sale securities	$2,475	$12	$—	$—	$2,475	$12

Municipal securities: Unrecognized losses on municipal securities have not been recognized into income because the issuers bonds are of high quality, and because management does not intend to sell these investments or more likely than not will not be required to sell these investments before their anticipated recovery. The fair value is expected to recover as the securities approach maturity.

(4) Loans

Major categories of loans included in the loan portfolio as of December 31, 2014 and 2013 are:

	December 31,	
	2014	2013
Loans excluding PCI loans		
Real estate loans		
Residential	$ 589,068	$ 458,331
Commercial	1,132,933	528,710
Land, development and construction	79,002	62,503
Total real estate	1,801,003	1,049,544
Commercial	294,493	143,263
Consumer and other loans	56,334	49,547
Loans before unearned fees and deferred cost	2,151,830	1,242,354
Net unearned fees and costs	929	404
Total loans excluding PCI loans	2,152,759	1,242,758
PCI loans (note 1)		
Real estate loans		
Residential	102,009	120,030
Commercial	140,977	100,012
Land, development and construction	24,032	6,381
Total real estate	267,018	226,423
Commercial	8,953	3,850
Consumer and other loans	795	1,148
Total PCI loans	276,766	231,421
Total loans	2,429,525	1,474,179
Allowance for loan losses for loans that are not PCI loans	(19,384)	(19,694)
Allowance for loan losses for PCI loans	(514)	(760)
Total loans, net of allowance for loan losses	$2,409,627	$1,453,725

note 1: Purchased credit impaired ("PCI") loans are being accounted for pursuant to ASC Topic 310-30.

(Continued)

(Dollar amounts in thousands, except per share data)

The following sets forth the covered FDIC loans included in the table above.

	December 31, 2014	December 31, 2013
FDIC covered loans that are not PCI loans		
Real estate loans		
Residential	$ 3,895	$ —
Commercial	33,606	—
Land, development and construction	866	—
Total real estate	38,367	—
Commercial	1,253	—
Consumer and other loans	—	—
FDIC covered loans, excluding PCI loans	39,620	—
FDIC covered PCI loans (note 1)		
Real estate loans		
Residential	98,075	120,030
Commercial	116,457	100,012
Land, development and construction	15,395	6,381
Total real estate	229,927	226,423
Commercial	4,974	3,850
Consumer and other loans	—	—
Total FDIC covered PCI loans	234,901	230,273
Total FDIC covered loans	274,521	230,273
Allowance for loan losses for FDIC covered loans that are not PCI loans	—	—
Allowance for loans losses for FDIC covered	(514)	(760)
Total covered loans, net of allowance for loan losses	$274,007	$229,513

note 1: Purchased credit impaired (“PCI”) loans are being accounted for pursuant to ASC Topic 310-30.

(Continued)

(Dollar amounts in thousands, except per share data)

The Company acquired FDIC covered loans that are not PCI loans pursuant to the acquisition of FSB on June 1, 2014. Prior to the FSB acquisition, the Company's FDIC covered loans were all PCI loans.

Changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2014, 2013 and 2012, are below.

	Real Estate Loans					
	Residential	Commercial	Land, develop., constr.	Comm. & industrial	Consumer & other	Total
Allowance for loan losses for loans that are not PCI loans:						
Twelve months ended December 31, 2014						
Beginning of the period	$ 8,785	$ 6,441	$ 3,069	$ 510	$ 889	$ 19,694
Charge-offs	(1,382)	(353)	(124)	(699)	(879)	(3,437)
Recoveries	1,018	763	106	85	184	2,156
Provision for loan losses	(1,678)	1,418	(2,299)	2,434	1,096	971
Balance at end of period	$ 6,743	$ 8,269	$ 752	$ 2,330	$1,290	$ 19,384
Twelve months ended December 31, 2013						
Beginning of the period	$ 6,831	$ 8,272	$ 6,211	$ 1,745	$ 974	$ 24,033
Charge-offs	(3,701)	(1,144)	(310)	(120)	(903)	(6,178)
Recoveries	432	417	193	51	181	1,274
Provision for loan losses	5,223	(1,104)	(3,025)	(1,166)	637	565
Balance at end of period	$ 8,785	$ 6,441	$ 3,069	$ 510	$ 889	$ 19,694
Twelve months ended December 31, 2012						
Beginning of the period	$ 6,700	$ 8,825	$ 9,098	$ 1,984	$ 952	$ 27,559
Charge-offs	(3,968)	(2,862)	(4,646)	(231)	(807)	(12,514)
Recoveries	378	871	604	22	157	2,032
Provision for loan losses	3,721	1,438	1,155	(30)	672	6,956
Balance at end of period	$ 6,831	$ 8,272	$ 6,211	$ 1,745	$ 974	$ 24,033
Allowance for loan losses for loans that are PCI loans:						
Twelve months ended December 31, 2014						
Beginning of the period	$ —	$ 138	$ 89	$ 533	$ —	$ 760
Charge-offs	—	—	—	(101)	—	(101)
Recoveries	—	—	—	—	—	—
Provision for loan losses	—	234	(83)	(296)	—	(145)
Balance at end of period	$ —	$ 372	$ 6	$ 136	$ —	$ 514
Twelve months ended December 31, 2013						
Beginning of the period	$ —	$ 2,335	$ —	$ 314	$ —	$ 2,649
Charge-offs	—	(1,248)	—	—	—	(1,248)
Recoveries	—	—	—	—	—	—
Provision for loan losses	—	(949)	89	219	—	(641)
Balance at end of period	$ —	$ 138	$ 89	$ 533	$ —	$ 760
Twelve months ended December 31, 2012						
Beginning of the period	$ 82	$ 223	$ 40	$ 14	$ 26	$ 385
Charge-offs	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—
Provision for loan losses	(82)	2,112	(40)	300	(26)	2,264
Balance at end of period	$ —	$ 2,335	$ —	$ 314	$ —	$ 2,649

(Continued)

(Dollar amounts in thousands, except per share data)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013. Accrued interest receivable and unearned fees/costs are not included in the recorded investment because they are not material.

	Real Estate Loans					
As of December 31, 2014	**Residential**	**Commercial**	**Land, develop., constr.**	**Comm. & industrial**	**Consumer & other**	**Total**
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 419	$ 403	$ 272	$ 4	$ 17	$ 1,115
Collectively evaluated for impairment	6,324	7,866	480	2,326	1,273	18,269
Purchased credit impaired	—	372	6	136	—	514
Total ending allowance balance	$ 6,743	$ 8,641	$ 758	$ 2,466	$ 1,290	$ 19,898
Loans:						
Individually evaluated for impairment	$ 9,980	$ 10,902	$ 2,748	$ 1,365	$ 255	$ 25,250
Collectively evaluated for impairment	579,088	1,122,031	76,254	293,128	56,079	2,126,580
Purchased credit impaired	102,009	140,977	24,032	8,953	795	276,766
Total ending loan balances	$691,077	$1,273,910	$103,034	$303,446	$57,129	$2,428,596

	Real Estate Loans					
As of December 31, 2013	**Residential**	**Commercial**	**Land, develop., constr.**	**Comm. & industrial**	**Consumer & other**	**Total**
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 395	$ 1,377	$ 16	$ 2	$ 21	$ 1,811
Collectively evaluated for impairment	8,390	5,064	3,053	508	868	17,883
Purchased credit impaired	—	138	89	533	—	760
Total ending allowance balance	$ 8,785	$ 6,579	$ 3,158	$ 1,043	$ 889	$ 20,454
Loans:						
Individually evaluated for impairment	$ 8,610	$ 12,564	$ 1,307	$ 1,297	$ 332	$ 24,110
Collectively evaluated for impairment	449,721	516,146	61,196	141,966	49,215	1,218,244
Purchased credit impaired	120,030	100,012	6,381	3,850	1,148	231,421
Total ending loan balance	$578,361	$ 628,722	$ 68,884	$147,113	$50,695	$1,473,775

(Continued)

(Dollar amounts in thousands, except per share data)

Loans collectively evaluated for impairment reported at December 31, 2014 include loans acquired from FSB on June 1, 2014 and from GSB on January 17, 2014 that are not PCI loans. These loans are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment for loans acquired from FSB at the acquisition date was approximately $9,725, or approximately 2.0% of the outstanding aggregate loan balances. This amount is accreted into interest income over the remaining lives of the related loans on a level yield basis, but remains adequate at December 31, 2014 and therefore no provision for loan loss was recorded related to these loans at December 31, 2014.

The following is a summary of information regarding impaired loans at December 31, 2014 and 2013:

	December 31,	
	2014	2013
Performing TDRs (these are not included in nonperforming loans ("NPLs"))	$11,418	$10,763
Nonperforming TDRs (these are included in NPLs)	3,648	4,684
Total TDRs (these are included in impaired loans)	15,066	15,447
Impaired loans that are not TDRs	10,184	8,663
Total impaired loans	$25,250	$24,110

Troubled Debt Restructurings:

In certain circumstances it may be beneficial to modify or restructure the terms of a loan (i.e. troubled debt restructure or "TDR") and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable real estate market. When the Company modifies the terms of a loan, it usually either reduces the monthly payment and/or interest rate for generally twelve to twenty-four months. The Company has not forgiven any material principal amounts on any loan modifications to date. The Company has $15,066 of TDRs. Of this amount $11,418 are performing pursuant to their modified terms, and $3,648 are not performing and have been placed on non-accrual status and included in our nonperforming loans ("NPLs").

TDRs as of December 31, 2014 and 2013 quantified by loan type classified separately as accrual (performing loans) and non-accrual (nonperforming loans) are presented in the table below.

As of December 31, 2014	Accruing	Non Accrual	Total
Real estate loans:			
Residential	$ 7,201	$1,523	$ 8,724
Commercial	2,762	1,794	4,556
Land, development, construction	547	241	788
Total real estate loans	10,510	3,558	14,068
Commercial	706	37	743
Consumer and other	202	53	255
Total TDRs	$11,418	$3,648	$15,066

(Continued)

(Dollar amounts in thousands, except per share data)

As of December 31, 2013	Accruing	Non-Accrual	Total
Real estate loans:			
Residential	$ 7,221	$1,389	$ 8,610
Commercial	2,169	3,077	5,246
Land, development, construction	608	47	655
Total real estate loans	9,998	4,513	14,511
Commercial	555	49	604
Consumer and other	210	122	332
Total TDRs	$10,763	$4,684	$15,447

The Company's policy is to return non-accrual TDR loans to accrual status when all the principal and interest amounts contractually due, pursuant to its modified terms, are brought current and future payments are reasonably assured. The Company's policy also considers the payment history of the borrower, but is not dependent upon a specific number of payments. The Company recorded a provision for loan loss expense of $422 and $890 and partial charge offs of $251 and $449 on the TDR loans described above during the periods ending December 31, 2014 and 2013, respectively.

Loans are modified to minimize loan losses when management believes the modification will improve the borrower's financial condition and ability to repay the loan. The Company typically does not forgive principal. The Company generally either reduces interest rates or decreases monthly payments for a temporary period of time and those reductions of cash flows are capitalized into the loan balance. The Company may also extend maturities, convert balloon loans to longer term amortizing loans, or vice versa, or change interest rates between variable and fixed rate. Each borrower and situation is unique and management tries to accommodate the borrower and minimize the Company's potential losses. Approximately 76% of the Company's TDRs are current pursuant to their modified terms, and about $3,648, or approximately 24% of the Company's total TDRs are not performing pursuant to their modified terms. There does not appear to be any significant difference in success rates with one type of concession versus another.

The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the years ending December 31, 2014 and 2013.

	Year Ending December 31, 2014		Year Ending December 31, 2013	
	Number of loans	Recorded investment	Number of loans	Recorded investment
Residential	1	$ 188	3	$ 562
Commercial real estate	5	747	5	1,662
Land, development, construction	2	241	—	—
Commercial and Industrial	—	—	1	25
Consumer and other	2	36	1	18
Total	10	$1,212	10	$2,267

(Continued)

(Dollar amounts in thousands, except per share data)

The Company recorded $97 and $574 in provision for loan loss expense and $65 and $197 in partial charge offs on TDR loans that subsequently defaulted as described above during the years ending December 31, 2014 and 2013, respectively.

The Company has allocated $779 and $703 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2014 and 2013 excluding purchased credit impaired loans accounted for pursuant to ASC Topic 310-30. The recorded investment is less than the unpaid principal balance primarily due to partial charge-offs.

As of December 31, 2014	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:			
Residential real estate	$ 6,797	$ 6,672	$ —
Commercial real estate	8,208	8,059	—
Land, development, construction	2,234	1,606	—
Commercial and industrial	1,132	1,129	—
Consumer, other	—		—
With an allowance recorded:			
Residential real estate	3,451	3,308	419
Commercial real estate	3,024	2,843	403
Land, development, construction	1,187	1,142	272
Commercial and industrial	283	236	4
Consumer, other	267	255	17
Total	$26,583	$25,250	$1,115

As of December 31, 2013	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:			
Residential real estate	$ 5,052	$ 4,803	$ —
Commercial real estate	9,330	7,439	—
Land, development, construction	1,377	1,168	—
Commercial and industrial	1,330	1,241	—
Consumer, other	5	5	—
With an allowance recorded:			
Residential real estate	3,942	3,807	395
Commercial real estate	5,257	5,125	1,377
Land, development, construction	147	139	16
Commercial and industrial	102	56	2
Consumer, other	340	327	21
Total	$26,882	$24,110	$1,811

(Continued)

(Dollar amounts in thousands, except per share data)

December 31, 2014	Average of impaired loans	Interest income recognized during impairment	Cash basis interest income recognized
Real estate loans:			
Residential	$ 9,584	$ 318	$—
Commercial	12,282	145	—
Land, development, construction	2,138	37	—
Total real estate loans	24,004	500	—
Commercial and industrial	2,001	67	—
Consumer and other loans	296	12	—
Total	$26,301	$ 579	$—

December 31, 2013	Average of impaired loans	Interest income recognized during impairment	Cash basis interest income recognized
Real estate loans:			
Residential	$ 8,968	$ 290	$—
Commercial	26,060	870	—
Land, development, construction	1,405	17	—
Total real estate loans	36,433	1,177	—
Commercial and industrial	1,878	35	—
Consumer and other loans	363	11	—
Total	$38,674	$1,223	$—

December 31, 2012	Average of impaired loans	Interest income recognized during impairment	Cash basis interest income recognized
Real estate loans:			
Residential	$10,136	$ 306	$—
Commercial	29,877	1,215	—
Land, development, construction	3,888	23	—
Total real estate loans	43,901	1,544	—
Commercial and industrial	4,175	110	—
Consumer and other loans	439	17	—
Total	$48,515	$1,671	$—

(Continued)

(Dollar amounts in thousands, except per share data)

The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2014 and 2013 excluding purchased credit impaired loans accounted for pursuant to ASC Topic 310-30:

As of December 31, 2014	Nonaccrual	Loans past due over 90 days still accruing
Residential real estate	$11,901	$—
Commercial real estate	8,470	—
Land, development, construction	2,374	—
Commercial	2,475	—
Consumer, other	375	—
Total	$25,595	$—

As of December 31, 2013	Nonaccrual	Loans past due over 90 days still accruing
Residential real estate	$10,162	$—
Commercial real estate	13,925	—
Land, development, construction	1,099	—
Commercial	1,582	—
Consumer, other	309	—
Total	$27,077	$—

The following tables present the aging of the recorded investment in past due loans as of December 31, 2014 and 2013, excluding purchased credit impaired loans accounted for pursuant to ASC Topic 310-30:

	Accruing Loans						
As of December 31, 2014	Total	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total Past Due	Loans Not Past Due	Nonaccrual Loans
Residential real estate	$ 589,068	$2,162	$1,451	$—	$ 3,613	$ 573,554	$11,901
Commercial real estate	1,132,933	1,840	3,394	—	5,234	1,119,229	8,470
Land/dev/construction	79,002	378	404	—	782	75,846	2,374
Commercial	294,493	1,427	1,492	—	2,919	289,099	2,475
Consumer	56,334	411	149	—	560	55,399	375
	$2,151,830	$6,218	$6,890	$—	$13,108	$2,113,127	$25,595

	Accruing Loans						
As of December 31, 2013	Total	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total Past Due	Loans Not Past Due	Nonaccrual Loans
Residential real estate	$ 458,331	$2,801	$1,942	$—	$ 4,743	$ 443,426	$10,162
Commercial real estate	528,710	2,420	1,941	—	4,361	510,424	13,925
Land/dev/construction	62,503	136	241	—	377	61,027	1,099
Commercial	143,263	491	1	—	492	141,189	1,582
Consumer	49,547	295	240	—	535	48,703	309
	$1,242,354	$6,143	$4,365	$—	$10,508	$1,204,769	$27,077

(Continued)

(Dollar amounts in thousands, except per share data)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on at least an annual basis. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2014 and 2013, and based on the most recent analysis performed, the risk category of loans by class of loans, excluding purchased credit impaired loans accounted for pursuant to ASC Topic 310-30, is as follows:

	As of December 31, 2014			
Loan Category	Pass	Special Mention	Substandard	Doubtful
Residential real estate	$ 558,312	$ 7,053	$23,703	$—
Commercial real estate	1,063,979	34,953	34,001	—
Land/dev/construction	65,216	9,731	4,055	—
Commercial	285,549	4,419	4,525	—
Consumer	55,590	278	466	—
Total	$2,028,646	$56,434	$66,750	$—

	As of December 31, 2013			
Loan Category	Pass	Special Mention	Substandard	Doubtful
Residential real estate	$ 428,671	$ 6,438	$23,222	$—
Commercial real estate	448,762	46,427	33,521	—
Land/dev/construction	50,164	9,566	2,773	—
Commercial	134,901	4,490	3,872	—
Consumer	49,448	526	573	—
Total	$1,111,946	$67,447	$63,961	$—

(Continued)

(Dollar amounts in thousands, except per share data)

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans, excluding purchased credit impaired loans accounted for pursuant to ASC Topic 310-30, based on payment activity as of December 31, 2014 and 2013:

As of December 31, 2014	Residential	Consumer
Performing	$577,167	$55,959
Nonperforming	11,901	375
Total	$589,068	$56,334

As of December 31, 2013	Residential	Consumer
Performing	$448,169	$49,238
Nonperforming	10,162	309
Total	$458,331	$49,547

Purchased Loans:

Income recognized on loans purchased from the FDIC is recognized pursuant to ASC Topic 310-30. A portion of the fair value discount has been ascribed as an accretable yield that is accreted into interest income over the estimated remaining life of the loans. The remaining non-accretable difference represents cash flows not expected to be collected.

The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the loans as of December 31, 2014 and 2013. Contractually required principal and interest payments have been adjusted for estimated prepayments.

	December 31,		
	2014	2013	2012
Contractually required principal and interest	$ 460,836	$ 389,537	$ 534,989
Non-accretable difference	(68,757)	(55,304)	(142,855)
Cash flows expected to be collected	392,079	334,233	392,134
Accretable yield	(115,313)	(102,812)	(93,107)
Carrying value of acquired loans	276,766	231,421	299,027
Allowance for loan losses	(514)	(760)	(2,649)
Carrying value less allowance for loan losses	$ 276,252	$ 230,661	$ 296,378

$(145), $(641) and $2,264 of the allowance for loan losses was recognized in the loan loss provision during 2014, 2013 and 2012, respectively. There were reversals in the loan loss allowance of $0, $0 and $0 for recoveries in 2014, 2013 and 2012, respectively. The Company adjusted its estimates of future expected

(Continued)

(Dollar amounts in thousands, except per share data)

losses, cash flows and renewal assumptions during the current year. These adjustments resulted in an increase in expected cash flows and accretable yield, and a decrease in the non-accretable difference. The Company reclassified approximately $14,892 from non-accretable difference to accretable yield during the twelve month period ending December 31, 2014 to reflect the adjusted estimates of future expected cash flows.

The Company recognized approximately $34,168 of accretion income during the twelve month period ending December 31, 2014. The table below summarizes the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the loans during the periods ending December 31, 2014 and 2013.

	December 31, 2013	Effect of acquisitions	income accretion	all other adjustments	December 31, 2014
Contractually required principal and interest	$ 389,537	$229,249	$ —	$(157,950)	$ 460,836
Non-accretable difference	(55,304)	(45,293)	—	31,840	(68,757)
Cash flows expected to be collected	334,233	183,956	—	(126,110)	392,079
Accretable yield	(102,812)	(32,204)	34,168	(14,465)	(115,313)
Carry value of acquired loans	$ 231,421	$151,752	$34,168	$(140,575)	$ 276,766

	December 31, 2012	income accretion	all other adjustments	December 31, 2013
Contractually required principal and interest	$ 534,989	$ —	$(145,452)	$ 389,537
Non-accretable difference	(142,855)	—	87,551	(55,304)
Cash flows expected to be collected	392,134	—	(57,901)	334,233
Accretable yield	(93,107)	32,725	(42,430)	(102,812)
Carry value of acquired loans	$ 299,027	$32,725	$(100,331)	$ 231,421

(5) FDIC indemnification asset

The FDIC indemnification asset represents the estimated amounts due from the FDIC pursuant to the Loss Share Agreements related to the acquisition of the three failed banks acquired in 2010, the acquisition of two failed banks in 2012 and the assumption of Loss Share Agreements of two failed banks assumed by the Company pursuant to its acquisition of First Southern Bank in June 2014. The activity in the FDIC loss share indemnification asset is as follows (certain items related to true-up payment liabilities per the FDIC agreements, which had previously been netted with the FDIC indemnification asset, have been reclassified as a separate liability):

	2014	2013
Beginning of the year	$ 73,877	$119,691
Effect of acquisition	2,636	—
Amortization, net	(20,664)	(13,765)
Indemnification revenue	3,098	6,055
Indemnification of foreclosure expense	237	4,413
Proceeds from FDIC	(10,014)	(42,004)
Impairment (recovery) of loan pool	(116)	(513)
Period end balance	$ 49,054	$ 73,877

(Continued)

(Dollar amounts in thousands, except per share data)

The FDIC agreements allow for the recovery of some payments made for loss share reimbursements under certain conditions based on the actual performance of the portfolios acquired. This true-up payment is estimated and accrued for as part of the overall FDIC indemnification asset analysis and is reflected as a separate liability. The accrual for this liability is reflected as additional amortization income or expense in noninterest income. The activity in the true-up payment liability is as follows:

	2014	2013
Beginning of the year	$ 444	$402
Effect of acquisition	682	—
True-up liability accrual	79	42
Period end balance	$1,205	$444

Impairment of loan pools

When a loan pool (with loss share) is impaired, the impairment expense is included in provision for loan losses, and the percentage of that loss to be reimbursed by the FDIC is recognized as income from FDIC reimbursement, and included in this line item. During the twelve month period ended December 31, 2014, the estimated amount of impairment decreased, which resulted in a reduction of $116 of indemnification income.

Indemnification revenue

Indemnification revenue represents the percentage of the cost incurred that is reimbursable by the FDIC pursuant to the related Loss Share Agreement for expenses related to the repossession process and losses incurred on the sale of OREO, or writedown of OREO values to current fair value.

Amortization, net

On the date of an FDIC acquisition, the Company estimates the amount and the timing of expected future losses that will be covered by the FDIC loss sharing agreements. The FDIC indemnification asset is initially recorded as the discounted value of the reimbursement of losses from the FDIC. Discount accretion is recognized over the estimated period of losses. The Company also updates its estimate of future losses and the timing of the losses each quarter. To the extent management estimates that future losses are less than initial estimate of future losses, management adjusts its estimates of future expected reimbursements and any decrease in the expected future reimbursements is amortized over the shorter of the loss share period or the life of the related loan by amortization in this line item. Based upon the most recent estimate of future losses, the Company expects less reimbursements from the FDIC and is amortizing the estimated reduction as described in the previous sentence.

Indemnification of foreclosure expense

Indemnification of foreclosure expense represents the percentage of foreclosure related expenses incurred and reimbursable from the FDIC. Foreclosure expense is included in non interest expense. The amount of the reimbursable portion of the expense reduces foreclosure expense included in non interest expense.

(Continued)

(Dollar amounts in thousands, except per share data)

(6) Other real estate owned

Other real estate owned means real estate acquired through or instead of loan foreclosure. Activity in the valuation allowance was as follows:

	2014	2013	2012
Beginning of year	$ 5,887	$ 5,407	$ 4,680
Valuation write down of repossessed real estate	3,250	6,012	4,258
Sales and/or dispositions	(6,034)	(5,532)	(3,531)
End of year	$ 3,103	$ 5,887	$ 5,407

Expenses related to foreclosed real estate include:

	2014	2013	2012
(Gain) loss on sale of repossessed real estate	$ (788)	$ 3,122	$1,185
Valuation write down of repossessed real estate	3,250	6,012	4,258
Operating expenses, net of rental income	2,775	3,191	4,008
Total	$5,237	$12,325	$9,451

(7) Fair value

Generally accepted accounting principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair values of trading securities are determined as follows: (1) for those securities that have traded prior to the date of the consolidated balance sheet but have not settled (date of sale) until after such date, the sales price is used as the fair value; and, (2) for those securities which have not traded as of the date of the consolidated balance sheet, the fair value was determined by broker price indications of similar or same securities.

(Continued)

(Dollar amounts in thousands, except per share data)

The mortgage backed securities held by the Company were issued by U. S. government sponsored entities and agencies. Assets and liabilities measured at fair value on a recurring basis are summarized below.

The fair value of impaired loans with specific valuation allowance for loan losses and other real estate owned is based on recent real estate appraisals less estimated costs of sale. For residential real estate impaired loans and other real estate owned, appraised values are based on the comparative sales approach. For commercial and commercial real estate impaired loans and other real estate owned, appraisers may use either a single valuation approach or a combination of approaches such as comparative sales, cost or the income approach. A significant unobservable input in the income approach is the estimated income capitalization rate for a given piece of collateral. At December 31, 2014, the range of capitalization rates utilized to determine the fair value of the underlying collateral ranged from 8% to 11%. Adjustments to comparable sales may be made by the appraiser to reflect local market conditions or other economic factors and may result in changes in the fair value of a given asset over time. As such, the fair value of impaired loans and other real estate owned are considered a Level 3 in the fair value hierarchy.

The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2).

		Fair value measurements using		
	Carrying value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
at December 31, 2014				
Assets:				
Trading securities	$ 3,420	—	$ 3,420	—
Available for sale securities				
U.S. government sponsored entities and agencies	3	—	3	—
Mortgage backed securities	478,633	—	478,633	—
Municipal securities	38,821	—	38,821	—
Interest rate swap derivatives	6,800	—	6,800	—
Liabilities:				
Interest rate swap derivatives	7,575	—	7,575	—
at December 31, 2013				
Assets:				
Trading securities	$ —	—	$ —	—
Available for sale securities				
U.S. government sponsored entities and agencies	4	—	4	—
Mortgage backed securities	416,881	—	416,881	—
Municipal securities	40,201	—	40,201	—
Interest rate swap derivatives	2,603	—	2,603	—
Liabilities:				
Interest rate swap derivatives	2,496	—	2,496	—

(Continued)

(Dollar amounts in thousands, except per share data)

Assets and liabilities measured at fair value on a non-recurring basis are summarized below.

		Fair value measurements using		
	Carrying value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
at December 31, 2014				
Assets:				
Impaired loans				
Residential real estate	$2,971	—	—	$2,971
Commercial real estate	4,854	—	—	4,854
Land, land development and construction	1,731	—	—	1,731
Commercial	167	—	—	167
Consumer	102	—	—	102
Other real estate owned				
Residential real estate	448	—	—	448
Commercial real estate	2,363	—	—	2,363
Land, land development and construction	2,240	—	—	2,240
Bank property held for sale	2,675	—	—	2,675
at December 31, 2013				
Assets:				
Impaired loans				
Residential real estate	$3,191	—	—	$3,191
Commercial real estate	7,515	—	—	7,515
Land, land development and construction	290	—	—	290
Commercial	731	—	—	731
Consumer	157	—	—	157
Other real estate owned				
Residential real estate	27	—	—	27
Commercial real estate	3,837	—	—	3,837
Land, land development and construction	3,949	—	—	3,949
Bank property held for sale	1,582	—	—	1,582

Impaired loans with specific valuation allowances had a recorded investment of $10,677 with a valuation allowance of $852 at December 31, 2014, and a recorded investment of 13,528, with a valuation allowance of $1,644, at December 31, 2013. The Company recorded a provision for loan loss expense of $554 and $1,895 on these loans during the years ending 2014 and 2013, respectively.

Other real estate owned had a decline in fair value of $3,250 and $6,012 during the twelve month periods ending December 31, 2014 and 2013, respectively. Changes in fair value were recorded directly as an adjustment to current earnings through non interest expense.

(Continued)

Bank property held for sale represents certain branch office buildings which the Company has closed and consolidated with other existing branches. The real estate was transferred out of the Bank Premises and Equipment category into bank property held for sale. The real estate was transferred at the lower of amortized cost or fair value less estimated costs to sell. The fair values were based upon comparative sales data provided by real estate brokers. The real estate was transferred at the lower of amortized cost or fair value less estimated costs to sell. The Company closed eight bank branch offices during the year 2014, seven owned by the Company and one leased. Five of the properties owned by the Company were transferred to held for sale, the remaining two are being used as loan production offices, back office support staff offices and a portion of the second floor of one of the buildings is leased to an existing tenant. Six of the properties transferred to held for sale were sold resulting in a recovery of $649 from a previous impairment charge of $1,753 recorded during the current year. Excluding the properties sold in 2014, the Company recognized an impairment charge of $1,152 during the twelve month period ending December 31, 2014 related to the transfer to held for sale.

Fair Value of Financial Instruments

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

FHLB and FRB Stock: It is not practical to determine the fair value of FHLB and FRB stock due to restrictions placed on their transferability.

Investment securities held to maturity: The fair values of securities held to maturity are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts from third party investors resulting in a Level 2 classification.

Loans, net: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FDIC Indemnification Asset: It is not practical to determine the fair value of the FDIC indemnification asset due to restrictions placed on its transferability.

Accrued Interest Receivable: The carrying amount of accrued interest receivable approximates fair value and is classified as Level 3.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(Continued)

(Dollar amounts in thousands, except per share data)

Short-term Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings (note payable), generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

Corporate Debentures: The fair values of the Company's corporate debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued Interest Payable: The carrying amount of accrued interest payable approximates fair value resulting in a Level 2 classification.

Off-balance Sheet Instruments: The fair value of off-balance-sheet items is not considered material.

The following table presents the carry amounts and estimated fair values of the Company's financial instruments:

		Fair value measurements			
at December 31, 2014	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Cash and cash equivalents	$ 158,413	$ 158,413	$ —	$ —	$ 158,413
Trading securities	3,420	—	3,420	—	3,420
Investment securities available for sale	517,457	—	517,457	—	517,457
Investment securities held to maturity	237,362	—	238,431	—	238,431
FHLB and FRB stock	14,219	—	—	—	n/a
Loans held for sale	1,251	—	1,251	—	1,251
Loans, less allowance for loan losses of $19,898	2,409,627	—	—	2,418,405	2,418,405
FDIC indemnification asset	49,054	—	—	—	n/a
Interest rate swap derivatives	6,800	—	6,800	—	6,800
Accrued interest receivable	8,999	—	—	8,999	8,999
Financial liabilities:					
Deposits—without stated maturities	$2,604,228	$2,604,228	$ —	$ —	$2,604,228
Deposits—with stated maturities	487,812	—	491,999	—	491,999
Securities sold under agreement to repurchase	27,022	—	27,022	—	27,022
Federal funds purchased	151,992	—	151,992	—	151,992
Corporate debentures	23,917	—	—	19,722	19,722
Interest rate swap derivatives	7,575	—	7,575	—	7,575
Accrued interest payable	336	—	336	—	336

(Continued)

(Dollar amounts in thousands, except per share data)

at December 31, 2013	Carrying amount	Fair value measurements Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 174,889	$ 174,889	$ —	$ —	$ 174,889
Investment securities available for sale	457,086	—	457,086	—	457,086
FHLB and FRB stock	8,189	—	—	—	n/a
Loans held for sale	1,010	—	1,010	—	1,010
Loans, less allowance for loan losses of $20,454	1,453,725	—	—	1,456,295	1,456,295
FDIC indemnification asset	73,877	—	—	—	n/a
Interest rate swap derivatives	2,603	—	2,603	—	2,603
Accrued interest receivable	6,337	—	—	6,337	6,337
Financial liabilities:					
Deposits- without stated maturities	$1,671,356	$1,671,356	$ —	$ —	$1,671,356
Deposits- with stated maturities	384,875	—	389,115	—	389,115
Securities sold under agreement to repurchase	20,457	—	20,457	—	20,457
Federal funds purchased	29,909	—	29,909	—	29,909
Corporate debentures	16,996	—	—	11,091	11,091
Interest rate swap derivatives	2,496	—	2,496	—	2,496

(8) Bank Premises and Equipment

A summary of bank premises and equipment as of December 31, 2014 and 2013 is as follows:

	December 31, 2014	2013
Land	$ 34,387	$ 32,591
Land improvements	949	864
Buildings	60,168	56,651
Leasehold improvements	3,520	2,450
Furniture, fixtures and equipment	30,906	26,749
Construction in progress	1,587	5,828
	131,517	125,133
Less: Accumulated depreciation	32,669	28,514
	$ 98,848	$ 96,619

(Continued)

(Dollar amounts in thousands, except per share data)

The Company leases land and certain facilities under noncancellable operating leases. The following is a schedule of future minimum annual rentals under the noncancellable operating leases:

Year ending December 31,	
2015	$ 2,318
2016	1,891
2017	1,690
2018	1,540
2019	1,012
Thereafter	4,929
	$13,380

Rent expense, net of rental income, for the years ended December 31, 2014, 2013 and 2012, was $2,309, $1,099 and $1,455, respectively, and is included in occupancy expense in the accompanying Consolidated Statements of Operations. Rental income for the years ended December 31, 2014, 2013, and 2012, was $632, $540, and $507, respectively, and is included in occupancy expense.

(9) Goodwill and Intangible Assets

Goodwill was a result of whole bank acquisitions, all within the Company's commercial and retail banking segment. The change in balance for goodwill during the years 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Beginning of year	$44,924	$44,924	$38,035
Acquired goodwill	31,815	—	6,889
Impairment	—	—	—
End of year	$76,739	$44,924	$44,924

The Company performed a step 1 annual impairment analysis of the goodwill recorded at the commercial and retail banking ("Bank") reporting unit as of November 30, 2014. Step 1 includes the determination of the carrying value of the reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. The carrying amount of the reporting unit did not exceed its fair value resulting in no impairment.

Acquired intangible assets consists of core deposit intangibles ("CDI") and Trust intangible ("Trust") which are intangible assets arising from either whole bank or branch acquisitions. They are initially measured at fair value and then amortized over a ten-year period on an accelerated basis using the projected decay rates of the underlying core deposits in the case of CDI and an accelerated method in the case of the Trust intangible. The change in balance for CDI and the Trust during the years 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Beginning of year	$ 6,116	$ 7,307	$ 5,203
Acquired CDI	11,569	—	1,896
Acquired Trust	—	—	1,580
Amortization expense	(2,284)	(1,191)	(1,372)
Impairment expense	—	—	—
End of year	$15,401	$ 6,116	$ 7,307

(Continued)

(Dollar amounts in thousands, except per share data)

Acquired intangible assets were as follows for years ended December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$23,176	$8,760	$11,607	$6,649
Trust intangible	1,580	595	1,580	422
Total acquired intangibles	$24,756	$9,355	$13,187	$7,071

Estimated amortization expense for each of the next five years:

2015	$2,529
2016	2,269
2017	1,876
2018	1,724
2019	1,669

(10) Deposits

A detail of deposits at December 31, 2014 and 2013 is as follows:

	December 31,			
	2014	Weighted Average Interest Rate	2013	Weighted Average Interest Rate
Non-interest bearing deposits	$1,048,874	— %	$ 644,915	— %
Interest bearing deposits:				
Interest bearing demand deposits	607,359	0.1%	483,842	0.1%
Savings deposits	231,039	0.1%	232,942	0.1%
Money market accounts	716,956	0.3%	309,657	0.2%
Time deposits less than $100,000	219,021	0.8%	181,635	0.8%
Time deposits of $100,000 or greater	268,791	1.1%	203,240	1.2%
	$3,092,040	0.2%	$2,056,231	0.2%

The following table presents the amount of certificate accounts at December 31, 2014, maturing during the periods reflected below:

Year	Amount
2015	$320,629
2016	91,988
2017	35,948
2018	17,902
2019	21,344
Thereafter	1
Total	$487,812

(Continued)

(Dollar amounts in thousands, except per share data)

Time deposits that meet or exceed the FDIC insurance limit of $250 at year end 2014 and 2013 were $116,861 and $83,335.

(11) Securities Sold Under Agreements to Repurchase

The Company's subsidiary bank enters into borrowing arrangements with its retail business customers by agreements to repurchase ("repurchase agreements") under which the bank pledges investment securities owned and under its control as collateral against the one-day borrowing arrangement.

At December 31, 2014 and 2013, the Company had $27,022 and $20,457 in repurchase agreements. Repurchase agreements are secured by U.S. treasury securities and obligations of U.S. government agencies and government sponsored enterprises with fair values of $52,714 and $37,845 at December 31, 2014 and 2013, respectively.

Information concerning repurchase agreements is summarized as follows:

	2014	2013	2012
Average daily balance during the year	$30,289	$21,693	$21,388
Average interest rate during the year	0.60%	0.36%	0.40%
Maximum month-end balance during the year	$34,681	$24,483	$24,989
Weighted average interest rate at year end	0.72%	0.40%	0.40%

(12) Federal Funds Purchased

Federal funds purchased, as listed below, are overnight deposits from correspondent banks. Information concerning these deposits is summarized as follows:

	2014	2013	2012
Average daily balance during the year	$ 49,899	$37,958	$53,803
Average interest rate during the period	0.10%	0.05%	0.05%
Maximum month-end balance during the year	$151,992	$53,274	$82,473
Weighted average interest rate at year end	0.29%	0.05%	0.05%

(13) Federal Home Loan Bank advances and other borrowed funds

From time to time, the Company borrows either through Federal Home Loan Bank advances or Federal Funds Purchased, other than correspondent bank deposits listed in note 12 above. The Company had no advances from the Federal Home Loan Bank during the periods ending December 31, 2014 and 2013.

Advances are collateralized by residential and commercial loans under a blanket lien arrangement and based on this collateral, and the Company's holdings of FHLB stock, the Company is eligible to borrow up to $187,195 at year end 2014.

(14) Corporate Debenture

In September 2003, the Company formed CenterState Banks of Florida Statutory Trust I (the "Trust") for the purpose of issuing trust preferred securities. On September 22, 2003, the Company issued a floating rate

(Continued)

corporate debenture in the amount of $10,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 305 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $310 and is included in other assets.

In September 2004, Valrico Bancorp Inc. ("VBI") formed Valrico Capital Statutory Trust ("Valrico Trust") for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI pursuant to the merger agreement, including VBI's corporate debenture and related trust preferred security discussed above. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Valrico Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $77 and is included in other assets.

In September 2003, Federal Trust Corporation ("FTC") formed Federal Trust Statutory I ("FTC Trust") for the purpose of issuing trust preferred securities. On September 17, 2003, FTC issued a floating rate corporate debenture in the amount of $5,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. In November 2011, the Company acquired certain assets and assumed certain liabilities of FTC from The Hartford Financial Services Group, Inc. ("Hartford") pursuant to an acquisition agreement, including FTC's corporate debenture and related trust preferred security issued through FTC's finance subsidiary FTC Trust. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 295 basis points). The corporate debenture and the trust preferred security each have 30-year lives maturing in 2033. The trust preferred security and the corporate debenture are callable by the Company or the FTC Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $155 and is included in other assets.

(Continued)

(Dollar amounts in thousands, except per share data)

In January 2005, Gulfstream Bancshares, Inc. ("GBI") formed Gulfstream Bancshares Capital Trust I ("GBI Trust I") for the purpose of issuing trust preferred securities. On January 18, 2005, GBI issued a floating rate corporate debenture in the amount of $7,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 190 bps). The rate is subject to change quarterly. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the GBI Trust I, at their respective option, subject to prior approval by the Federal Reserve, if then required. On January 17, 2014, the Company acquired all the assets and assumed all the liabilities of GBI by merger, including GBI's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In March 2007, GBI formed Gulfstream Bancshares Capital Trust II ("GBI Trust II") for the purpose of issuing trust preferred securities. On March 6, 2007, GBI issued a floating rate corporate debenture in the amount of $3,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 170 bps). The rate is subject to change quarterly. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the GBI Trust II, at their respective option, subject to prior approval by the Federal Reserve, if then required. On January 17, 2014, the Company acquired all the assets and assumed all the liabilities of GBI by merger, including GBI's corporate debenture and related trust preferred security discussed above. The Company has treated the corporate debenture as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

(15) Income Taxes

Allocation of federal and state income tax expense between current and deferred portions for the years ended December 31, 2014, 2013 and 2012, is as follows:

	Current	Deferred	Total
December 31, 2014:			
Federal	$4,384	$1,486	$5,870
State	1,009	247	1,256
	$5,393	$1,733	$7,126
December 31, 2013:			
Federal	$4,423	$ 27	$4,450
State	1,055	5	1,060
	$5,478	$ 32	$5,510
December 31, 2012:			
Federal	$ (32)	$3,761	$3,729
State	271	625	896
	$ 239	$4,386	$4,625

(Continued)

(Dollar amounts in thousands, except per share data)

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013, are presented below:

	December 31,	
	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 7,675	$ 7,890
Stock based compensation	771	469
Deferred compensation	2,425	2,598
Impairment expenses	463	403
Net operating loss carryforward	20,308	—
Other real estate owned expenses	2,391	3,074
Fair value adjustments	18,386	—
Nonaccrual interest	2,579	560
Unrealized loss on investment securities available for sale	—	2,816
Other	75	1,007
Total deferred tax assets	55,073	18,817
Deferred tax liabilities:		
Premises and equipment, due to differences in depreciation methods and useful lives	(2,264)	(4,096)
Deferred loan costs, net	(358)	(156)
Fair value adjustments	—	(8,937)
Like kind exchange	(300)	(300)
Unrealized gain on investment securities available for sale	(2,548)	—
Accretion of discounts on investments	(16)	(32)
Total deferred tax liabilities	(5,486)	(13,521)
Net deferred tax asset	$49,587	$ 5,296

As a result of the acquisition of FSB on June 1, 2014, the Company obtained net operating loss carryforwards of approximately $57,375 which are subject to Internal Revenue Code Section 382 limitation of approximately $6,487 per year. At December 31, 2014, the Company had net operating carryforwards of approximately $52,645 which will begin to expire as follows.

2029	$ 2,105
2030	27,889
2031	10,463
2032	2,028
2033	4,027
2034	6,133
	$52,645

(Continued)

(Dollar amounts in thousands, except per share data)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In performing this analysis, the Company considers all evidence currently available, both positive and negative, in determining whether based on the weight of that evidence, it is more likely than not the deferred tax asset will be realized.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Florida, Georgia, Alabama, Colorado, North Carolina, and Tennessee. The Company is no longer subject to examination by taxing authorities for the years before 2011. The Company was not subject to any material interest or penalties on its income tax liabilities for the years 2012, 2013 and 2014.

A reconciliation between the actual tax expense and the “expected” tax expense, computed by applying the U.S. federal corporate rate of 35 percent (34 percent for 2012) is as follows:

	December 31,		
	2014	2013	2012
“Expected” tax (benefit) expense	$7,032	$6,214	$4,940
Tax exempt interest, net	(910)	(907)	(925)
Bank owned life insurance	(549)	(391)	(412)
State income taxes, net of federal income tax benefits	817	689	591
Stock based compensation	83	100	104
Merger and acquisition related expenses	536	68	259
Other, net	117	(263)	68
	$7,126	$5,510	$4,625

(16) Related-Party Transactions

Loans to principal officers, directors, and their affiliates during 2014 and 2013 were as follows:

	2014	2013
Beginning balance	$ 3,261	$ 3,957
New loans	4,135	2,354
Effect of changes in composition of related parties	—	—
Repayments	(1,816)	(3,050)
Ending balance	$ 5,580	$ 3,261

At December 31, 2014 and 2013 principal officers, directors, and their affiliates had $2,671 and $2,057, respectively, of available lines of credit. Deposits from principal officers, directors, and their affiliates at year-end 2014 and 2013 were approximately $29,746 and $12,694, respectively.

(17) Regulatory Capital Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect

(Continued)

(Dollar amounts in thousands, except per share data)

on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets. Management believes, as of December 31, 2014, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014 and 2013, the most recent notifications from the Office of Comptroller of the Currency ("OCC") and the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The Company's subsidiary bank has agreed with its primary regulator, OCC, to maintain a Tier 1 leverage ratio of at least 8%.

A summary of actual, required, and capital levels necessary for capital adequacy purposes for the Company as of December 31, 2014 and 2013, are presented in the table below. There is no threshold for "well-capitalized" status for bank holding companies.

	Actual		For capital Adequacy purposes		To be well capitalized under Prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk weighted assets)	$384,162	15.1%	$202,946	>8%	n/a	n/a
Tier 1 capital (to risk weighted assets)	364,264	14.4%	101,473	>4%	n/a	n/a
Tier 1 capital (to average assets)	364,264	10.1%	144,051	>4%	n/a	n/a
December 31, 2013						
Total capital (to risk weighted assets)	$262,701	17.9%	$117,450	>8%	n/a	n/a
Tier 1 capital (to risk weighted assets)	244,323	16.6%	58,725	>4%	n/a	n/a
Tier 1 capital (to average assets)	244,323	10.4%	94,182	>4%	n/a	n/a

(Continued)

(Dollar amounts in thousands, except per share data)

A summary of actual, required, and capital levels necessary for capital adequacy purposes in the case of the Company's subsidiary bank as of December 31, 2014 and 2013, are presented in the table below.

	Actual		For capital Adequacy purposes		To be well capitalized under Prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk weighted assets)	$360,278	14.2%	$203,268	>8%	$254,085	>10%
Tier 1 capital (to risk weighted assets)	340,389	13.4%	101,634	>4%	152,451	>6%
Tier 1 capital (to average assets)	340,389	9.4%	144,185	>4%	180,231	>5%
December 31, 2013						
Total capital (to risk weighted assets)	$213,744	14.6%	$117,021	>8%	$146,277	>10%
Tier 1 capital (to risk weighted assets)	195,434	13.4%	58,511	>4%	87,766	>6%
Tier 1 capital (to average assets)	195,434	8.3%	93,955	>4%	117,444	>5%

(18) Dividends

The Company declared and paid cash dividends on its common stock of $1,709, $1,204 and $1,203 during the years ended December 31, 2014, 2013 and 2012, respectively. Banking regulations limit the amount of dividends that may be paid by the subsidiary banks to the Company without prior approval of the Bank's regulatory agency. In November 2013, the Company received a $34,000 dividend from its subsidiary bank. At December 31, 2014, there was no additional capacity available to pay additional dividends from the subsidiary bank to the Company, without prior approval of the Bank's regulatory agency.

(19) Stock-Based Compensation

The Company assumed the obligations of GBI under the Gulfstream 2009 Stock Option Plan, the Gulfstream Officers' and Employees' Stock Option Plan and the Gulfstream Directors' Stock Option Plan (collectively, the "Gulfstream Plans") pursuant to the closing on January 17, 2014 by CenterState of the merger of Gulfstream with and into CenterState pursuant to an Agreement and Plan of Merger dated July 29, 2013, as amended, by and between Gulfstream and CenterState. All of the Gulfstream stock options awarded pursuant to the Gulfstream Plans outstanding at the merger closing date were converted to stock options for 774,104 of the Company's common shares with an average exercise price of $6.99 per share. At December 31, 2014 there were options outstanding for 419,184 shares of the Company's common stock with an average exercise price of $7.16 per share and an average remaining contractual life of approximately 5 years.

On April 25, 2013, the Company's shareholders approved the CenterState Banks, Inc. 2013 Equity Incentive Plan (the "2013 Plan"). The 2013 Plan replaces the 2007 Plan discussed below. The 2013 Plan authorizes

(Continued)

(Dollar amounts in thousands, except per share data)

the issuance of up to 1,600,000 shares through the 2023 expiration of the plan. Of this amount 1,525,000 shares are allocated to employees, all of which may be issued as incentive stock options, and 75,000 shares are allocated to directors. The Company's Board of Directors approved freezing the Company's current 2007 Equity Incentive Plan whereby no additional future grants and/or awards will be awarded pursuant to that plan effective with the shareholder approval of the 2013 Plan. During 2014 the Company did not grant any incentive stock options to its employees. The Company awarded 492,114 shares of Restricted Stock ("RSAs") during 2014 with an average fair value of $10.55 per share at the date of grant. These restricted stock awards vest over periods ranging from two to ten years. In addition to RSAs, the Company also awarded Performance Share Units ("PSUs") during 2014. The PSUs will cliff vest on December 31, 2017. The units may be converted into common shares based on the Company's Total Shareholder Return compared to its peer group pursuant to the Company's Long-Term Incentive Plan as described in the Company's 2015 Proxy Statement. The range of shares that may vest in the future is a minimum of 0 and a maximum of 163,871 with an expected target of 109,247 shares. At December 31, 2014, there were a total of 886,911 shares available for future grants pursuant to the 2013 Plan, assuming maximum future vesting of PSUs outstanding.

On April 24, 2007, the Company's shareholders approved the CenterState 2007 Equity Incentive Plan (the "2007 Plan") and approved an amendment to the 2007 Plan on April 28, 2009. The 2007 Plan, as amended, replaced the 1999 Plan discussed below. The 2007 Plan, as amended, authorize the issuance of up to 1,350,000 shares of the Company stock. In 2013 the 2007 Plan was frozen whereby no additional grants and/or awards were awarded pursuant to this plan subsequent to April 2013.

In 1999, the Company authorized 730,000 common shares for employees of the Company under an incentive stock option and non-statutory stock option plan (the "1999 Plan"). There were no stock options granted pursuant to the 1999 Plan subsequent to December 31, 2006. The 2007 Plan, discussed above, replaced the 1999 Plan.

The Company also assumed and converted the stock option plans of its prior subsidiary banks consistent with the terms and conditions of their respective merger agreements. These options are all vested and exercisable. At December 31, 2014, they represented exercisable options for 3,170 shares of the Company's common stock with an average exercise price of $12.62 per share.

The Company's stock-based compensation consists of stock options, RSAs and PSUs. During the twelve month period ended December 31, 2014, 2013 and 2012, the Company recognized total stock-based compensation expense as listed in the table below.

	2014	2013	2012
Stock option expense	$ 238	$292	$363
RSA expense	1,264	317	268
PSU expense	75	—	—
Total stock-based compensation expense	$1,577	$609	$631

There is no income tax benefit provided for in the Company's tax provision for qualified incentive stock options. The Company receives a tax benefit when a non qualified stock option is exercised. The total income tax benefit related to the exercise of non qualified stock options was approximately $350, $0 and $0 during the twelve month periods ending December 31, 2014, 2013 and 2012, respectively. The Company provided an income tax benefit in its tax provision for RSA and PSU expenses of approximately $517, $122 and $101 during the twelve month periods ending December 31, 2014, 2013 and 2012, respectively.

(Continued)

(Dollar amounts in thousands, except per share data)

As of December 31, 2014, the total remaining unrecognized compensation cost related to non-vested stock options, net of estimated forfeitures, was approximately $607 and will be recognized over the next 8 years. The weighted average period over which this expense is expected to be recognized is approximately 2.2 years.

As of December 31, 2014, the total remaining unrecognized compensation cost related to non-vested RSAs, net of estimated forfeitures, was approximately $5,624 and will be recognized over the next 10 years. The weighted average period over which this expense is expected to be recognized is approximately 2.8 years.

As of December 31, 2014, the total remaining unrecognized compensation cost related to non-vested PSUs, net of estimated forfeitures, was approximately $905 and will be recognized over the next 3 years. The weighted average period over which this expense is expected to be recognized is approximately 2.0 years.

The Company granted stock options for 3,000 and 57,500 shares of common stock during the twelve month periods ending December 31, 2013 and 2012, respectively. The Company did not grant any stock options during 2014. However, pursuant to the Company's agreement to acquire Gulfstream, the Company converted all outstanding Gulfstream stock options into CenterState options for 774,104 shares of common stock on the January 17, 2014 acquisition date. The estimated fair value of options granted, or acquired in the case of Gulfstream, during these periods were calculated as of the grant date, or the acquisition date in the case of Gulfstream, using the Black-Scholes option-pricing model. The weighted-average assumptions as of the grant date are as follows:

	2014	2013	2012
Expected option life	0.5 years	7.7 years	7.7 years
Risk-free interest rate	0.07%	1.91%	1.08%
Expected volatility	0.01%	44.5%	44.3%
Dividend yield	0.00%	0.39%	0.62%

The Company determined the expected life of the stock options using the simplified method approach allowed for plain-vanilla share options as described in SAB 107. The risk-free interest rate is based on the U.S. Treasury yield curve in effect as of the grant date. Expected volatility was determined using historical volatility.

ASC 718 requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation is reduced for estimated forfeitures prior to vesting. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

The weighted-average estimated fair value of stock options granted, or acquired in the case of Gulfstream, during the twelve month periods ended December 31, 2014, 2013 and 2012 was $4.67 per share, $4.91 per share and $3.09 per share respectively. The table below present's information related to stock option activity for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Total intrinsic value of stock options exercised	$1,114	$ 2	$—
Cash received from stock options exercised	$1,129	—	—
Gross income tax benefit from the exercise of stock options	$ 350	—	—

(Continued)

(Dollar amounts in thousands, except per share data)

A summary of stock option activity for the years ended December 31, 2014, 2013 and 2012 is as follows:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, beginning of period	1,073,716	$13.83	1,158,646	$13.64	1,128,304	$14.03
Granted	—	—	3,000	$10.22	57,500	$ 6.87
Issued Gulfstream (note 1)	774,104	$ 6.99	—	—	—	—
Exercised	(233,762)	$ 6.09	(1,714)	$ 8.90	—	—
Forfeited	(475,654)	$12.73	(86,216)	$11.22	(27,158)	$15.33
Outstanding, end of period	1,138,404	$11.23	1,073,716	$13.83	1,158,646	$13.64

note 1: Pursuant to the Company's agreement to acquire Gulfstream in January 2014, all outstanding Gulfstream stock options were converted to CenterState stock options as of the acquisition date.

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, December 31, 2014	1,138,404	$11.23	4.2 years	$2,558
Options fully vested and expected to vest, December 31, 2014	1,099,700	$11.21	4.2 years	$2,499
Options exercisable, December 31, 2014	864,249	$10.92	4.1 years	$2,180

At December 31, 2014 there were restricted stock awards ("RSAs") for 659,670 shares of the Company's common stock outstanding and not vested. Of this amount 249,542 restricted shares have been issued and included in the Company's total common stock outstanding, but have not vested as of December 31, 2014. The remaining 410,128 represent common shares to be issued at the end of their respective vesting period. A summary of the RSA activity for the years ended December 31, 2014, 2013 and 2012 is presented in the table below.

	2014				2013		2012	
	Number of RSAs underlying shares not issued	Number of RSAs underlying shares issued	Total number of RSAs	Weighted average fair value at grant date	Number of RSAs	Weighted average fair value at grant date	Number of RSAs	Weighted average fair value at grant date
Outstanding, beginning period	240,341	—	240,341	$ 9.76	209,384	$ 9.62	179,152	$10.53
Granted	241,739	250,375	492,114	$10.55	59,500	$10.22	54,500	$ 6.87
Vested	(35,753)	(833)	(36,586)	$ 9.77	(28,543)	$ 9.66	(24,268)	$10.19
Forfeited	(36,199)	—	(36,199)	$10.79	—	—	—	—
Outstanding, end of period	410,128	249,542	659,670	$10.30	240,341	$ 9.76	209,384	$ 9.62

(Continued)

In September 2014 the Company initiated a Long-Term Incentive Plan that includes a Performance Share Unit ("PSU") award that could be awarded in PSUs, which can eventually be converted to common stock, based on the Company's relative Total Shareholder Return as compared to a peer group of similar companies selected by the Company's Compensation Committee over a 39 month period beginning on September 18, 2014 and ending on December 31, 2017. The Company expects to recognize an expense of $980 over the 39 month period ending December 31, 2017. The expense recognized during 2014 was $75.

(20) Employee Benefit Plan

Substantially all of the Company's employees are covered under its 401(k) defined contribution retirement plan. Employees are eligible to participate in the plan after completing six months of continuous employment. The Company contributes an amount equal to a certain percentage of the employees' contributions based on the discretion of the Board of Directors. In addition, the Company may also make additional contributions to the plan each year, subject to profitability and other factors, and based solely on the discretion of the Board of Directors. For the years ended December 31, 2014, 2013 and 2012, the Company's contributions to the plan were $1,398, $1,219 and $1,144, respectively, which are included in salary and benefits on the Consolidated Statements of Operations.

In 2008, the Company entered into a salary continuation agreement with its chief executive officer. Five additional Company executive officers entered into salary continuation agreements during 2010. In 2007, an additional four pre-existing salary continuation agreements with certain Valrico State Bank's executive officers were assumed as part of the acquisition. The plans are nonqualified deferred compensation arrangements that are designed to provide supplemental retirement income benefits to participants. The Company expensed $580, $569 and $501 for the accrual of future salary continuation benefits in 2014, 2013 and 2012, respectively. Other liabilities included salary continuation benefits payable of $3,621, $3,143 and $2,597 at December 31, 2014, 2013 and 2012, respectively.

In 2007, the Company entered into deferred compensation arrangements, through Rabbi Trust agreements, with two Valrico State Bank's executive officers pursuant to the acquisition. The Rabbi Trust asset is included in other assets, and the related deferred compensation payable is included in other liabilities. The Rabbi Trust asset and the related deferred compensation payable at December 31, 2014, 2013, and 2012 were $1,484, $1,355 and $1,158, respectively. Earnings from the Rabbi Trust increase the asset and increase the deferred compensation payable. Losses from the Rabbi Trust decrease the asset and decrease the deferred compensation payable. There is no net income statement effect other than the administration expenses of the Trust which approximates $5 per year.

(Continued)

(Dollar amounts in thousands, except per share data)

(21) Parent Company Only Financial Statements

Condensed financial statements of CenterState Banks, Inc. (parent company only) follow:

Condensed Balance Sheet
December 31, 2014 and 2013

	2014	2013
Assets:		
Cash and due from banks	$ 2,808	$ 966
Inter-company receivable from bank subsidiary	27,000	45,703
Investment in wholly-owned bank subsidiary	441,710	241,990
Investment in other wholly-owned subsidiary	1,381	2,322
Prepaid expenses and other assets	9,782	3,995
Total assets	$482,681	$294,976
Liabilities:		
Accounts payable and accrued expenses	$ 6,287	$ 4,601
Corporate debenture	23,917	16,996
Total liabilities	30,204	21,597
Stockholders' Equity:		
Common stock	453	301
Additional paid-in capital	388,698	229,544
Retained earnings	59,273	48,018
Accumulated other comprehensive income	4,053	(4,484)
Total stockholders' equity	452,477	273,379
Total liabilities and stockholders' equity	$482,681	$294,976

Condensed Statements of Operations
Years ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Dividend income	$ 1,155	$ 45,725	$12,282
Other income	—	—	5
Interest expense	(942)	(602)	(835)
Operating expenses	(3,875)	(3,538)	(3,142)
Income before equity in undistributed income of subsidiaries	(3,662)	41,585	8,310
Equity in undistributed (losses) income of subsidiaries	14,828	(31,040)	147
Net income before income tax benefit	11,166	10,545	8,457
Income tax benefit	(1,798)	(1,697)	(1,448)
Net income	$12,964	$ 12,243	$ 9,905

(Continued)

(Dollar amounts in thousands, except per share data)

Condensed Statements of Cash Flows
Years ended December 31, 2014, 2013 and 2012

	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 12,964	$ 12,243	$ 9,905
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in net earnings of subsidiaries	(15,983)	(14,686)	(12,429)
Increase in payables and accrued expenses	(608)	371	893
Decrease (increase) in other assets	2,294	1,843	(1,164)
Stock based compensation expense	497	107	142
Net cash flows used in operating activities	(836)	(122)	(2,653)
Cash flows from investing activities:			
Inter-company receivables from subsidiary banks	18,703	(43,703)	17,000
Net cash from bank acquisition	(16,455)	—	—
Investment in subsidiaries	—	—	(28,000)
Dividends from bank subsidiaries	—	34,000	10,000
Dividends from nonbank subsidiary	1,155	11,725	2,282
Net cash flows provided by investing activities	3,403	2,022	1,282
Cash flows from financing activities:			
Stock options exercised, net of tax benefit	984	—	—
Dividends paid to shareholders	(1,709)	(1,204)	(1,203)
Net cash flows used in financing activities	(725)	(1,204)	(1,203)
Net increase (decrease) in cash and cash equivalents	1,842	696	(2,574)
Cash and cash equivalents at beginning of year	966	270	2,844
Cash and cash equivalents at end of year	$ 2,808	$ 966	$ 270

(22) Credit Commitments

The Company has outstanding at any time a significant number of commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer's credit worthiness is evaluated on a case-by-case basis.

A summary of commitments to extend credit and standby letters of credit written at December 31, 2014 and 2013, are as follows:

	December 31, 2014	December 31, 2013
Standby letters of credit	$ 10,299	$ 6,769
Available lines of credit	244,016	143,199
Unfunded loan commitments—fixed	62,450	9,004
Unfunded loan commitments—variable	17,416	14,179

(Continued)

Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that the collateral or other security is of no value.

The Company's policy is to require customers to provide collateral prior to the disbursement of approved loans. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, real estate and income providing commercial properties.

Standby letters of credit are contractual commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Outstanding commitments are deemed to approximate fair value due to the variable nature of the interest rates involved and the short-term nature of the commitments.

(23) Concentrations of Credit Risk

Most of the Company's business activity is with customers located throughout Central, Southeastern and Northeastern Florida. The majority of commercial and mortgage loans are granted to customers doing business or residing in these areas. Generally, commercial loans are secured by real estate, and mortgage loans are secured by either first or second mortgages on residential or commercial property. As of December 31, 2014, substantially all of the Company's loan portfolio was secured. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of those areas listed above. The Company does not have significant exposure to any individual customer or counterparty.

(24) Basic and Diluted Earnings Per Share

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. There were an average of 928,692, 1,110,465, and 1,143,598 stock options that were not considered in computing diluted earnings per common share because they were anti-dilutive during the years ending December 31, 2014, 2013, and 2012, respectively.

(Continued)

(Dollar amounts in thousands, except per share data)

The following table presents the factors used in the earnings per share computations for the periods indicated.

	2014	2013	2012
Basic			
Net income available to common shareholders	$ 12,964	$ 12,243	$ 9,905
Less: Earnings allocated to participating securities	(17)	—	—
Net income allocated to common shareholders	$ 12,947	$ 12,243	$ 9,905
Weighted average common shares outstanding including participating securities	40,904,988	30,102,777	30,073,959
Less: Participating securities	(52,986)	—	—
Average shares	40,852,002	30,102,777	30,073,959
Basic earnings per common share	$ 0.32	$ 0.41	$ 0.33
Diluted			
Net income available to common shareholders	$ 12,947	$ 12,243	$ 9,905
Weighted average common shares outstanding for basic earnings per common share	40,852,002	30,102,777	30,073,959
Add: Dilutive effects of stock based compensation awards	383,550	117,350	67,904
Average shares and dilutive potential common shares	41,235,552	30,220,127	30,141,863
Dilutive earnings per common share	$ 0.31	$ 0.41	$ 0.33

(25) Reportable segments

The Company's reportable segments represent the distinct product lines the Company offers and are viewed separately for strategic planning purposes by management. The tables below are reconciliations of the reportable segment revenues, expenses, and profit as viewed by management to the Company's consolidated total for the year ending December 31, 2014, 2013 and 2012.

	Year ending December 31, 2014				
	Commercial and retail banking	Correspondent banking and capital markets division	Corporate overhead and administration	Elimination entries	Total
Interest income	$ 134,938	$ 3,289	$ —	$ —	$ 138,227
Interest expense	(6,365)	(50)	(941)	—	(7,356)
Net interest income (expense)	$ 128,573	$ 3,239	$ (941)	—	$ 130,871
Provision for loan losses	(826)	—	—	—	(826)
Non interest income	6,073	20,153	—	—	26,226
Non interest expense	(112,836)	(19,470)	(3,875)	—	(136,181)
Net income (loss) before taxes	$ 20,984	$ 3,922	$ (4,816)	—	$ 20,090
Income tax (provision) benefit	(7,411)	(1,513)	1,798	—	(7,126)
Net income (loss)	$ 13,573	$ 2,409	$ (3,018)	$ —	$ 12,964
Total assets	$3,487,014	$280,079	$482,681	$(472,905)	$3,776,869

(Continued)

(Dollar amounts in thousands, except per share data)

	Year ending December 31, 2013				
	Commercial and retail banking	Correspondent banking and capital markets division	Corporate overhead and administration	Elimination entries	Total
Interest income	$ 97,504	$ 2,874	$ —		$ 100,378
Interest expense	(5,263)	(20)	(602)		(5,885)
Net interest income (expense)	92,241	2,854	(602)		94,493
Provision for loan losses	76	—	—		76
Other non interest income	13,536	20,410	—		33,946
Other non interest expense	(86,726)	(20,498)	(3,538)		(110,762)
Net income (loss) before taxes	19,127	2,766	(4,140)		17,753
Income tax (provision) benefit	(6,140)	(1,067)	1,697		(5,510)
Net income (loss)	$ 12,987	$ 1,699	$ (2,443)		$ 12,243
Total assets	$2,279,221	$132,821	$294,976	$(291,007)	$2,416,011

	Year ending December 31, 2012				
	Commercial and retail banking	Correspondent banking and capital markets division	Corporate overhead and administration	Elimination entries	Total
Interest income	$ 90,899	$ 4,051			$ 94,950
Interest expense	(7,617)	(28)	(836)		(8,481)
Net interest income (expense)	83,282	4,023	(836)		86,469
Provision for loan losses	(9,220)	—			(9,220)
Other non interest income	23,550	35,707	4		59,261
Other non interest expense	(90,671)	(28,168)	(3,141)		(121,980)
Net income (loss) before taxes	6,941	11,562	(3,973)		14,530
Income tax (provision) benefit	(1,722)	(4,351)	1,448		(4,625)
Net income (loss)	$ 5,219	$ 7,211	$ (2,525)		$ 9,905
Total assets	$2,204,176	$153,289	$294,744	$(288,969)	$2,363,240

Commercial and retail banking: The Company's primary business is commercial and retail banking. Currently, the Company operates through one subsidiary bank and a non bank subsidiary, R4ALL, with 58 locations in 20 counties throughout Central Florida providing traditional deposit and lending products and services to its commercial and retail customers.

Correspondent banking and capital markets division: Operating as a division of our subsidiary bank, its primary revenue generating activities are related to the capital markets division which includes commissions earned on fixed income security sales, fees from hedging services, loan brokerage fees and consulting fees for services related to these activities. Income generated related to the correspondent banking services includes spread income earned on correspondent bank deposits (i.e. federal funds purchased) and fees

(Continued)

generated from safe-keeping activities, bond accounting services, asset/liability consulting services, international wires, clearing and corporate checking account services and other correspondent banking related services. The fees derived from the correspondent banking services are less volatile than those generated through the capital markets group. The customer base includes small to medium size financial institutions primarily located in Southeastern United States.

Corporate overhead and administration: Corporate overhead and administration is comprised primarily of compensation and benefits for certain members of management, interest on parent company debt, office occupancy and depreciation of parent company facilities, merger related costs and other expenses.

(26) Business combinations

Acquisition of Gulfstream Bancshares, Inc.

On January 17, 2014, the Company completed its acquisition of Gulfstream Bancshares, Inc. ("Gulfstream") whereby Gulfstream merged with and into the Company. Pursuant to and simultaneously with the merger of Gulfstream with and into the Company, Gulfstream's wholly owned subsidiary bank, Gulfstream Business Bank ("GSB"), merged with and into the Company's subsidiary bank, CenterState Bank of Florida, N.A.

The Company's primary reasons for the transaction were to further solidify its market share in the southeast Florida market and expand its customer base to enhance deposit fee income and leverage operating cost through economies of scale. The acquisition increased the Company's total assets and total deposits by approximately 23% and 23%, respectively, as compared with the balances at December 31, 2013, and is expected to positively affect the Company's operating results to the extent the Company earns more from interest earning assets than it pays in interest on its interest bearing liabilities.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The Company recognized goodwill on this acquisition of $31,516, after consideration of a measurement period adjustment discussed below, which is nondeductible for tax purposes as this acquisition is a nontaxable transaction. The goodwill is calculated based on the fair values of the assets acquired and liabilities assumed as of the acquisition date. Fair value estimates are based on the information available, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. Fair values are preliminary estimates due to pending appraisals on loans and other real estate owned.

(Continued)

(Dollar amounts in thousands, except per share data)

The Company acquired 100% of the outstanding common stock of Gulfstream. The purchase price consisted of both cash and stock. Each share of Gulfstream common stock was exchanged for $14.65 cash and 3.012 shares of the Company's common stock. Based on the closing price of the Company's common stock on January 16, 2014, the resulting purchase price was $82,040. The table below summarizes the purchase price calculation.

Number of shares of Gulfstream common stock outstanding at January 16, 2014	1,569,364
Gulfstream preferred shares that converted to Gulfstream common shares upon a change in control	155,629
Total Gulfstream common shares including conversion of preferred shares	1,724,993
Per share exchange ratio	3.012
Number of shares of CenterState common stock less 138 of fractional shares	5,195,541
Multiplied by CenterState common stock price per share on January 16, 2014	$ 10.23
Fair value of CenterState common stock issued	$ 53,150
Total Gulfstream common shares including conversion of preferred shares	1,724,993
Multiplied by the cash consideration each Gulfstream share is entitled to receive	$ 14.65
Total cash consideration, not including cash for fractional shares	$ 25,271
Total stock consideration	$ 53,150
Total cash consideration plus $2 for 138 of fractional shares	25,273
Total consideration paid to Gulfstream common shareholders	$ 78,423
Fair value of current Gulfstream stock options converted to CenterState stock options	3,617
Total purchase price	$ 82,040

The list below summarizes the estimates of the fair value of the assets purchased, including goodwill, and liabilities assumed as of the January 17, 2014 purchase date.

	Jan 17, 2014
Assets:	
Cash and cash equivalents	$102,278
Loans, held for investment	329,515
Purchased credit impaired loans	30,068
Loans held for sale	247
Investments	60,816
Interest receivable	1,087
Branch real estate	5,519
Furniture and fixtures	262
FHLB stock	885
Bank owned life insurance	4,939
Other repossessed real estate owned	2,694
Core deposit intangible	4,173
Goodwill	31,516
Other assets	11,261
Total assets acquired	$585,260

(Continued)

(Dollar amounts in thousands, except per share data)

	Jan 17, 2014
Liabilities:	
Deposits	$478,999
Federal Home Loan Bank advances	5,708
Repurchase agreements	7,576
Interest payable	125
Official checks outstanding	826
Corporate debentures	6,745
Other liabilities	3,241
Total liabilities assumed	$503,220

In the acquisition, the Company purchased $359,583 of loans at fair value, net of $18,267, or 4.8%, estimated discount to the outstanding principal balance, representing 24.4% of the Company's total loans at December 31, 2013. Of the total loans acquired, management identified $30,068 with credit deficiencies. All loans that were on non-accrual status and all loan relationships that were greater than $500 and identified as impaired as of the acquisition date were considered by management to be credit impaired and are accounted for pursuant to ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of January 17, 2014 for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

Contractually required principal and interest	$ 48,289
Non-accretable difference	(11,766)
Cash flows expected to be collected	36,523
Accretable yield	(6,455)
Total purchased credit-impaired loans acquired	$ 30,068

The table below presents information with respect to the fair value of acquired loans, as well as their unpaid principal balance ("Book Balance") at acquisition date.

	Book Balance	Fair Value
Loans:		
Single family residential real estate	$ 33,506	$ 32,319
Commercial real estate	185,250	183,189
Construction/development/land	30,387	27,704
Commercial loans	85,940	84,203
Consumer and other loans	2,112	2,100
Purchased credit-impaired	40,655	30,068
Total earning assets	$377,850	$359,583

In its assumption of the deposit liabilities, the Company believed the deposits assumed from the acquisition have an intangible value. The Company applied ASC Topic 805, which prescribes the accounting for goodwill and other intangible assets such as core deposit intangibles, in a business combination. The Company determined the estimated fair value of the core deposit intangible asset totaled $4,173, which will

(Continued)

(Dollar amounts in thousands, except per share data)

be amortized utilizing an accelerated amortization method over an estimated economic life not to exceed ten years. In determining the valuation amount, deposits were analyzed based on factors such as type of deposit, deposit retention, interest rates and age of deposit relationships.

Measurement period adjustments

On January 17, 2014 the Company purchased Gulfstream. As previously disclosed, the fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. Based on appraisals received subsequent to the acquisition date, the Company adjusted its initial fair value estimates of certain other real estate owned acquired.

	Jan 17, 2014 (as initially reported)	measurement period adjustments	Jan 17, 2014 (as adjusted)
Assets:			
Cash and cash equivalents	$102,278	$ —	$102,278
Loans, held for investment	329,515		329,515
Purchased credit impaired loans	30,068		30,068
Loans held for sale	247		247
Investments	60,816		60,816
Interest receivable	1,087		1,087
Branch real estate	5,519		5,519
Furniture and fixtures	262		262
FHLB stock	885		885
Bank owned life insurance	4,939		4,939
Other repossessed real estate owned	3,365	(671)	2,694
Core deposit intangible	4,173		4,173
Goodwill	31,104	412	31,516
Other assets	11,002	259	11,261
Total assets acquired	$585,260	$ —	$585,260
Liabilities:			
Deposits	$478,999	$ —	$478,999
Federal Home Loan Bank advances	5,708		5,708
Repurchase agreements	7,576		7,576
Interest payable	125		125
Official checks outstanding	826		826
Corporate debenture	6,745		6,745
Other liabilities	3,241		3,241
Total liabilities assumed	$503,220	$ —	$503,220

Acquisition of First Southern Bancorp, Inc.

On June 1, 2014, the Company completed its acquisition of First Southern Bancorp, Inc. (“FSB”) whereby

(Continued)

(Dollar amounts in thousands, except per share data)

FSB merged with and into the Company. Pursuant to and simultaneously with the merger of FSB with and into the Company, FSB's subsidiary bank, First Southern Bank, merged with and into the Company's subsidiary bank, CenterState Bank of Florida, N.A.

The Company's primary reasons for the transaction were to further solidify its market share in the southeast Florida market as well as in central and northeastern Florida and expand its customer base to enhance deposit fee income and leverage operating cost through economies of scale. The acquisition increased the Company's total assets and total deposits by approximately 32% and 33%, respectively, as compared with the balances at March 31, 2014, and is expected to positively affect the Company's operating results to the extent the Company earns more from interest earning assets than it pays in interest on its interest bearing liabilities.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The Company recognized goodwill on this acquisition of $299 after consideration of a measurement period adjustment discussed below, which is nondeductible for tax purposes as this acquisition is a nontaxable transaction. The goodwill is calculated based on the fair values of the assets acquired and liabilities assumed as of the acquisition date. Fair value estimates are based on the information available, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. Fair values are preliminary estimates due to pending appraisals on loans and other real estate owned.

The Company acquired 100% of the outstanding common stock of FSB. The purchase price consisted of both cash and stock. Each share of FSB common stock was exchanged for $3.00 cash and 0.30 shares of the Company's common stock. Based on the closing price of the Company's common stock on May 30, 2014 (the last trading day prior to the June 1, 2014 acquisition date), the resulting purchase price was $195,404. The table below summarizes the purchase price calculation.

Number of shares of FSB common stock outstanding at May 30, 2014	31,539,698
FSB preferred shares that converted to FSB common shares upon a change in control	48,375
Total FSB common shares including conversion of preferred shares	31,588,073
Per share exchange ratio	0.3
Number of shares of CenterState common stock, less 377 of fractional shares	9,476,045
Multiplied by CenterState common stock price per share on May 30, 2014	$ 10.62
Fair value of CenterState common stock issued	$ 100,636
Total FSB common shares including conversion of preferred shares	31,588,073
Multiplied by the cash consideration each FSB share is entitled to receive	$ 3.00
Total cash consideration, not including cash for fractional shares	$ 94,765
Total stock consideration	$ 100,636
Total cash consideration, plus $3 for 377 of fractional shares	94,768
Total purchase price	$ 195,404

(Continued)

(Dollar amounts in thousands, except per share data)

The list below summarizes the preliminary estimates of the fair value of the assets purchased, including goodwill, and liabilities assumed as of the June 1, 2014 purchase date.

	June 1, 2014
Assets:	
Cash and cash equivalents	$ 148,257
Loans, excluding purchased credit impaired loans	477,841
Purchased credit impaired loans	121,684
Investments	204,723
Interest receivable	2,007
Branch real estate	1,594
Furniture and fixtures	1,282
Bank property held for sale	7,119
Federal Reserve Bank and Federal Home Loan Bank stock	5,576
Bank owned life insurance	2,555
Other repossessed real estate owned covered by FDIC loss share agreements	22,731
Other repossessed real estate owned	454
Core deposit intangible	7,396
Goodwill	299
Deferred tax asset	44,131
Other assets	4,581
Total assets acquired	$1,052,230
Liabilities:	
Deposits	$ 662,959
Deposits held for sale	189,674
Interest payable	58
Other liabilities	4,135
Total liabilities assumed	$ 856,826

In the acquisition, the Company purchased $599,525 of loans at fair value, net of $30,811, or 4.9%, estimated discount to the outstanding principal balance, representing 33% of the Company's total loans at March 31, 2014. Of the total loans acquired, management identified $121,684 with credit deficiencies. All loans that were on non-accrual status, all TDRs, all impaired loans, all loans previously identified by FSB with credit deficiencies and any other loan identified by the Company with a probable credit deficiency were considered by management to be credit impaired and are accounted for pursuant to ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of June 1, 2014 for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

Contractually required principal and interest	$180,960
Non-accretable difference	(33,527)
Cash flows expected to be collected	147,433
Accretable yield	(25,749)
Total purchased credit-impaired loans acquired	$121,684

(Continued)

(Dollar amounts in thousands, except per share data)

The table below presents information with respect to the fair value of acquired loans, as well as their unpaid principal balance ("Book Balance") at acquisition date.

	Book Balance	Fair Value
Loans:		
Single family residential real estate	$ 60,332	$ 57,693
Commercial real estate	387,589	382,162
Construction/development/land	17,238	15,942
Commercial loans	20,267	19,906
Consumer and other loans	2,496	2,138
Purchased credit-impaired	142,414	121,684
Total earning assets	$630,336	$599,525

In its assumption of the deposit liabilities, the Company believed the deposits assumed from the acquisition have an intangible value. The Company applied ASC Topic 805, which prescribes the accounting for goodwill and other intangible assets such as core deposit intangibles, in a business combination. The Company determined the estimated fair value of the core deposit intangible asset totaled $7,396, which will be amortized utilizing an accelerated amortization method over an estimated economic life not to exceed ten years. In determining the valuation amount, deposits were analyzed based on factors such as type of deposit, deposit retention, interest rates and age of deposit relationships.

(Continued)

(Dollar amounts in thousands, except per share data)

Measurement period adjustments

On June 1, 2014 the Company purchased FSB. As previously disclosed, the fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available. Based on income tax returns filed subsequent to the acquisition date, the Company adjusted its initial fair value estimate of the deferred tax asset acquired.

	June 1, 2014 (as initially reported)	measurement period adjustments	June 1, 2014 (as adjusted)
Assets:			
Cash and cash equivalents	$ 148,257	$ —	$ 148,257
Loans, excluding purchased credit impaired loans	477,841		477,841
Purchased credit impaired loans	121,684		121,684
Investments	204,723		204723
Interest receivable	2,007		2,007
Branch real estate	1,594		1,594
Furniture and fixtures	1,282		1,282
Bank property held for sale	7,119		7119
Federal Reserve Bank and Federal Home Loan Bank stock	5,576		5576
Bank owned life insurance	2,555		2,555
OREO covered by FDIC loss share agreements	22,731		22,731
Other repossessed real estate owned (“OREO”)	454		454
Core deposit intangible	7,396		7,396
Goodwill	541	(242)	299
Deferred tax asset	43,889	242	44,131
Other assets	4,581		4,581
Total assets acquired	$1,052,230	—	$1,052,230
Liabilities:			
Deposits	662,959		662,959
Federal Home Loan Bank advances	189,674		189674
Repurchase agreements	58		58
Other liabilities	4,135		4,135
Total liabilities assumed	$ 856,826	$ —	$ 856,826

(Continued)

(Dollar amounts in thousands, except per share data)

Pro-forma information

Pro-forma data for the twelve month period ending December 31, 2013 listed in the table below presents pro-forma information as if the Gulfstream acquisition occurred at the beginning of 2013. Because the Gulfstream transaction closed on January 17, 2014 and its actual results are included in the Company's actual operating results for 2014, its actual results were used in the table below for the twelve month period ending December 31, 2014 instead of a pro-forma amount. The pro-forma information for the twelve month periods ending December 31, 2014 and 2013 assumes the FSB acquisition occurred at the beginning of 2013.

	Years ended December 31,	
	2014	**2013**
Net interest income	$143,527	$153,719
Net income available to common shareholders	20,066	21,390
EPS—basic	$ 0.45	$ 0.48
EPS—diluted	$ 0.44	$ 0.47

Disposition of certain branches acquired pursuant to the FSB acquisition.

The Company consummated its previously announced sale of deposits and certain branch real estate acquired pursuant to its FSB acquisition. On September 18, 2014, the Company sold approximately $170 million of deposits from six prior FSB branches for a premium of 1.5% and the related real estate for five branch offices for approximately $6 million. On September 19, 2014, the Company also closed and consolidated four additional branch offices which were also acquired from FSB.

(27) Derivatives

The Company enters into interest rate swaps in order to provide commercial loan clients the ability to swap from fixed to variable interest rates. Under these agreements, the Company enters into a fixed-rate loan with a client in addition to a swap agreement. This swap agreement effectively converts the client's fixed rate loan into a variable rate. The Company then enters into a matching swap agreement with a third party dealer in order to offset its exposure on the customer swap. At years ended December 31, 2014 and 2013, the notional amount of such arrangements was $240,779 and $91,058, respectively, and investment securities with a fair value of $10,445 and $6,140 were pledged as collateral to the third party dealers. As the interest rate swaps with the clients and third parties are not designated as hedges under ASC 815, changes in market values are reported in earnings.

Summary information about the derivative instruments is as follows:

	2014	**2013**
Notional amount	$240,779	$91,058
Weighted average pay rate on interest-rate swaps	3.96%	4.34%
Weighted average receive rate on interest rate swaps	1.50%	1.71%
Weighted average maturity (years)	11	10
Fair value of interest rate swap derivatives (asset)	$ 6,800	$ 2,603
Fair value of interest rate swap derivatives (liability)	$ 7,575	$ 2,496

(Continued)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be duly signed on its behalf by the undersigned, thereunto duly authorized, in the City of Davenport, State of Florida, on the 5th day of March, 2015.

CENTERSTATE BANKS, INC.

/s/ ERNEST S. PINNER

Ernest S. Pinner
Chairman of the Board,
President and Chief Executive Officer

/s/ JAMES J. ANTAL

James J. Antal
Senior Vice President and Chief Financial Officer (Principal financial officer and principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on March 5, 2015.

Signature	Title
/s/ ERNEST S. PINNER **Ernest S. Pinner**	Chairman of the Board President and Chief Executive Officer
/s/ JAMES H. BINGHAM **James H. Bingham**	Director
/s/ G. ROBERT BLANCHARD, JR. **G. Robert Blanchard, Jr.**	Director
/s/ C. DENNIS CARLTON **C. Dennis Carlton**	Director
/s/ MICHAEL F. CIFERRI **Michael F. Ciferri**	Director
/s/ JOHN C. CORBETT **John C. Corbett**	Director
/s/ GRIFFIN A. GREENE **Griffin A. Greene**	Director
/s/ CHARLES W. MCPHERSON **Charles W. McPherson**	Director
/s/ G. TIERSO NUNEZ II **G. Tierso Nunez II**	Director
/s/ THOMAS E. OAKLEY **Thomas E. Oakley**	Director
/s/ WILLIAM KNOX POU, JR. **William Knox Pou, Jr.**	Director
/s/ DANIEL R. RICHEY **Daniel R. Richey**	Director
/s/ JOSHUA A. SNIVELY **Joshua A. Snively**	Director

CenterState Banks, Inc.
Form 10-K
For Fiscal Year Ending December 31, 2014

EXHIBIT INDEX

Exhibit No.	Exhibit
21.1	Subsidiaries of the Registrant
23.1	Consent of Crowe Horwath LLP
31.1	Certification of President and Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President and Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Exhibit 21.1

CenterState Banks, Inc.

Form 10-K

For Fiscal Year Ended December 31, 2014

Subsidiaries of Registrant

CenterState Bank of Florida, National Association, organized under the laws of the United States

R4ALL, Inc., organized under the laws of the State of Florida

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-62704, 333-62706, 333-117591, 333-135257, 333-135258, 333-135259, 333-188725 and 333-193625 on Forms S-8, and 333-186148 on Form S-3, of CenterState Banks, Inc. of our report dated March 5, 2015 with respect to the consolidated financial statements of CenterState Banks, Inc., and the effectiveness of internal control over financial reporting, which report appears in this Annual Report on Form 10-K of CenterState Banks, Inc. for the year ended December 31, 2014.

/s/ CROWE HORWATH LLP

Crowe Horwath LLP

Fort Lauderdale, Florida
March 5, 2015

Exhibit 31.1

CERTIFICATIONS

I, Ernest S. Pinner, certify, that:

1. I have reviewed this report on Form 10-K of CenterState Banks, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2015

/s/ Ernest S. Pinner

Ernest S. Pinner,
President and Chief Executive Officer

Exhibit 31.2

I, James J. Antal, certify, that:

1. I have reviewed this report on Form 10-K of CenterState Banks, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2015

/s/ James J. Antal

James J. Antal
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

Certification of President and Chief Executive Officer

The undersigned President and Chief Executive Officer of CenterState Banks, Inc. does hereby certify, to such officer's knowledge, that this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operation of CenterState Banks, Inc.

/s/ Ernest S. Pinner

Ernest S. Pinner
President and Chief Executive Officer

Date: March 5, 2015

Exhibit 32.2

Certification of Senior Vice President and Chief Financial Officer

The undersigned Senior Vice President and Chief Financial Officer of CenterState Banks, Inc. does hereby certify, to such officer's knowledge, that this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operation of CenterState Banks, Inc.

/s/ James J. Antal

James J. Antal
Senior Vice President and
Chief Financial Officer

Date: March 5, 2015

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Board of Directors

CenterState Banks, Inc.
and
CenterState Bank of Florida, N.A.

James H. Bingham

G. Robert Blanchard, Jr.

C. Dennis Carlton

Michael F. Ciferri

John C. Corbett

Griffin A. Greene

Charles W. McPherson

G.Tierso Nunez II

Thomas E. Oakley

Ernest S. Pinner

William K. Pou, Jr.

Daniel R. Richey

Joshua A. Snively

CENTERSTATE BANKS, INC.

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