SOUTH STATE Corp
Form S-4
July 14, 2017

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As filed with the Securities and Exchange Commission on July 14, 2017.

Registration No. 333-[ ]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SOUTH STATE CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

South Carolina	**6022**	**57-0799315**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

520 Gervais Street
Columbia, South Carolina 29201
(800) 277-2175
(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant s Principal Executive Offices)

Robert R. Hill, Jr.
Chief Executive Officer
South State Corporation
520 Gervais Street
Columbia, South Carolina 29201
(800) 277-2175
(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

With copies to:

Matthew M. Guest, Esq.	**James C. Cherry**	**Chris Scheurer, Esq.**
Wachtell, Lipton, Rosen & Katz	**Chief Executive Officer**	**McGuireWoods LLP**

51 West 52nd Street
New York, New York 10019
(212) 403-1000

Park Sterling Corporation
1043 East Morehead Street, Suite 201
Charlotte, North Carolina 28204
(704) 716-2134

201 North Tryon Street
Suite 3000
Charlotte, North Carolina 28202
(704) 343-2000

Approximate date of commencement of the proposed sale of the securities to the public:
As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. o

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) o

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, par value $2.50 per share	7,699,485(1)	N/A	$650,056,502.40(2)	$75,341.55(3)

(1) Represents the estimated maximum number of shares of common stock, par value $2.50 per share, of the registrant (South State common stock) to be issued upon completion of the merger described in the joint proxy statement/prospectus contained herein (the merger), calculated as the product of (i) the sum of (x) 53,277,918 shares of common stock, par value $1.00 per share, of Park Sterling Corporation, a North Carolina corporation (Park Sterling common stock), outstanding as of July 11, 2017, (y) 1,269,428 shares of Park Sterling common stock that may be issuable in respect of outstanding Park Sterling equity awards outstanding as of July 11, 2017, and (z) 448,974 additional shares of Park Sterling common stock that may be issued under Park Sterling equity plans pursuant to the merger agreement prior to the completion of the merger, multiplied by (ii) 0.14, the exchange ratio under the merger agreement.

(2)

Pursuant to Rules 457(c) and 457(f)(1) promulgated under the Securities Act and solely for the purpose of calculating the registration fee, the proposed aggregate maximum offering price is equal to the product of (x) $11.82 (the average of the high and low prices of Park Sterling common stock as reported on the NASDAQ on July 12, 2017) and (y) 54,996,320, the estimated maximum number of shares of Park Sterling common stock, including shares of Park Sterling common stock that may be issuable in respect of outstanding Park Sterling equity awards and that may be issued under Park Sterling equity plans pursuant to the merger agreement prior to the completion of the merger, in each case, that may be exchanged for the merger consideration.

(3)

Computed in accordance with Rule 457(f) under the Securities Act to be $75,341.55, which is equal to 0.0001159 multiplied by the proposed maximum aggregate offering price of $650,056,502.40.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY SUBJECT TO COMPLETION DATED JULY 14, 2017

Proxy Statement and Prospectus of South State Corporation **Proxy Statement of Park Sterling Corporation**

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Shareholder:

On April 26, 2017, Park Sterling Corporation, or Park Sterling, and South State Corporation, or South State, entered into an Agreement and Plan of Merger (which, as it may be amended, supplemented or modified from time to time, we refer to as the merger agreement), pursuant to which Park Sterling will merge with and into South State. Immediately following the completion of the merger, Park Sterling Bank, a wholly owned bank subsidiary of Park Sterling, will merge with and into South State Bank, South State s wholly owned bank subsidiary, with South State Bank continuing as the surviving bank (which we refer to as the bank merger).

In the merger, each share of Park Sterling common stock will be converted into the right to receive 0.14 shares of South State common stock (which we refer to as the merger consideration). Based on South State s closing price of $91.90 per share on April 26, 2017, the last trading day before the announcement of the merger agreement, and the number of shares of Park Sterling common stock outstanding as of March 31, 2017, the merger consideration represented approximately $12.87 for each share of Park Sterling common stock and aggregate consideration of approximately $691 million. Based on South State s closing price of $[ ] per share on [ ], the last practicable trading day before the date of the enclosed joint proxy statement/prospectus, and the number of shares of Park Sterling common stock outstanding as of such date, the merger consideration represented approximately $[ ] for each share of Park Sterling common stock and aggregate consideration of approximately $[ ] million. **We encourage you to obtain current market quotations for the common stock of South State and Park Sterling before you vote.** South State common stock is currently quoted on the NASDAQ Global Select Market (which we refer to as the NASDAQ) under the symbol SSB. Park Sterling common stock is currently quoted on the NASDAQ under the symbol PSTB.

The maximum number of shares of South State common stock to be delivered to holders of shares of Park Sterling common stock upon completion of the merger is approximately [ ] shares, based on [ ] shares of Park Sterling common stock and [ ] restricted stock awards in respect of Park Sterling common stock, in each case outstanding as of [ ], 2017.

South State and Park Sterling will each hold a special meeting of their respective shareholders in connection with the merger. South State shareholders will be asked to vote to adopt the merger agreement and approve related matters, as well as to approve the other matters to be considered at the special meeting, as described in the attached joint proxy statement/prospectus. Park Sterling shareholders will be asked to vote to approve the merger agreement and approve related matters, as described in the attached joint proxy statement/prospectus.

The special meeting of South State shareholders will be held on [ ], at [ ] local time, at [ ]. The special meeting of Park Sterling shareholders will be held on [ ], at [ ] local time, at [ ].

Your vote is important. We cannot complete the merger unless South State s shareholders approve the merger agreement and Park Sterling s shareholders approve the merger agreement. Approval of the merger agreement requires (1) the affirmative vote of the holders of two-thirds of the outstanding shares of South State common stock entitled to vote on the proposal and (2) the affirmative vote of the holders of a majority of the outstanding shares of Park Sterling common stock entitled to vote on the proposal. **Regardless of whether or not you plan to attend your special meeting, please take the time to vote your shares in accordance with the instructions contained in the enclosed joint proxy statement/prospectus.**

The South State board of directors unanimously recommends that South State shareholders vote FOR the approval of the merger agreement and FOR the other matters to be considered at the South State special meeting.

The Park Sterling board of directors unanimously recommends that Park Sterling shareholders vote FOR the approval of the merger agreement and FOR the other matters to be considered at the Park Sterling special meeting.

The enclosed joint proxy statement/prospectus describes the special meetings, the merger, the documents related to the merger and other related matters. **Please carefully read the entire joint proxy statement/prospectus, including the *Risk Factors* section, beginning on page 29, for a discussion of the risks relating to the proposed merger.** You also can obtain information about South State and Park Sterling from documents that each has filed with the Securities and Exchange Commission.

If you have any questions concerning the merger, South State shareholders should please contact William C. Bochette III, Corporate Secretary, 520 Gervais Street, Columbia, South Carolina 29201, at (800) 277-2175, and Park Sterling shareholders should please contact Ralph W. Brewer, Secretary, at 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, (704) 716-2134. We look forward to seeing you at the meetings.

Robert R. Hill, Jr.	James C. Cherry
Chief Executive Officer	*Chief Executive Officer*
South State Corporation	Park Sterling Corporation

Neither the Securities and Exchange Commission nor any state securities commission or any other bank regulatory agency has approved or disapproved the securities to be issued in the merger or determined if the enclosed joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either South State or Park Sterling, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of the enclosed joint proxy statement/prospectus is [ ], and it is first being mailed or otherwise delivered to the shareholders of South State and Park Sterling on or about [ ].

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To the Shareholders of South State Corporation:

South State Corporation (which we refer to as South State) will hold a special meeting of shareholders at [ ] local time, on [ ], at [ ] to consider and vote upon the following matters:

- a proposal to approve the Agreement and Plan of Merger, dated as of April 26, 2017, by and between Park Sterling Corporation (which we refer to as Park Sterling) and South State Corporation, pursuant to which Park Sterling will merge with and into South State, as more fully described in the enclosed joint proxy statement/prospectus (which we refer to as the South State merger proposal);

- a proposal to approve an amendment, a copy of which is attached as **Annex F**, to South State s Amended and Restated Articles of Incorporation (which we refer to as the South State articles) to increase South State s authorized shares of common stock from 40 million shares to 80 million shares (which we refer to as the South State amendment proposal); and

- a proposal to adjourn the South State special meeting, if necessary or appropriate, to solicit additional proxies in favor of the South State merger proposal (which we refer to as the South State adjournment proposal).

We have fixed the close of business on [ ], 2017 as the record date for the determination of shareholders entitled to notice of and to vote at the South State special meeting. Only South State common shareholders of record at that time are entitled to notice of, and to vote at, the South State special meeting, or any adjournment or postponement of the South State special meeting.

Approval of each of the South State merger proposal and the South State amendment proposal requires the affirmative vote of holders of two-thirds of the outstanding shares of South State common stock entitled to vote. The South State adjournment proposal will be approved if the number of shares of South State common stock, represented in person or by proxy at the South State special meeting and entitled to vote thereon, voted in favor of the South State adjournment proposal exceeds the number of shares voted against such proposal at the South State special meeting.

The South State board of directors has unanimously approved the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and in the best interests of South State and its shareholders, and unanimously recommends that South State shareholders vote FOR the South State merger proposal, FOR the South State amendment proposal and FOR the South State adjournment proposal.

Your vote is very important. We cannot complete the merger unless South State s common shareholders approve the merger agreement.

You are urged to execute and return the enclosed proxy promptly in the enclosed self-addressed envelope or to vote your shares in advance of the South State special meeting by Internet or phone, as described in the accompanying joint proxy statement/prospectus. In the event you decide to attend the meeting, you may, if you desire, revoke the proxy and vote the shares in person. If you hold your stock in street name through a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished by the record holder.

The enclosed joint proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read the joint proxy statement/prospectus, including any documents incorporated in the joint proxy

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statement/prospectus by reference, and its appendices carefully and in their entirety. If you have any questions concerning the merger or the joint proxy statement/prospectus, would like additional copies of the joint proxy statement/prospectus or need help voting your shares of South State common stock, please contact William C. Bochette III, Corporate Secretary, 520 Gervais Street, Columbia, South Carolina 29201, at (800) 277-2175.

BY ORDER OF THE BOARD OF DIRECTORS

Robert R. Horger
Chairman of the Board of Directors

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To the Shareholders of Park Sterling Corporation:

Park Sterling Corporation will hold a special meeting of shareholders at [ ] Eastern Time, on [ ], 2017, at [ ] for the following purposes:

- to approve the Agreement and Plan of Merger, dated as of April 26, 2017, by and between Park Sterling and South State Corporation, pursuant to which Park Sterling will merge with and into South State, as more fully described in the enclosed joint proxy statement/prospectus (which we refer to as the Park Sterling merger proposal);

- to adjourn the Park Sterling special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Park Sterling merger proposal (which we refer to as the Park Sterling adjournment proposal); and

- to adopt an advisory (non-binding) resolution approving the compensation that certain executive officers of Park Sterling may receive in connection with the merger pursuant to existing agreements or arrangements with Park Sterling (which we refer to as the compensation proposal).

We have fixed the close of business on [ ], 2017 as the record date for the determination of shareholders entitled to notice of and to vote at the Park Sterling special meeting. Only holders of record of Park Sterling s common stock at the close of business on that date are entitled to notice of, and to vote at, the Park Sterling special meeting or any adjournment or postponement thereof. Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Park Sterling s common stock entitled to vote on the proposal. Approval of each of the Park Sterling adjournment proposal and the compensation proposal requires the votes cast by Park Sterling shareholders in favor of such proposal to exceed the votes cast by Park Sterling shareholders against such proposal at the Park Sterling special meeting.

The Park Sterling board of directors has unanimously approved the merger agreement and the merger and unanimously recommends that Park Sterling shareholders vote FOR the Park Sterling merger proposal, FOR the Park Sterling adjournment proposal and FOR the compensation proposal.

Your vote is very important. We cannot complete the merger unless Park Sterling s shareholders approve the merger agreement.

Whether or not you plan to attend the Park Sterling special meeting, we encourage you to execute and return the enclosed proxy card promptly in the enclosed self-addressed envelope or to vote your shares in advance of the Park Sterling special meeting by Internet or phone, as described in the accompanying joint proxy statement/prospectus. If you decide to attend the meeting, then you may, if you desire, revoke the proxy and vote the shares in person. If you hold your stock in street name through a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished by the record holder.

The enclosed joint proxy statement/prospectus provides a detailed description of the special meeting, the merger, the documents related to the merger and other related matters. We urge you to read the joint proxy statement/prospectus, including any documents incorporated in the joint proxy statement/prospectus by reference, and its appendices carefully and in their entirety.

If you have any questions concerning the merger or the joint proxy statement/prospectus, would like additional copies of the joint proxy statement/prospectus or need help voting your shares of Park

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Sterling common stock, please contact Donald K. Truslow, Chief Financial Officer, 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204 at (704) 716-2134.

BY ORDER OF THE BOARD OF DIRECTORS

Leslie M. Baker, Jr.
Chairman of the Board of Directors

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REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about South State Corporation, or South State, and Park Sterling Corporation, or Park Sterling, from documents filed with the Securities and Exchange Commission, or the SEC, that are not included in or delivered with this joint proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by South State and/or Park Sterling at no cost from the SEC s website at http: //www.sec.gov. You may also request copies of these documents, including documents incorporated by reference in this joint proxy statement/prospectus, at no cost by contacting the appropriate company at the following address:

South State Corporation	Park Sterling Corporation
520 Gervais Street	1043 East Morehead Street, Suite 201
Columbia, South Carolina 29201	Charlotte, North Carolina 28204
Attention: William C. Bochette III, Corporate Secretary	Attention: Ralph W. Brewer, Secretary
Telephone: (800) 277-2175	Telephone: (704) 716-2134

You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of your special meeting. This means that South State shareholders requesting documents must do so by [ ], in order to receive them before the South State special meeting, and Park Sterling shareholders requesting documents must do so by [ ], 2017, in order to receive them before the Park Sterling special meeting.

You should rely only on the information contained in or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [ ], 2017, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this document is accurate as of the date of such document. Neither the mailing of this document to Park Sterling shareholders or South State shareholders nor the issuance by South State of shares of South State common stock in connection with the merger will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Park Sterling has been provided by Park Sterling, and information contained in this document regarding South State has been provided by South State.

See *Where You Can Find More Information* for more details.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SOUTH STATE SPECIAL MEETING AND THE PARK STERLING SPECIAL MEETING

The following are some questions that you may have about the merger and the South State special meeting or the Park Sterling special meeting, and brief answers to those questions. We urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the merger and the South State special meeting or the Park Sterling special meeting. Additional important information is also contained in the documents incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Q:

Why am I receiving this joint proxy statement/prospectus?

A:

South State has entered into an Agreement and Plan of Merger, dated as of April 26, 2017, with Park Sterling (which, as it may be amended, supplemented or modified from time to time, we refer to as the merger agreement). Under the merger agreement, Park Sterling will be merged with and into South State (which we refer to as the merger), with South State continuing as the surviving corporation (which we refer to as the surviving corporation). Immediately following the merger, Park Sterling Bank, a wholly owned bank subsidiary of Park Sterling, will merge with and into South State Bank, South State s wholly owned bank subsidiary, with South State Bank continuing as the surviving bank (which we refer to as the bank merger). A copy of the merger agreement is included in this joint proxy statement/prospectus as **Annex A**.

The merger cannot be completed unless, among other things, both South State shareholders and Park Sterling shareholders approve the respective proposals to approve the merger agreement (which we refer to as the South State merger proposal and the Park Sterling merger proposal, respectively).

In addition, South State is soliciting proxies from its shareholders with respect to the following additional proposals, approvals of which are not conditions to the completion of the merger:

- a proposal to approve an amendment, a copy of which is attached as **Annex F**, to South State s Amended and Restated Articles of Incorporation (which we refer to as the South State articles) to increase South State s authorized shares of common stock from 40 million shares to 80 million shares (which we refer to as the South State amendment proposal); and

- a proposal to adjourn the South State special meeting, if necessary or appropriate, to solicit additional proxies in favor of the South State merger proposal (which we refer to as the South State adjournment proposal).

Furthermore, Park Sterling is soliciting proxies from its shareholders with respect to two additional proposals, approvals of which are not conditions to the completion of the merger:

- a proposal to adjourn the Park Sterling special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Park Sterling merger proposal (which we refer to as the Park Sterling adjournment proposal); and

- a proposal to adopt an advisory (non-binding) resolution approving the compensation that certain executive officers of Park Sterling may receive in connection with the merger pursuant to agreements or arrangements with Park Sterling (which we refer to as the compensation proposal).

Each of South State and Park Sterling will hold separate special meetings of shareholders to obtain these approvals (which we refer to as the South State special meeting and the Park Sterling special meeting, respectively). This joint proxy statement/prospectus contains important information about the merger and the other proposals being voted on at the special meetings. You

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should read it carefully and in its entirety. The enclosed materials allow you to have your shares voted by proxy without attending your special meeting. Your vote is important. We encourage you to submit your proxy as soon as possible.

Q:

What will I receive in the merger?

A:

Park Sterling shareholders: If the merger is completed, you will receive 0.14 shares of South State common stock for each share of Park Sterling common stock that you hold immediately prior to the merger (which we refer to as the merger consideration). South State will not issue any fractional shares of South State common stock in the merger. Park Sterling shareholders who otherwise would be entitled to a fraction of a share of South State common stock will receive an amount in cash (rounded to the nearest whole cent) equal to the product of (i) the fraction of a share of South State common stock to which the holder would otherwise be entitled and (ii) the average closing price, rounded to the nearest cent, per share of South State common stock on the NASDAQ Global Select Market (which we refer to as NASDAQ) for the consecutive ten trading days immediately preceding (but not including) the closing date of the merger (which we refer to as the South State share value).

As a result of the merger, based on the number of shares of South State and Park Sterling common stock outstanding as of [ ], the last practicable trading day before the date of this joint proxy statement/prospectus, approximately [ ]% of the outstanding South State common stock following the merger will be held by shareholders that were holders of South State common stock immediately prior to the effectiveness of the merger, and approximately [ ]% of outstanding South State common stock will be held by shareholders that were holders of Park Sterling common stock immediately prior to the effectiveness of the merger (without giving effect to any shares of South State common stock held by Park Sterling shareholders prior to the merger).

Based on South State s closing price of $91.90 per share on April 26, 2017, the last trading day before the announcement of the merger agreement, and the number of shares of Park Sterling common stock outstanding as of March 31, 2017, the merger consideration represented approximately $12.87 for each share of Park Sterling common stock and aggregate consideration of approximately $691 million. Based on South State s closing price of $[ ] per share on [ ], the last practicable trading day before the date of this joint proxy statement/prospectus, and the number of shares of Park Sterling common stock outstanding as of such date, the merger consideration represented approximately $[ ] for each share of Park Sterling common stock and aggregate consideration of approximately $[ ] million.

South State shareholders: If the merger is completed, you will not receive any merger consideration and will continue to hold the shares of South State common stock that you currently hold. Following the merger, shares of South State common stock will continue to be traded on the NASDAQ.

Q:

Will the value of the merger consideration change between the date of this joint proxy statement/prospectus and the time the merger is completed?

A:

The value of the merger consideration may fluctuate between the date of this joint proxy statement/prospectus and the completion of the merger based upon the market value for South State common stock. In the merger, Park Sterling shareholders will receive 0.14 shares (which we refer to as the exchange ratio) of South State common stock for each share of Park Sterling common stock they hold. Any fluctuation in the market price of South State common stock after the date of this joint proxy statement/prospectus and before the effective time of the merger will

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change the value of the shares of South State common stock that Park Sterling shareholders will receive.

Q:

How will the merger affect the Park Sterling equity awards?

A:

Stock Options. Each outstanding option to acquire shares of Park Sterling common stock, whether or not vested, that is not exercised prior to the effective time will be cancelled by virtue of the merger and converted into a right to receive a cash payment (without interest and less applicable withholding taxes) equal to the product of (i) the number of shares of Park Sterling common stock subject to such Park Sterling stock option and (ii) the excess, if any, of (A) the product of the exchange ratio and the South State share value over (B) the per-share exercise price of such Park Sterling stock option. In the event any Park Sterling option has an exercise price equal to or in excess of the product obtained by the prior sentence, then that Park Sterling stock option will be cancelled for no consideration.

Restricted Stock. Each restricted stock award in respect of Park Sterling common stock shall vest in full and the restrictions thereon will lapse, and will be converted into a right to receive the merger consideration with respect to each share subject to the award.

Q:

How does South State s board of directors recommend that I vote at the South State special meeting?

A:

South State s board of directors (which we refer to as the South State board of directors) unanimously recommends that South State s shareholders vote FOR the South State merger proposal, FOR the South State amendment proposal and FOR the South State adjournment proposal.

Q:

How does Park Sterling s board of directors recommend that I vote at the Park Sterling special meeting?

A:

Park Sterling s board of directors (which we refer to as the Park Sterling board of directors) unanimously recommends that Park Sterling s shareholders vote FOR the Park Sterling merger proposal, FOR the Park Sterling adjournment proposal and FOR the compensation proposal.

Q:

When and where are the special meetings?

A:

The South State special meeting will be held on [ ], at [ ] local time, at [ ].

The Park Sterling special meeting will be held on [ ], at [ ] local time, at [ ].

Q:

What do I need to do now?

A:

After you have carefully read this joint proxy statement/prospectus and have decided how you wish to vote your shares, please vote your shares promptly so that your shares are represented and voted at your special meeting. If you hold your shares in your name as a shareholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible or vote by Internet or phone, as described in this joint proxy statement/prospectus. If you hold your shares in street name through a bank, broker or nominee, you must direct your bank, broker or nominee how to vote in accordance with the instructions you have received from your bank, broker or nominee. Street name shareholders who wish to vote in person at the special meeting will need to obtain a legal proxy from the institution that holds their shares.

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Q: **What constitutes a quorum for the South State special meeting?**

A: The presence at the South State special meeting, in person or by proxy, of holders of a majority of the outstanding shares of South State common stock entitled to vote at the South State special meeting will constitute a quorum for the transaction of business. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

Q: **What constitutes a quorum for the Park Sterling special meeting?**

A: The presence at the Park Sterling special meeting, in person or by proxy, of holders of a majority of the outstanding shares of Park Sterling common stock entitled to vote at the Park Sterling special meeting will constitute a quorum for the transaction of business. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

Q: **What is the vote required to approve each proposal?**

A: *South State special meeting:*

Approval of the South State merger proposal requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of South State common stock entitled to vote on the proposal. **If you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee with respect to the South State merger proposal, it will have the same effect as a vote AGAINST the proposal.**

Approval of the South State amendment proposal requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of South State common stock entitled to vote on the proposal. **If you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee with respect to the South State amendment proposal, it will have the same effect as a vote AGAINST the proposal.**

Approval of the South State adjournment proposal requires the votes cast by shareholders of South State in favor of the proposal to exceed the votes cast by shareholders of South State against the proposal at the South State special meeting.

Park Sterling special meeting:

Approval of the Park Sterling merger proposal requires the affirmative vote of at least a majority of the outstanding shares of Park Sterling common stock entitled to vote on the proposal. **If you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the Park Sterling special meeting or fail to instruct your bank, broker or other nominee with respect to the Park Sterling merger proposal, it will have the same effect as a vote AGAINST the proposal.**

Approval of each of the Park Sterling adjournment proposal and the compensation proposal requires the votes cast by shareholders of Park Sterling in favor of each proposal to exceed the votes cast by shareholders of Park Sterling against such proposal at the Park Sterling special meeting.

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Q:

Will my vote affect the amounts that certain executive officers of Park Sterling may receive in connection with the merger?

A:

Certain of Park Sterling s executive officers are entitled, pursuant to the terms of their existing compensation arrangements with Park Sterling, to receive certain payments in connection with the merger. If the merger is completed, South State, as successor to Park Sterling, is contractually obligated to make these payments to these executives (under certain circumstances). Accordingly, even if the Park Sterling shareholders vote not to approve these payments, the compensation will be payable, subject to the terms and conditions of the arrangements and the merger agreement. Park Sterling is seeking your approval of these payments on an advisory (non-binding) basis in order to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related SEC rules.

Q:

Why is my vote important?

A:

If you do not return your proxy, it will be more difficult for South State or Park Sterling to obtain the necessary quorum to hold their special meetings. In addition, your failure to submit a proxy or vote in person, or failure to instruct your bank, broker or other nominee how to vote, or abstention will have the same effect as a vote AGAINST approval of the merger agreement, as applicable and, if you are a holder of South State common stock, a vote AGAINST approval of the South State amendment proposal.

The merger agreement must be approved by the affirmative vote of at least a majority of the outstanding shares of Park Sterling common stock entitled to vote on the merger agreement and approved by the affirmative vote of at least two-thirds of the outstanding shares of South State common stock entitled to vote on the merger agreement. The South State amendment proposal must be approved by the affirmative vote of at least two-thirds of the outstanding shares of South State common stock entitled to vote on the South State amendment proposal.

The South State board of directors and the Park Sterling board of directors unanimously recommend that you vote FOR the merger proposals. If you are a holder of South State common stock, the South State board of directors also unanimously recommends that you vote FOR the South State amendment proposal.

Q:

If my shares of common stock are held in street name by my bank, broker or other nominee, will my bank, broker or other nominee automatically vote my shares for me?

A:

South State shareholders: No. Under stock exchange rules, banks, brokers and other nominees who hold shares of South State common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, banks, brokers and other nominees are not allowed to exercise their voting discretion with respect to the approval of matters determined to be non-routine, without specific instructions from the beneficial owner. Broker non-votes are shares held by a bank, broker or other nominee that are represented at the South State special meeting, but with respect to which the bank, broker or other nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the bank, broker or other nominee does not have discretionary voting power on such proposal. If your bank, broker or other nominee holds your shares of South State common stock in street name, your bank, broker or other nominee will vote your shares of South State common stock only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your bank, broker or other nominee with this joint proxy statement/prospectus. We believe that the South State merger proposal, the South State amendment proposal and the South State adjournment proposal are non-routine proposals and your bank, broker or other nominee can vote your shares of South State common stock only with your specific voting instructions.

Park Sterling shareholders: No. Under stock exchange rules, banks, brokers and other nominees who hold shares of Park Sterling common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, banks, brokers and other nominees are not allowed to exercise their voting discretion with respect to the approval of matters determined to be non-routine, without specific instructions from the beneficial owner. Broker non-votes are shares held by a bank, broker or other nominee that are represented at the Park Sterling special meeting, but with respect to which the bank, broker or other nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the bank, broker or other nominee does not have discretionary voting power on such proposal. If your bank, broker or other nominee holds your shares of Park Sterling common stock in street name, your bank, broker or other nominee will vote your shares of Park Sterling common stock only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your bank, broker or other nominee with this joint proxy statement/prospectus. We believe that the Park Sterling merger proposal, the Park Sterling adjournment proposal and the compensation proposal are non-routine proposals and your bank, broker or other nominee can vote your shares of Park Sterling common stock only with your specific voting instructions.

Q:

Can I attend the special meeting and vote my shares in person?

A:

Yes. All shareholders of each of South State and Park Sterling, including shareholders of record and shareholders who hold their shares through banks, brokers or other nominees, are invited to attend their respective special meetings. If you are not a shareholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a bank, broker or other nominee, to be able to vote in person at the special meetings. If you plan to attend your special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. South State and Park Sterling reserve the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification.

Q:

Can I change my vote?

A:

South State shareholders: Yes. If you are a holder of record of South State common stock, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to William C. Bochette III, South State s corporate secretary, or (3) attending the South State special meeting in person, notifying the corporate secretary and voting by ballot at the South State special meeting. Attendance at the South State special meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by South State after the vote will not affect the vote. The mailing address of Mr. Bochette, South State s corporate secretary is: William C. Bochette III, Corporate Secretary, South State Corporation, 520 Gervais Street, Columbia, South Carolina 29201. If you hold your shares in street name through a bank, broker or other nominee, you should contact your bank, broker or other nominee to revoke your proxy or change your vote.

Park Sterling shareholders: Yes. If you are a holder of record of Park Sterling common stock, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to Ralph W. Brewer, Park Sterling s corporate secretary, or (3) attending the Park Sterling special meeting in person, notifying the corporate secretary and voting by ballot at the special meeting. Attendance at the Park Sterling

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special meeting by itself will not automatically revoke your proxy or change your vote. A revocation or later-dated proxy received by Park Sterling after the vote will not affect the vote. The mailing address of Park Sterling s corporate secretary is: Park Sterling Corporation 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, Attention: Ralph W. Brewer, Secretary. If you hold your shares in street name through a bank, broker or other nominee, you should contact your bank, broker or other nominee to revoke your proxy or change your vote.

Q:

Will South State be required to submit the proposal to approve the merger agreement to its shareholders even if the South State board of directors has withdrawn, modified or qualified its recommendation?

A:

Yes. Unless the merger agreement is terminated before the South State special meeting, South State is required to submit the proposal to approve the merger agreement to its shareholders even if the South State board of directors has withdrawn, modified or qualified its recommendation.

Q:

Will Park Sterling be required to submit the proposal to approve the merger agreement to its shareholders even if the Park Sterling board of directors has withdrawn, modified or qualified its recommendation?

A:

Yes. Unless the merger agreement is terminated before the Park Sterling special meeting, Park Sterling is required to submit the proposal to approve the merger agreement to its shareholders even if the Park Sterling board of directors has withdrawn, modified or qualified its recommendation.

Q:

What are the U.S. federal income tax consequences of the merger to Park Sterling shareholders?

A:

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (which we refer to as the Code), and it is a condition to the respective obligations of South State and Park Sterling to complete the merger that each of South State and Park Sterling receives a legal opinion to that effect. Accordingly, holders of Park Sterling common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Park Sterling common stock for shares of South State common stock in the merger, except with respect to any cash received instead of fractional shares of South State common stock.

For further information, see *Material U.S. Federal Income Tax Consequences of the Merger*.

The U.S. federal income tax consequences described above may not apply to all holders of Park Sterling common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.

Q:

Are Park Sterling shareholders entitled to appraisal or dissenters rights?

A:

No. Under the North Carolina Business Corporation Act, holders of Park Sterling common stock are not entitled to exercise appraisal or dissenters rights with respect to the proposed merger or the other transactions contemplated by the merger agreement.

Q:

If I am a Park Sterling shareholder, should I send in my Park Sterling stock certificates now?

A:

No. Please do not send in your Park Sterling stock certificates with your proxy. After the completion of the merger, an exchange agent agreed upon by South State and Park Sterling will send you instructions for exchanging Park Sterling stock certificates for the merger consideration. See *The Merger Agreement Conversion of Shares; Exchange of Certificates*.

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Q: **What should I do if I hold my shares of Park Sterling common stock in book-entry form?**

A: You are not required to take any special additional actions if your shares of Park Sterling common stock are held in book-entry form. After the completion of the merger, the exchange agent will send you instructions for converting your book-entry shares into the merger consideration, including shares of South State common stock in book-entry form and any cash to be paid instead of fractional shares in the merger.

Q: **What should I do if I receive more than one set of voting materials?**

A: South State and Park Sterling shareholders may receive more than one set of voting materials, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold shares of South State and/or Park Sterling common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold such shares. If you are a holder of record of South State common stock or Park Sterling common stock and your shares are registered in more than one name, you will receive more than one proxy card. In addition, if you are a holder of both South State common stock and Park Sterling common stock, you will receive one or more separate proxy cards or voting instruction cards for each company. Please complete, sign, date and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this joint proxy statement/prospectus to ensure that you vote every share of South State common stock and/or Park Sterling common stock that you own.

Q: **Whom may I contact if I cannot locate my Park Sterling stock certificate(s)?**

A: If you are unable to locate your original Park Sterling stock certificate(s), you should contact Ralph W. Brewer, Secretary, at 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, (704) 716-2134.

Q: **When do you expect to complete the merger?**

A: South State and Park Sterling expect to complete the merger in the fourth quarter of 2017. However, neither South State nor Park Sterling can assure you of when or if the merger will be completed. South State and Park Sterling must first obtain the approval of South State shareholders and Park Sterling shareholders for the merger, as well as obtain necessary regulatory approvals and satisfy certain other closing conditions.

Q: **What happens if the merger is not completed?**

A: If the merger is not completed, Park Sterling common shareholders will not receive any consideration for their shares of Park Sterling common stock in connection with the merger. Instead, Park Sterling will remain an independent, public company and Park Sterling common stock will continue to be traded on the NASDAQ. In addition, if the merger agreement is terminated in certain circumstances, South State or Park Sterling may be required to pay a termination fee. See *The Merger Agreement Termination Fee* for a complete discussion of the circumstances under which a termination fee will be required to be paid.

Q: **Where can I find the voting results of the special meetings?**

A: The preliminary voting results will be announced at each of the special meetings. In addition, within four business days following certification of the final voting results, South State and Park Sterling will each disclose the final voting results of their respective special meetings on a Current Report on Form 8-K filed with the SEC.

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Q: **Are there any risks that I should consider in deciding whether to vote for the approval of the merger agreement?**

A: Yes. You should read and carefully consider the risk factors set forth in the *Risk Factors* section beginning on page [ ] of this joint proxy statement/prospectus. You also should read and carefully consider the risk factors of South State and Park Sterling contained in the documents that are incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Q: **Whom should I call with questions?**

A: *South State shareholders:* If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of South State common stock, you should contact James C. Mabry IV, Executive Vice President, Investor Relations and Mergers & Acquisitions, at 520 Gervais Street, Columbia, South Carolina 29201, (800) 277-2175.

Park Sterling shareholders: If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Park Sterling common stock, you should contact Ralph W. Brewer, Secretary, at 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, (704) 716-2134.

SUMMARY

This summary highlights selected information from this joint proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to read carefully the entire joint proxy statement/prospectus, including the annexes, and the other documents to which we refer in order to fully understand the merger. See *Where You Can Find More Information*. Each item in this summary refers to the page of this joint proxy statement/prospectus on which that subject is discussed in more detail.

The Merger and the Merger Agreement (Page [ ])

The terms and conditions of the merger are contained in the merger agreement, a copy of which is attached as **Annex A** to this joint proxy statement/prospectus. We encourage you to read the merger agreement carefully and in its entirety, as it is the legal document that governs the merger.

Pursuant to the merger agreement, Park Sterling will merge with and into South State, with South State continuing as the surviving corporation. Immediately thereafter, Park Sterling Bank, Park Sterling s wholly owned banking subsidiary, will merge with and into South State s wholly owned banking subsidiary, South State Bank, with South State Bank continuing as the surviving bank.

The Merger Consideration (Page [ ])

If the merger is completed, Park Sterling common shareholders will receive 0.14 shares of South State common stock for each share of Park Sterling common stock they hold immediately prior to the merger. South State will not issue any fractional shares of South State common stock in the merger. Park Sterling shareholders who otherwise would be entitled to a fraction of a share of South State common stock will receive an amount in cash (rounded to the nearest whole cent) equal to the product of (x) the fraction of a share of South State common stock to which the holder would otherwise be entitled and (y) the average closing price, rounded to the nearest cent, per share of South State common stock on the NASDAQ for the consecutive ten trading days immediately preceding (but not including) the closing date of the merger.

For example, if you hold 125 shares of Park Sterling common stock, you will receive 17 shares of South State common stock and a cash payment instead of the 0.5 shares of South State common stock that you otherwise would have received (125 shares × 0.14 = 17.5 shares).

The market value of the merger consideration will fluctuate with the market price of South State common stock and will not be known at the time Park Sterling shareholders vote on the merger. Any fluctuation in the market price of South State common stock after the date of this joint proxy statement/prospectus will change the value of the shares of South State common stock that Park Sterling shareholders will receive.

Recommendation of South State s Board of Directors (Page [ ])

The South State board of directors unanimously recommends that South State shareholders vote FOR the South State merger proposal, FOR the South State amendment proposal and FOR the South State adjournment proposal.

The South State board of directors has determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger and the issuance of South State common stock, are advisable and in the best interests of South State and its shareholders and has unanimously approved the merger agreement. For the factors considered by the South State board of directors in reaching its decision to approve the merger agreement, see *The Merger South State s Reasons for the Merger; Recommendation of the South State Board of Directors*.

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Recommendation of Park Sterling s Board of Directors (Page [ ])

The Park Sterling board of directors unanimously recommends that Park Sterling shareholders vote FOR the Park Sterling merger proposal, FOR the Park Sterling adjournment proposal and FOR the compensation proposal.

The Park Sterling board of directors has determined that the merger agreement and the merger are advisable and in the best interests of Park Sterling and its shareholders and has unanimously approved the merger agreement. For the factors considered by the Park Sterling board of directors in reaching its decision to approve the merger agreement, see *The Merger Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors*.

Opinion of South State s Financial Advisor (Page [ ] and Annex B)

In connection with the merger, South State s financial advisor, Keefe, Bruyette & Woods, Inc. (which we refer to as KBW) delivered a written opinion, dated April 26, 2017, to the South State board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to South State of the exchange ratio in the proposed merger. The full text of KBW s opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as **Annex B** to this joint proxy statement/prospectus and is incorporated by reference in this joint proxy statement/prospectus in its entirety. See *The Merger Opinion of South State s Financial Advisor.* The opinion was for the information of, and was directed to, the South State board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of South State to engage in the merger or enter into the merger agreement or constitute a recommendation to the South State board of directors in connection with the merger, and it does not constitute a recommendation to any holder of South State common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter.

Opinion of Park Sterling s Financial Advisor (Page [ ] and Annex C)

In connection with the merger, Park Sterling s financial advisor, Stephens Inc. (which we refer to as Stephens) delivered a written opinion, dated April 26, 2017, to the Park Sterling board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to shareholders of Park Sterling of the merger consideration in the proposed merger. The full text of Stephens s opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Stephens in preparing the opinion, is attached as **Annex C** to this joint proxy statement/prospectus and is incorporated by reference in this joint proxy statement/prospectus in its entirety. See *The Merger Opinion of Park Sterling s Financial Advisor.* The opinion was for the information of, and was directed to, the Park Sterling board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion did not address the underlying business decision of Park Sterling to engage in the merger or enter into the merger agreement or constitute a recommendation to the Park Sterling board of directors in connection with the merger, and it does not constitute a recommendation to any holder of Park Sterling common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter.

Treatment of Park Sterling Equity Awards (Page [ ])

Options. At the effective time, each outstanding option to acquire shares of Park Sterling common stock, whether or not vested, that is not exercised prior to the effective time will be cancelled by virtue of the merger and converted into a right to receive a cash payment (without interest and less

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applicable withholding taxes) equal to the product of (i) the number of shares of Park Sterling common stock subject to such Park Sterling stock option multiplied by (ii) the excess, if any, of (A) the product of the exchange ratio and the South State share value over (B) the per-share exercise price of such Park Sterling stock option. In the event that the product obtained by the prior sentence is zero or a negative number, then the Park Sterling stock option will be cancelled for no consideration.

Restricted Stock Awards. At the effective time, each restricted stock award in respect of Park Sterling common stock will vest in full and the restrictions thereon will lapse, and will be converted into a right to receive the merger consideration with respect to each share subject to the award.

Information about the South State Special Meeting (Page [ ])

The South State special meeting to consider and vote upon the approval of the merger agreement will be held on [ ], at [ ] local time, at [ ]. At the South State special meeting, South State shareholders will be asked to:

- approve the South State merger proposal;
- approve the South State amendment proposal; and
- approve the South State adjournment proposal.

Only holders of record at the close of business on [ ], 2017 will be entitled to vote at the South State special meeting. Each share of South State common stock is entitled to one vote on each proposal to be considered at the South State special meeting. As of the record date, there were [ ] shares of South State common stock entitled to vote at the South State special meeting. As of the record date, Park Sterling and its subsidiaries held [ ] shares of South State common stock (other than shares held as fiduciary, custodian or agent).

As of the record date, the directors and executive officers of South State and their affiliates beneficially owned and were entitled to vote approximately [ ] shares of South State common stock representing approximately [ ]% of the shares of South State common stock outstanding on that date.

To approve the South State merger proposal, two-thirds of the shares of South State common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. **Therefore, if you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the South State merger proposal, it will have the same effect as a vote against the South State merger proposal.**

To approve the South State amendment proposal, two-thirds of the shares of South State common stock outstanding and entitled to vote thereon must be voted in favor of such proposal. **Therefore, if you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the South State amendment proposal, it will have the same effect as a vote against the South State amendment proposal.**

Approval of the South State adjournment proposal requires the votes cast by shareholders of South State in favor of the proposal to exceed the votes cast by shareholders of South State against the proposal at the South State special meeting. Therefore, if you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the South State adjournment proposal, it will have no effect on the South State adjournment proposal.

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Neither approval of the South State amendment proposal nor approval of the South State adjournment proposal is a condition to the completion of the merger, and approval of the South State merger proposal is not a condition to the effectiveness of the South State articles amendment.

Information about the Park Sterling Special Meeting (Page [ ])

The Park Sterling special meeting to consider and vote upon the approval of the merger agreement will be held on [ ], at [ ] Eastern Time, at [ ]. At the Park Sterling special meeting, Park Sterling shareholders will be asked to:

- approve the Park Sterling merger proposal;
- approve the Park Sterling adjournment proposal; and
- approve the compensation proposal.

Only holders of record at the close of business on [ ], 2017 will be entitled to vote at the Park Sterling special meeting. Each share of Park Sterling common stock is entitled to one vote on each proposal to be considered at the Park Sterling special meeting. As of the record date, there were [ ] shares of Park Sterling common stock entitled to vote at the Park Sterling special meeting. As of the record date, South State and its subsidiaries held [ ] shares of Park Sterling common stock (other than shares held as fiduciary, custodian or agent).

As of the record date, the directors and executive officers of Park Sterling and their affiliates beneficially owned and were entitled to vote approximately [ ] shares of Park Sterling common stock representing approximately [ ]% of the shares of Park Sterling common stock outstanding on that date.

To approve the Park Sterling merger proposal, at least a majority of the shares of Park Sterling common stock outstanding and entitled to vote on the merger agreement must be voted in favor of the proposal. **Therefore, if you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to either submit a proxy or vote in person at the Park Sterling special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the Park Sterling merger proposal, it will have the same effect as a vote AGAINST the Park Sterling merger proposal.**

To approve the Park Sterling adjournment proposal or the compensation proposal, the votes cast by Park Sterling shareholders in favor of each such proposal must exceed the votes cast by Park Sterling shareholders against such proposal at the Park Sterling special meeting. Therefore, if you indicate ABSTAIN on your proxy card or when voting by Internet or phone, fail to either submit a proxy or vote in person at the Park Sterling special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the compensation proposal or the Park Sterling adjournment proposal, it will have no effect on such proposals.

Parties to the Merger (Page [ ])

South State Corporation

South State Corporation is a South Carolina corporation that is a bank holding company (which we refer to as a BHC) registered with the Board of Governors of the Federal Reserve System (which we refer to as the Federal Reserve Board) under the Bank Holding Company Act of 1956, as amended (which we refer to as the BHC Act). South State provides a wide range of banking services and products to its customers through its wholly owned bank subsidiary, South State Bank, a South Carolina banking corporation (which we refer to as South State Bank). South State does not engage in any significant operations other than the ownership of its banking subsidiary.

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South State Bank provides a full range of retail and commercial banking services, mortgage lending services, trust and investment services and consumer finance loans through financial centers in South Carolina, North Carolina, northeast Georgia and coastal Georgia. South State coordinates the financial resources of the consolidated enterprise and thereby maintains financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. South State s operating revenues and net income are derived primarily from cash dividends received from South State Bank.

The principal executive offices of South State are located at 520 Gervais Street, Columbia, South Carolina 29201, and its telephone number is (800) 277-2175. South State s website can be accessed at http://www.southstatebank.com. Information contained in South State s website does not constitute part of, and is not incorporated into, this joint proxy statement/prospectus. South State common stock is quoted on the NASDAQ under the symbol SSB.

Additional information about South State and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Park Sterling Corporation

Park Sterling is a North Carolina corporation that is a BHC registered with the Federal Reserve Board under the BHC Act. Park Sterling was formed in 2010 to serve as the holding company for Park Sterling Bank. Park Sterling Bank was incorporated in September 2006 as a North Carolina-chartered commercial non-member bank. Park Sterling provides a full array of retail and commercial banking services, including wealth management and capital market activities, through its offices located in North Carolina, South Carolina, Georgia and Virginia. Park Sterling s objective since inception has been to provide the strength and product diversity of a larger bank and the service and relationship attention that characterizes a community bank.

The principal executive offices of Park Sterling are located at 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, and its telephone number is (704) 716-2134. Park Sterling s website can be accessed at http://www.parksterlingbank.com. Information contained in Park Sterling s website does not constitute part of, and is not incorporated into, this joint proxy statement/prospectus. Park Sterling common stock is quoted on the NASDAQ under the symbol PSTB.

Additional information about Park Sterling and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Interests of Park Sterling s Directors and Executive Officers in the Merger (Page [ ])

In considering the recommendation of the Park Sterling board of directors that you vote to approve the merger agreement, you should be aware that some of Park Sterling s executive officers and directors have financial interests in the merger that are different from, or in addition to, those of Park Sterling shareholders generally. These interests may create potential conflicts of interest. The Park Sterling board of directors was aware of these interests and considered the interests, among other matters, when making its decision to approve the merger agreement and its recommendation that Park Sterling s shareholders vote in favor of the Park Sterling merger proposal.

These interests include:

- the accelerated vesting of outstanding Park Sterling restricted stock awards;
- the cash payment for all outstanding Park Sterling options, whether vested or unvested;

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- the eligibility of each of the executive officers of Park Sterling for severance benefits in the event of a qualifying termination of employment;

- benefits under a Consulting and Noncompetition Agreement between South State Bank and James C. Cherry, an Employment and Noncompetition Agreement between South State Bank and each of Donald K. Truslow and Bryan F. Kennedy, III, an Employment Agreement between Park Sterling and Nancy J. Foster and a Letter Agreement among Mark Ladnier, South State Bank and Park Sterling Bank;

- the payment of certain incentive bonus compensation; and

- the service on the South State board of directors of Mr. Cherry and one current non-employee member of the board of directors of Park Sterling.

For a more complete description of these interests, see *The Merger Interests of Park Sterling s Directors and Executive Officers in the Merger* and *The Merger Agreement Treatment of Park Sterling Equity Awards*.

Dissenters Rights (Page [ ])

Under the North Carolina Business Corporation Act (which we refer to as the NCBCA), holders of Park Sterling common stock are not entitled to exercise appraisal or dissenters rights with respect to the proposed merger or the other transactions contemplated by the merger agreement.

Regulatory Approvals Required for the Merger (Page [ ])

Subject to the terms of the merger agreement, both South State and Park Sterling have agreed to use their reasonable best efforts to obtain all regulatory approvals required or advisable to complete the transactions contemplated by the merger agreement, including the merger and the bank merger. These approvals include, among others, approval from the Federal Reserve Board, the Federal Deposit Insurance Corporation (which we refer to as the FDIC), the South Carolina State Board of Financial Institutions and the North Carolina Commissioner of Banks. South State and Park Sterling have filed certain applications and notifications to obtain the required regulatory approvals and will file such additional applications and notifications as may be requested.

Although South State and Park Sterling currently believe that we should be able to obtain all required regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them or, if obtained, whether they will contain terms, conditions or restrictions not currently contemplated that will be detrimental to South State after the completion of the merger or will contain a materially burdensome regulatory condition. The regulatory approvals to which completion of the merger is subject are described in more detail in *The Merger Regulatory Approvals Required for the Merger*.

Governance Matters (Page [ ])

Board of Directors

Immediately following the effective time of the merger, South State will appoint James C. Cherry and one current non-employee member of the board of directors of Park Sterling to the South State board of directors. In addition, Mr. Cherry will be appointed to the Executive Committee of the South State board of directors. Following the closing, Mr. Robert R. Horger will continue to serve as Chairman of the board of directors of South State.

Officers

The officers of South State in office immediately prior to the effective time, together with such additional persons as may thereafter be elected or appointed, shall serve as the officers of the surviving

corporation from and after the effective time of the merger in accordance with the bylaws of South State.

No Solicitation (Page [ ])

As more fully described in this joint proxy statement/prospectus and in the merger agreement, and subject to certain exceptions summarized below, Park Sterling has agreed not to initiate, solicit, knowingly encourage or knowingly facilitate any inquiries or proposals with respect to, or engage or participate in any negotiations concerning, or provide confidential or nonpublic information or data to, or have or participate in any discussions with, any person relating to an alternative acquisition proposal. Notwithstanding these restrictions, in certain circumstances, the merger agreement provides that Park Sterling may participate in discussions or negotiations regarding an acquisition proposal or furnish nonpublic information regarding Park Sterling in response to an unsolicited bona fide written acquisition proposal if the Park Sterling board of directors concludes in good faith (in accordance with the merger agreement and after consultation with Park Sterling s outside legal counsel and financial advisors) that the failure to take such actions would be reasonably likely to violate the directors fiduciary duties under applicable law. For a more complete summary of Park Sterling s non-solicitation obligations, see *The Merger Agreement Agreement Not to Solicit Other Offers*.

In connection with its agreement not to solicit other proposals, none of Park Sterling, the Park Sterling board of directors or any of its committees will (1) withhold, withdraw or modify in any manner adverse to South State (or propose publicly to do so) its recommendation of the transactions contemplated under the merger agreement, (2) approve or recommend to its shareholders (or resolve to or publicly propose or announce its intention to do so) any alternative acquisition proposal or (3) within 10 business days after an alternative acquisition proposal is made public or any request by South State (which request may be made once per acquisition proposal (and any material change thereto)), fail to publicly, finally and without qualification recommend against any alternative acquisition proposal or reaffirm its recommendation for Park Sterling shareholders to approve the merger agreement (each of which we refer to as a change in company recommendation).

Conditions to Completion of the Merger (Page [ ])

Currently, South State and Park Sterling expect to complete the merger in the fourth quarter of 2017. As more fully described in this joint proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, approval of the merger agreement by the shareholders of each of South State and Park Sterling, effectiveness of the registration statement containing this proxy statement/prospectus, approval of the listing on the NASDAQ of the South State common stock to be issued in the merger, the absence of any law or order prohibiting the merger, the accuracy of the representations and warranties of the other party under the merger agreement (subject to the materiality standards set forth in the merger agreement), the performance by the other party of its respective obligations under the merger agreement in all material respects, receipt of certain required regulatory approvals and receipt of legal opinions by each company regarding the U.S. federal income tax treatment of the merger.

Neither South State nor Park Sterling can be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed. For a more complete summary of the conditions that must be satisfied or waived prior to completion of the merger, see *The Merger Agreement Conditions to Completion of the Merger*.

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Termination of the Merger Agreement (Page [ ])

The merger agreement can be terminated at any time prior to completion of the merger by mutual consent, or by either party in the following circumstances:

- the merger has not been completed by April 26, 2018 (which we refer to as the end date), if the failure to complete the merger by the end date is not caused by the terminating party s breach of the merger agreement;

- any required regulatory approval has been denied by the relevant regulatory authority and this denial has become final and non-appealable, or a regulatory authority has issued a final, non-appealable injunction or order permanently enjoining or otherwise prohibiting the completion of the merger or the other transactions contemplated by the merger agreement; or

- there is a breach by the other party that would cause the failure of certain of the closing conditions described above to be satisfied, and the breach, if continuing on the closing date, is not cured prior to the earlier of the end date and 30 business days following written notice of the breach.

In addition, South State may terminate the merger agreement in the following circumstances:

- the Park Sterling board of directors (1) fails to recommend to the Park Sterling shareholders that they approve the merger agreement or (2) effects a change in company recommendation with respect to the merger agreement or the transactions contemplated thereby;

- the Park Sterling board of directors fails to comply in any material respect with its non-solicitation obligations described in *The Merger Agreement Agreement Not to Solicit Other Offers* or its obligations with respect to calling the Park Sterling special meeting described in *The Merger Agreement Park Sterling Shareholder Meeting and Recommendation of the Park Sterling Board of Directors* ; or

- the Park Sterling shareholders do not approve the merger agreement and the transactions contemplated thereby at the Park Sterling special meeting, or any adjournment thereof.

In addition, Park Sterling may terminate the merger agreement in the following circumstances:

- the South State board of directors (1) fails to recommend to the South State shareholders that they approve the merger agreement or (2) effects a change in South State recommendation (as defined in *The Merger Agreement Agreement Not to Solicit Other Offers*) with respect to the merger agreement or the transactions contemplated thereby;

- the South State board of directors fails to comply in any material respect with its obligations described in the section titled *The Merger Agreement Change in South State Recommendation* with respect to calling the South State special meeting described in *The Merger Agreement South State Shareholder Meeting and Recommendation of the South State Board of Directors* ;

- (1) if the Park Sterling shareholder meeting has been held, (2) the Park Sterling shareholders do not approve the merger agreement at such meeting, or any adjournment thereof, (3) prior to the Park Sterling shareholder meeting, Park Sterling has received a superior proposal that did not result from a breach of Park Sterling s non-solicitation obligations described in *The Merger Agreement Agreement Not to Solicit Other Offers*, and (4) the Park Sterling board of directors has determined to enter into a definitive agreement providing for such superior proposal upon termination of the merger agreement, and enters into such agreement concurrently with such termination; provided, that Park Sterling shall pay South State the termination fee described in *The Merger Agreement Termination Fee* concurrently with and as a condition to the effectiveness of such termination; or

the South State shareholders do not approve the merger agreement and the transactions contemplated thereby at the South State special meeting, or any adjournment thereof.

Termination Fee (Page [ ])

If the merger agreement is terminated under certain circumstances, Park Sterling may be required to pay to South State, or South State may be required to pay to Park Sterling, a termination fee of $25 million. The termination fee could discourage other companies from seeking to acquire or merge with Park Sterling.

For a more complete summary of the circumstances in which Park Sterling may be required to pay to South State, or South State may be required to pay to Park Sterling, a termination fee, see *The Merger Agreement Termination Fee*.

Voting Agreements (Page [ ])

Each director and current named executive officer of Park Sterling has entered into a voting agreement with South State, solely in his or her capacity as a shareholder of Park Sterling, pursuant to which he or she has agreed, among other things, to vote in favor of the Park Sterling merger proposal and the other proposals presented at the Park Sterling special meeting and against any alternative acquisition proposal. For more information regarding the voting agreements, see *The Merger Agreement Voting Agreements*. As of the record date, Park Sterling shareholders who are parties to the voting agreements beneficially owned and were entitled to vote approximately [ ] shares of Park Sterling common stock representing approximately [ ]% of the shares of Park Sterling common stock outstanding on that date.

Accounting Treatment (Page [ ])

South State prepares its financial statements in accordance with accounting principles generally accepted in the United States (which we refer to as GAAP). The merger will be accounted for using the acquisition method of accounting. South State will be treated as the acquirer for accounting purposes.

Material U.S. Federal Income Tax Consequences (Page [ ])

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code, and it is a condition to the respective obligations of South State and Park Sterling to complete the merger that each of South State and Park Sterling receives a legal opinion to that effect. Accordingly, holders of Park Sterling common stock are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Park Sterling common stock for shares of South State common stock in the merger, except with respect to any cash received instead of fractional shares of South State common stock.

For further information, see *Material U.S. Federal Income Tax Consequences of the Merger*.

The U.S. federal income tax consequences described above may not apply to all holders of Park Sterling common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.

Amendment to South State s Articles of Incorporation (Page [ ] and Annex F)

At the South State special meeting, South State is seeking approval to amend the South State articles to increase the number of authorized shares of its common stock from 40 million shares to

80 million shares. For more information, see *South State Proposals Proposal No. 2: South State Amendment Proposal*.

The Rights of Park Sterling Shareholders Will Change as a Result of the Merger (Page [ ])

The rights of Park Sterling shareholders will change as a result of the merger due to differences in South State s and Park Sterling s governing documents and states of incorporation. The rights of Park Sterling shareholders are governed by North Carolina law and by Park Sterling s articles of incorporation and bylaws, each as amended to date. Upon the completion of the merger, Park Sterling shareholders will become shareholders of South State, as the continuing legal entity in the merger, and the rights of Park Sterling shareholders will therefore be governed by South Carolina law and South State s articles of incorporation and bylaws, each as amended to date. For more detailed information regarding a comparison of your rights as a shareholder of South State and Park Sterling, see *Comparison of Shareholders Rights*.

Risk Factors (Page [ ])

You should consider all the information contained in or incorporated by reference into this joint proxy statement/prospectus in deciding how to vote for the proposals presented in this joint proxy statement/prospectus. In particular, you should consider the factors described under the *Risk Factors* section beginning on page [ ] of this joint proxy statement/prospectus.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF SOUTH STATE

The following table summarizes selected historical consolidated financial data of South State for the periods and as of the dates indicated. This information has been derived from South State s consolidated financial statements filed with the SEC. Historical financial data as of and for the three months ended March 31, 2017 and March 31, 2016 are unaudited and include, in management s opinion, all normal recurring adjustments considered necessary to present fairly the results of operations and financial condition of South State. You should not assume the results of operations for past periods and for the three months ended March 31, 2017 and March 31, 2016 indicate results for any future period.

You should read this information in conjunction with South State s consolidated financial statements and related notes thereto included in South State s Annual Report on Form 10-K for the year ended December 31, 2016, and in South State s Quarterly Report on Form 10-Q for the three months ended March 31, 2017, which are incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

	As of or for the Three Months Ended March 31,		**As of or for the Year Ended December 31,**				
	2017	**2016**	**2016**	**2015**	**2014**	**2013**	**2012**
(Dollars in thousands, except per share data)							
Summary of Operations							
Interest income	$ 100,986	$ 83,815	$ 333,163	$ 338,101	$ 342,022	$ 286,348	$ 187,488
Interest expense	3,624	2,213	8,317	10,328	15,662	12,987	11,094
Net interest income	97,362	81,602	324,846	327,773	326,360	273,361	176,394
Provision for loan losses	3,707	2,557	6,819	5,864	6,590	1,886	13,619
Noninterest income	36,435	30,041	130,330	115,555	94,696	53,720	41,283
Noninterest expenses	104,723	72,030	294,315	287,089	303,038	250,621	158,898
Net income before provision for income taxes	25,367	37,056	154,042	150,375	111,428	74,574	45,160
Provision for income taxes	7,103	12,562	52,760	50,902	35,991	25,355	15,128
Net income	$ 18,264	$ 24,494	$ 101,282	$ 99,473	$ 75,437	$ 49,219	$ 30,032
Preferred stock dividends					1,073	1,354	
Net income available to common shareholders	$ 18,264	$ 24,494	$ 101,282	$ 99,473	$ 74,364	$ 47,865	$ 30,032
Per Common Share Information:							
Earnings per share Basic	$ 0.63	$ 1.02	$ 4.22	$ 4.15	$ 3.11	$ 2.41	$ 2.04
Earnings per share Diluted	$ 0.63	$ 1.01	$ 4.18	$ 4.11	$ 3.08	$ 2.38	$ 2.03
Cash dividends declared	$ 0.33	$ 0.28	$ 1.21	$ 0.98	$ 0.82	$ 0.74	$ 0.69
Weighted-Average Number of Common Shares (in thousands):							
Basic	28,892	23,969	23,998	23,966	23,897	19,866	14,698
Diluted	29,159	24,191	24,219	24,224	24,154	20,077	14,796
Balance Sheet Data Period End							

Assets	$ 11,150,070	$ 8,670,757	$ 8,900,592	$ 8,557,348	$ 7,826,227	$ 7,931,498	$ 5,136,446
Acquired credit impaired loans, net of acquired allowance for loan losses	627,340	692,437	602,546	733,870	919,402	1,220,638	969,395
Acquired noncredit impaired loans	1,715,642	999,238	836,699	1,049,538	1,327,999	1,600,935	73,215
Non-acquired loans	5,564,307	4,472,668	5,241,041	4,220,726	3,467,826	2,865,216	2,571,003
Loans, net of unearned income(1)	7,907,289	6,164,343	6,680,286	6,004,134	5,715,227	5,686,789	3,613,613
Investment securities	1,400,609	995,506	1,014,981	1,027,748	826,943	812,603	560,091
FDIC indemnification asset from loss share agreements		2,091		4,401	22,161	86,447	146,171
Goodwill and other intangible assets	651,172	383,861	378,188	385,765	366,927	377,596	128,491
Deposits	9,033,438	7,161,948	7,334,423	7,100,428	6,461,045	6,554,144	4,298,443
Nondeposit borrowings	460,419	367,244	369,131	343,389	322,751	313,461	296,518
Shareholders equity	1,579,900	1,082,054	1,134,588	1,059,384	984,920	981,469	507,549
Number of common shares outstanding	29,230,734	24,177,833	24,230,392	24,162,657	24,150,702	24,104,124	16,937,464
Book value per common share	$ 54.05	$ 44.75	$ 46.82	$ 43.84	$ 40.78	$ 40.72	$ 29.97
Tangible book value per common share(3)	$ 31.77	$ 28.88	$ 31.22	$ 27.88	$ 25.59	$ 22.36	$ 22.54

	As of or for the Three Months Ended March 31,		As of or for the Year Ended December 31,				
	2017	**2016**	**2016**	**2015**	**2014**	**2013**	**2012**
Balance Sheet Data Averages							
Assets	$ 10,876,323	$ 8,552,188	$ 8,718,671	$ 8,202,681	$ 7,938,437	$ 6,354,973	$ 4,276,263
Investment securities	1,464,758	1,021,607	980,916	862,686	813,733	610,252	451,563
Acquired loans, net of acquired allowance for loan losses	2,384,150	1,735,611	1,604,741	1,998,104	2,500,882	1,813,425	481,754
Non-acquired loans	5,402,372	4,330,770	4,741,294	3,785,243	3,151,482	2,677,450	2,484,751
Non-acquired allowance for loan losses	(37,667)	(34,659)	36,351	(34,602)	(35,034)	(40,192)	(47,762)
Deposits	8,769,875	7,055,561	5,082,850	4,933,236	4,938,845	4,037,194	2,758,670
Nondeposit borrowings	470,033	375,415	376,154	347,245	264,143	350,501	275,722
Shareholders equity	$ 1,561,594	$ 1,073,598	$ 1,104,091	$ 1,028,623	$ 968,163	$ 712,890	$ 419,849
Annualized Performance Ratios							
Return on average assets	0.68%	1.15%	1.16%	1.21%	0.95%	0.77%	0.70%
Return on average equity	4.74%	9.18%	9.17%	9.67%	7.79%	6.90%	7.15%
Return on average tangible equity(3)	8.87%	15.04%	14.72%	15.97%	13.77%	11.54%	9.27%
Net interest margin (taxable equivalent)	4.20%	4.37%	4.22%	4.58%	4.80%	4.99%	4.83%
Efficiency ratio	77.51%	64.07%	64.16%	64.19%	71.41%	75.85%	72.20%
Dividend payout ratio	52.82%	27.64%	28.91%	23.84%	26.61%	31.91%	34.11%
Asset Quality Ratios							
Allowance for loan losses to period end non-acquired loans(2)	0.69%	0.79%	0.71%	0.81%	1.00%	1.20%	1.73%
Allowance for loan losses to period end nonperforming loans(2)	294.97%	182.56%	250.66%	181.84%	121.12%	81.20%	71.53%
Net charge-offs to average non-acquired loans(2)	0.05%	0.09%	0.06%	0.09%	0.16%	0.41%	0.73%
Net charge-offs to average acquired noncredit impaired loans(2)	0.08%	0.08%	0.07%	0.20%	0.06%		
Excluding Acquired Loans:							
Nonperforming assets to period end loans and repossessed assets	0.34%	0.60%	0.36%	0.65%	1.05%	1.94%	3.13%
Nonperforming assets to period end total loans	0.17%	0.31%	0.21%	0.32%	0.47%	0.70%	1.58%
Including Acquired Assets:							
Nonperforming assets to period end loans and repossessed assets	0.49%	0.81%	0.58%	0.89%	1.38%	1.88%	3.46%
Nonperforming assets to period end total loans	0.35%	0.58%	0.43%	0.63%	1.02%	1.36%	2.50%
Capital Ratios							
Equity to assets	14.17%	12.48%	12.75%	12.38%	12.58%	11.55%	9.88%
Tangible equity to tangible assets	8.85%	8.43%	8.88%	8.24%	8.28%	7.13%	7.62%

(1) Excludes loans held for sale.

(2) Excludes acquired assets.

(3) A reconciliation of non-GAAP measures to GAAP is presented on page 61 of South State s Quarterly Report on Form 10-Q for the three months ended March 31, 2017 and on page 38 of South State s Annual Report on Form 10-K for the year ended December 31, 2016, as applicable.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF PARK STERLING

The following table summarizes selected historical consolidated financial data of Park Sterling for the periods and as of the dates indicated. This information has been derived from Park Sterling s consolidated financial statements filed with the SEC. Historical financial data as of and for the three months ended March 31, 2017 and March 31, 2016 are unaudited and include, in management s opinion, all normal recurring adjustments considered necessary to present fairly the results of operations and financial condition of Park Sterling. You should not assume the results of operations for past periods and for the three months ended March 31, 2017 and March 31, 2016 indicate results for any future period.

You should read this information in conjunction with Park Sterling s consolidated financial statements and related notes thereto included in Park Sterling s Annual Report on Form 10-K for the year ended December 31, 2016, and in Park Sterling s Quarterly Report on Form 10-Q for the three months ended March 31, 2017, which are incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

	As of or for the Three Months Ended March 31,		As of or for the Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
(Dollars in thousands, except per share data)							
Summary of Operations							
Interest income	$ 30,821	$ 30,162	$ 119,516	$ 89,312	$ 85,297	$ 78,805	$ 57,946
Interest expense	3,763	3,565	14,475	7,931	7,655	6,382	6,570
Net interest income	27,058	26,597	105,041	81,381	77,642	72,423	51,376
Provision for loan losses	678	556	2,630	723	(1,286)	746	2,023
Noninterest income	5,468	4,727	21,394	18,243	13,953	15,086	11,372
Noninterest expenses	20,642	26,153	94,236	74,153	73,934	64,099	54,076
Net income before provision for income taxes	11,206	4,615	29,569	24,748	18,947	22,664	6,649
Provision for income taxes	3,717	1,874	9,621	8,142	6,058	7,359	2,306
Net income	$ 7,489	$ 2,741	$ 19,948	$ 16,606	$ 12,889	$ 15,305	$ 4,343
Preferred stock dividends						353	51
Net income available to common shareholders	$ 7,489	$ 2,741	$ 19,948	$ 16,606	$ 12,889	$ 14,952	$ 4,292
Per Common Share Information:							
Earnings per share Basic	$ 0.14	$ 0.05	$ 0.38	$ 0.38	$ 0.29	$ 0.34	$ 0.12
Earnings per share Diluted	$ 0.14	$ 0.05	$ 0.38	$ 0.37	$ 0.29	$ 0.34	$ 0.12
Cash dividends declared	$ 0.04	$ 0.03	$ 0.14	$ 0.12	$ 0.08	$ 0.04	N/A
Weighted-Average Number of Common Shares (in thousands):							
Basic	52,703	52,243	52,451	43,939	43,924	43,965	35,101
Diluted	53,463	52,600	52,851	44,305	44,247	44,053	35,108
Balance Sheet Data Period End							
Assets	$ 3,308,756	$ 3,153,737	$ 3,255,395	$ 2,514,264	$ 2,359,230	$ 1,960,827	$ 2,032,794

Acquired credit impaired loans, net of acquired allowance for loan losses	81,869	106,105	85,456	94,917	133,241	163,787	234,282
Acquired noncredit impaired loans	495,215	726,025	538,845	283,738	364,790	404,440	614,574
Non-acquired loans	1,883,511	1,447,013	1,787,885	1,363,160	1,082,662	727,581	507,851
Loans, net of unearned income(1)	2,460,595	2,279,143	2,412,186	1,741,815	1,580,693	1,295,808	1,356,707
Investment securities	532,891	514,440	511,754	502,758	502,956	407,368	252,993
FDIC indemnification asset from loss share agreements		1,477		943	3,964	10,025	18,697
Goodwill and other intangible assets	74,301	76,520	74,755	38,768	40,157	35,049	36,078
Deposits	2,509,195	2,497,983	2,513,752	1,952,662	1,851,354	1,599,885	1,632,004
Nondeposit borrowings	403,418	268,014	348,237	239,262	203,583	78,048	101,716
Shareholders equity	361,720	349,511	355,844	284,704	275,105	262,120	275,702
Number of common shares outstanding	53,112,726	53,038,020	53,116,519	44,854,509	44,859,798	44,730,669	44,575,853
Book value per common share	$ 6.86	$ 6.69	$ 6.75	$ 6.49	$ 6.26	$ 5.96	$ 5.81

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	As of or for the Three Months Ended March 31,		As of or for the Year Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Balance Sheet Data Averages							
Assets	$ 3,258,510	$ 3,132,625	$ 3,171,141	$ 2,436,415	$ 2,199,327	$ 1,962,514	$ 1,349,190
Investment securities	499,387	503,201	523,843	509,560	459,063	322,970	241,191
Loans	2,423,722	2,274,824	2,332,205	1,658,657	1,445,691	1,328,210	896,769
Allowance for loan losses	(12,276)	(9,864)	(10,655)	(8,700)	(9,535)	(10,797)	(9,788)
Deposits	2,500,104	2,453,666	2,483,426	1,898,729	1,783,087	1,580,333	1,047,013
Nondeposit borrowings	361,997	290,455	289,606	222,290	121,697	82,291	73,527
Shareholders equity	$ 359,130	$ 348,556	$ 354,678	$ 281,509	$ 269,504	$ 275,742	$ 215,267
Annualized Performance Ratios							
Return on average assets	0.93%	0.35%	0.63%	0.68%	0.59%	0.76%	0.32%
Return on average equity	8.46%	3.16%	5.62%	5.90%	4.78%	5.42%	1.99%
Net interest margin (taxable equivalent)	3.68%	3.78%	3.66%	3.70%	3.96%	4.20%	4.29%
Efficiency ratio	63.58%	83.48%	74.48%	74.47%	80.88%	73.33%	88.26%
Dividend payout ratio	28.32%	58.19%	37.38%	32.46%	27.80%	11.96%	0.00%
Asset Quality Ratios							
Allowance for loan losses to period end non-acquired loans(2)	0.68%	0.68%	0.68%	0.66%	0.76%	1.21%	2.09%
Allowance for loan losses to period end nonperforming loans(2)	106.07%	102.59%	93.69%	109.85%	92.79%	71.80%	59.44%
Net charge-offs (recoveries) to average total loans	0.00%	0.04%	0.02%	0.00%	0.07%	0.23%	0.18%
Nonperforming assets to period end loans and repossessed assets	0.62%	0.61%	0.64%	0.78%	1.31%	2.04%	3.10%
Nonperforming assets to period end total loans	0.62%	0.61%	0.64%	0.79%	1.32%	2.07%	3.16%
Capital Ratios							
Equity to assets	10.93%	11.08%	10.93%	11.32%	11.66%	13.37%	13.56%
Tangible equity to tangible assets	8.89%	8.87%	8.84%	9.93%	10.13%	11.79%	10.97%

(1) Excludes loans held for sale.

(2) A reconciliation of non-GAAP measures to GAAP is presented on page 45 of Park Sterling s Quarterly Report on Form 10-Q for the three months ended March 31, 2017 and on page 34 of Park Sterling s Annual Report on Form 10-K for the year ended December 31, 2016, as applicable.

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COMPARATIVE HISTORICAL AND UNAUDITED PRO FORMA PER SHARE DATA
(Unaudited)

Presented below for South State and Park Sterling is historical, unaudited pro forma combined and pro forma equivalent per share financial data as of and for the year ended December 31, 2016 and as of and for the three months ended March 31, 2017. The information presented below should be read together with the historical consolidated financial statements of South State and Park Sterling, including the related notes, filed with the SEC and incorporated by reference into this joint proxy statement/prospectus, and with the unaudited pro forma condensed combined financial statements included elsewhere in this joint proxy statement/prospectus. See *Unaudited Pro Forma Condensed Combined Financial Statements* and *Where You Can Find More Information*.

The unaudited pro forma and pro forma equivalent per share information gives effect to the merger as if the merger had been effective on December 31, 2016 or March 31, 2017, in the case of the book value data, and as if the merger and South State s acquisition of Southeastern Bank Financial Corporation had been effective as of January 1, 2016, in the case of the earnings per share and the cash dividends data. The unaudited pro forma data combines the historical results of Park Sterling into South State s consolidated statement of income. While certain adjustments were made for the estimated impact of fair value adjustments and other acquisition-related activity, they are not indicative of what could have occurred had the acquisition taken place on the dates indicated.

In addition, the unaudited pro forma data includes adjustments, which are preliminary and may be revised. The unaudited pro forma data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the merger or consider any potential impacts of current market conditions or the merger on revenues, expense efficiencies, asset dispositions and share repurchases, among other factors, nor the impact of possible business model changes. As a result, unaudited pro forma data is presented for illustrative purposes only and does not represent an attempt to predict or suggest future results.

	Historical			
	South State	Park Sterling	Pro Forma Combined	Per Equivalent Park Sterling Share[(1)]
Basic Income (Loss) from Continuing Operations				
For the year ended December 31, 2016	$ 4.22	$ 0.38	$ 4.19	$ 0.59
For the three months ended March 31, 2017	$ 0.63	$ 0.14	$ 0.67	$ 0.09
Diluted Income (Loss) from Continuing Operations				
For the year ended December 31, 2016	$ 4.18	$ 0.38	$ 4.16	$ 0.58
For the three months ended March 31, 2017	$ 0.63	$ 0.14	$ 0.66	$ 0.09
Cash Dividends				
For the year ended December 31, 2016	$ 1.21	$ 0.14	$ 1.21	$ 0.17
For the three months ended March 31, 2017	$ 0.33	$ 0.04	$ 0.33	$ 0.05
Book Value per common share				
As of December 31, 2016	$ 46.82	$ 6.75	$ 61.59	$ 8.62
As of March 31, 2017	$ 54.05	$ 6.86	$ 60.45	$ 8.46
Market Value				
As of April 26, 2017[(2)]	$ 91.90	$ 12.52	N/A	$ 12.87
As of July 12, 2017[(3)]	$ 85.35	$ 11.82	N/A	$ 11.95

(1) Reflects Park Sterling common shares at the exchange ratio of 0.14.

(2) The last trading day before the announcement of the merger agreement.

(3) A recent practicable date before the date of this joint proxy statement/prospectus.

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COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

South State common stock is listed on the NASDAQ under the symbol SSB, and Park Sterling common stock is listed on the NASDAQ under the symbol PSTB. The following table sets forth the high and low reported intra-day sales prices per share of South State common stock and Park Sterling common stock, and the cash dividends declared per share for the periods indicated.

	South State Common Stock			Park Sterling Common Stock		
	High	Low	Dividend	High	Low	Dividend
2015						
First Quarter	$ 69.46	$ 58.84	$ 0.23	$ 7.38	$ 6.45	$ 0.03
Second Quarter	77.09	66.53	0.24	7.48	6.49	0.03
Third Quarter	80.85	71.21	0.25	7.72	6.78	0.03
Fourth Quarter	81.80	69.54	0.26	8.20	6.58	0.03
2016						
First Quarter	71.69	59.19	0.28	7.63	5.90	0.03
Second Quarter	74.62	61.83	0.30	7.57	6.41	0.03
Third Quarter	77.02	65.69	0.31	8.59	6.83	0.04
Fourth Quarter	91.85	70.75	0.32	11.04	7.95	0.04
2017						
First Quarter	93.40	80.25	0.33	12.37	10.01	0.04
Second Quarter	92.60	80.95	0.33	12.72	11.16	0.04
Third Quarter (through July 12, 2017)	87.70	84.45		12.11	11.70	

On April 26, 2017, the last full trading day before the announcement of the merger agreement, the high and low sales prices of shares of South State common stock as reported on the NASDAQ were $92.60 and $90.45, respectively. On [ ], 2017, the last practicable trading day before the date of this joint proxy statement/prospectus, the high and low sales prices of shares of South State common stock as reported on the NASDAQ were $[ ] and $[ ], respectively.

On April 26, 2017, the last full trading day before the announcement of the merger agreement, the high and low sales prices of shares of Park Sterling common stock as reported on the NASDAQ were $12.65 and $12.24, respectively. On [ ], 2017, the last practicable trading day before the date of this joint proxy statement/prospectus, the high and low sales prices of shares of Park Sterling common stock as reported on the NASDAQ were $[ ] and $[ ], respectively.

As of [ ], 2017, the last date prior to printing this joint proxy statement/prospectus for which it was practicable to obtain this information for South State and Park Sterling, respectively, there were approximately [ ] registered holders of South State common stock and approximately [ ] registered holders of Park Sterling common stock.

Each South State and Park Sterling shareholder is advised to obtain current market quotations for South State common stock and Park Sterling common stock. The market price of South State common stock and Park Sterling common stock will fluctuate between the date of this joint proxy statement/prospectus and the date of completion of the merger. No assurance can be given concerning the market price of South State common stock or Park Sterling common stock before or after the effective date of the merger. Changes in the market price of South State common stock prior to the completion of the merger will affect the market value of the merger consideration that Park Sterling shareholders will receive upon completion of the merger.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this joint proxy statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements about the financial condition, results of operations, earnings outlook and prospects of South State, Park Sterling and the combined company following the proposed transaction and statements for the period following the completion of the merger. Words such as anticipate, believe, feel, expect, estimate, indicate, seek, strive, plan, intend, outlook, forecast, project, position, target, mission, contemplate, assume, achiev aspiration, outcome, continue, remain, maintain, trend, objective and variations of such words and similar expressions, or future or cor verbs such as will, would, should, could, might, can, may or similar expressions, as they relate to South State, Park Sterling, the propo transaction or the combined company following the transaction often identify forward-looking statements.

These forward-looking statements are predicated on the beliefs and assumptions of management based on information known to management as of the date of this joint proxy statement/prospectus and do not purport to speak as of any other date. Forward-looking statements may include descriptions of the expected benefits and costs of the transaction; forecasts of revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries; management plans relating to the transaction; the expected timing of the completion of the transaction; the ability to complete the transaction; the ability to obtain any required regulatory, shareholder or other approvals; any statements of the plans and objectives of management for future or past operations, products or services, including the execution of integration plans; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing.

The forward-looking statements contained or incorporated by reference in this joint proxy statement/prospectus reflect the view of management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, actual results could differ materially from those anticipated by the forward-looking statements or historical results. Such risks and uncertainties, include, among others, the following possibilities: the occurrence of any event, change or other circumstances that could give rise to the right of one or both of the parties to terminate the definitive merger agreement between South State and Park Sterling; the outcome of any legal proceedings that may be instituted against South State or Park Sterling; the failure to obtain necessary regulatory approvals (and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction), and shareholder approvals or to satisfy any of the other conditions to the transaction on a timely basis or at all; the possibility that the anticipated benefits of the transaction are not realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas where South State and Park Sterling do business; the possibility that the transaction may be more expensive to complete than anticipated, including as a result of unexpected factors or events; diversion of management s attention from ongoing business operations and opportunities; potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the transaction; South State s ability to complete the acquisition and integration of Park Sterling successfully; credit risk associated with commercial real estate, commercial business and construction lending; interest risk involving the effect of a change in interest rates on both of South State s and Park Sterling s earnings and the market value of their respective portfolio equity; liquidity risk affecting each bank s ability to meet its obligations when they come due; price risk focusing on changes in market factors that may affect the value of traded instruments; transaction risk arising from problems with service or product delivery; compliance risk involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices or ethical standards; strategic risk resulting from adverse business decisions or improper implementation of business decisions; reputation risk that adversely affects earnings or capital arising from negative public opinion; cybersecurity risk related to the dependence of South State and Park Sterling on internal computer systems and the technology of outside service providers, as well as the potential impacts of third-party security breaches, which subjects each company to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events; economic downturn risk resulting from changes in the credit markets, greater-than-expected noninterest expenses, excessive loan losses and other factors and the implementation of federal spending cuts currently scheduled to go into effect; and other factors that may affect future results of South State and Park Sterling. In addition, South State s and Park Sterling s respective businesses are subject to numerous risks and uncertainties, including the risks and uncertainties described in this section and their respective Annual Reports on Form 10-K for the year ended December 31, 2016 and subsequent Quarterly Reports on Form 10-Q, each of which are incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

For any forward-looking statements made in this joint proxy statement/prospectus or in any documents incorporated by reference into this joint proxy statement/prospectus, South State and Park Sterling claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this joint proxy statement/prospectus or the date of any document incorporated by reference in this joint proxy statement/prospectus. South State and Park Sterling do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/prospectus and attributable to South State, Park Sterling or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this joint proxy statement/prospectus.

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RISK FACTORS

In addition to the other information contained in or incorporated by reference into this joint proxy statement/prospectus, including the matters addressed under the caption *Cautionary Statement Regarding Forward-Looking Statements*, you should consider the following risk factors carefully in deciding whether to vote to approve the merger agreement. Additional risks and uncertainties not presently known to South State or Park Sterling, if they materialize, also may adversely affect the merger and South State as the surviving corporation in the merger.

In addition, South State s and Park Sterling s respective businesses are subject to numerous risks and uncertainties, including the risks and uncertainties described in this section and their respective Annual Reports on Form 10-K for the year ended December 31, 2016 and subsequent Quarterly Reports on Form 10-Q, each of which are incorporated by reference into this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Because the market price of South State common stock will fluctuate, Park Sterling shareholders cannot be certain of the market value of the merger consideration they will receive.

Upon completion of the merger, each share of Park Sterling common stock will be converted into 0.14 shares of South State common stock. The market value of the merger consideration may vary from the closing price of South State common stock on the date the parties announced the merger, on the date that this joint proxy statement/prospectus is mailed to Park Sterling shareholders, on the date of the special meeting of the Park Sterling shareholders and on the date the merger is completed. Any change in the market price of South State common stock prior to the completion of the merger will affect the market value of the merger consideration that Park Sterling shareholders will receive upon completion of the merger, and there will be no adjustment to the merger consideration for changes in the market price of either shares of South State common stock or shares of Park Sterling common stock.

Stock price changes may result from a variety of factors that are beyond the control of South State and Park Sterling, including but not limited to general market and economic conditions, changes in our respective businesses, operations and prospects and regulatory considerations. Therefore, at the time of the Park Sterling special meeting, holders of Park Sterling common stock will not know the precise market value of the consideration they will receive at the effective time of the merger. Shareholders should obtain current market quotations for shares of South State common stock and for shares of Park Sterling common stock.

The market price of South State common stock after the merger may be affected by factors different from those affecting the shares of Park Sterling or South State currently.

Upon completion of the merger, holders of Park Sterling common stock will become holders of South State common stock. South State s business differs in important respects from that of Park Sterling, and, accordingly, the results of operations of the combined company and the market price of South State common stock after the completion of the merger may be affected by factors different from those currently affecting the independent results of operations of each of South State and Park Sterling.

Approvals required to complete the merger may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger.

Before the merger and the bank merger may be completed, South State and Park Sterling must obtain approvals from the Federal Reserve Board, the FDIC, the South Carolina State Board of Financial Institutions and the North Carolina Commissioner of Banks, as well as from the shareholders of South State and Park Sterling. Other approvals, waivers or consents from regulators may also be required. If these approvals are not obtained or waived, to the extent permitted by law or stock exchange rules, the merger may not occur or may be delayed. Additionally, regulators may impose conditions on the completion of the merger or require changes to the terms of the merger. Such conditions or changes could have the effect of delaying or preventing completion of the merger or imposing additional costs on or limiting the revenues of the combined company following the merger, any of which might have an adverse effect on the combined company following the merger. See *The Merger Regulatory Approvals Required for the Merger*.

Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

South State and Park Sterling have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on South State s ability to successfully combine the businesses of South State and Park Sterling. To realize these anticipated benefits and cost savings, after the completion of the merger, South State expects to integrate Park Sterling s business into its own.

It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company s ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect South State s ability to successfully conduct its business in the markets in which Park Sterling now operates, which could have an adverse effect on South State s financial results and the value of its common stock. If South State experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected.

As with any merger of financial institutions, there also may be business disruptions that cause South State and/or Park Sterling to lose customers or cause customers to remove their accounts from South State and/or Park Sterling and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of South State and Park Sterling during this transition period and for an undetermined period after completion of the merger on the combined company. In addition, the actual cost savings of the merger could be less than anticipated.

The unaudited pro forma condensed combined financial statements included in this document are preliminary and the actual financial condition and results of operations after the merger may differ materially.

The unaudited pro forma condensed combined financial statements in this document are presented for illustrative purposes only and are not necessarily indicative of what South State s actual financial condition or results of operations would have been had the merger been completed on the dates indicated. The unaudited pro forma condensed combined financial statements reflect adjustments to illustrate the effect of the merger had it been completed on the dates indicated, which are based upon preliminary estimates, to record the Park Sterling identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation for the merger reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Park Sterling as of the date of the completion of the merger. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in this document. For more information, see *Unaudited Pro Forma Condensed Combined Financial Statements*.

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The fairness opinions received by each of the South State board of directors and the Park Sterling board of directors from the parties respective financial advisors prior to the signing of the merger agreement do not reflect changes in circumstances since the date of the signing of the merger agreement.

The South State board of directors received a fairness opinion dated April 26, 2017 from KBW and the Park Sterling board of directors received a fairness opinion dated April 26, 2017 from Stephens, and such opinions have not been updated as of the date of this joint proxy statement/prospectus and will not be updated at the time of the completion of the merger. Changes in the operations and prospects of South State or Park Sterling, general market and economic conditions and other factors that may be beyond the control of South State and Park Sterling, may alter the value of South State or Park Sterling or the prices of shares of South State common stock or Park Sterling common stock by the time the merger is completed.

The fairness opinions do not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed or as of any other date than the date of the opinions. The fairness opinions that the South State board of directors and the Park Sterling board of directors received from the parties respective financial advisors are attached as **Annex B** and **Annex C** to this joint proxy statement/prospectus.

For a description of the opinions, see *The Merger Opinion of South State s Financial Advisor* and *The Merger Opinion of Park Sterling s Financial Advisor.* For a description of the other factors considered by the South State board of directors in determining to approve the merger, see *The Merger South State s Reasons for the Merger; Recommendation of the South State Board of Directors*. For a description of the other factors considered by the Park Sterling board of directors in determining to approve the merger, see *The Merger Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors*.

Certain of Park Sterling s directors and executive officers have interests in the merger that may differ from the interests of Park Sterling s shareholders including, if the merger is completed, the receipt of financial and other benefits.

Park Sterling shareholders should be aware that some of Park Sterling s directors and executive officers have interests in the merger and have arrangements that are different from, or in addition to, those of Park Sterling shareholders generally. These interests and arrangements may create potential conflicts of interest. The Park Sterling board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the merger agreement, and in recommending that Park Sterling s shareholders vote in favor of approving the merger agreement.

These interests include:

- at the effective time, each outstanding option to acquire shares of Park Sterling common stock, whether or not vested, that is not exercised prior to the effective time will be cancelled by virtue of the merger and converted into a right to receive the product of (i) the number of shares of Park Sterling common stock subject to such Park Sterling stock option multiplied by (ii) the excess, if any, of (A) the product of the exchange ratio and the South State share value over (B) the per-share exercise price of such Park Sterling stock option;

- at the effective time, each restricted stock award in respect of Park Sterling common stock will vest in full and the restrictions thereon will lapse, and shall be converted into a right to receive the merger consideration with respect to each share subject to the award;

- each of the named executive officers of Park Sterling is party to various agreements with Park Sterling and its affiliates that entitle such officers to certain payments and benefits in the event that such named executive officer experiences a qualifying termination of employment following a change in control of Park Sterling;

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South State Bank has entered into a Consulting and Noncompetition Agreement with Mr. Cherry (the Consulting Agreement) and an Employment and Noncompetition Agreement with each of Messrs. Truslow and Kennedy (which we refer to as the Replacement Agreements) providing for Mr. Cherry s consulting relationship and Messrs. Truslow s and Kennedy s continued employment with South State Bank following the closing of the merger;

The Consulting Agreement and the Replacement Agreements provide Messrs. Cherry, Truslow and Kennedy certain payments and benefits in connection with their performance of services for South State Bank, as well as certain severance benefits upon the cessation of such relationship;

South State has agreed to appoint Mr. Cherry and one current non-employee member of the board of directors of Park Sterling to the South State board of directors;

the payment of certain incentive bonus compensation;

Ms. Foster is party to an Employment Agreement with Park Sterling, pursuant to which she may receive severance payments and benefits upon a qualifying termination of employment; and

South State Bank and Park Sterling Bank have entered into a letter agreement with Mr. Ladnier pursuant to which he may become to entitled to a severance benefit if South State Bank is unable to identify a job position for him with South State Bank following the closing of the merger and Mr. Ladnier continues his employment with Park Sterling through the closing.

For a more complete description of these interests, see *The Merger Interests of Park Sterling s Directors and Executive Officers in the Merger* and *The Merger Agreement Treatment of Park Sterling Equity Awards*.

Each director and current named executive officer of Park Sterling has entered into a voting agreement with South State, solely in his or her capacity as a shareholder of Park Sterling, pursuant to which he or she has agreed, among other things, to vote in favor of the Park Sterling merger proposal and the other proposals presented at the Park Sterling special meeting and against any alternative acquisition proposal. For more information regarding the voting agreements, see *The Merger Agreement Voting Agreements*. As of the record date, Park Sterling shareholders who are parties to the voting agreements beneficially owned and were entitled to vote approximately [ ] shares of Park Sterling common stock representing approximately [ ]% of the shares of Park Sterling common stock outstanding on that date.

Termination of the merger agreement could negatively impact Park Sterling or South State.

There may be various negative consequences if the merger agreement is terminated. For example, Park Sterling s or South State s businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of Park Sterling s or South State s common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed. If the merger agreement is terminated under certain circumstances, Park Sterling may be required to pay to South State, or South State may be required to pay to Park Sterling, a termination fee of $25 million.

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Failure to complete the merger could negatively impact the stock price and the future business and financial results of South State or Park Sterling.

If the merger is not completed for any reason, including as a result of South State or Park Sterling shareholders declining to approve the merger agreement, the ongoing business of South State or Park Sterling may be adversely affected and, without realizing any of the benefits of having completed the merger, South State or Park Sterling would be subject to a number of risks, including the following:

- South State or Park Sterling may experience negative reactions from the financial markets, including negative impacts on its stock price;

- South State or Park Sterling may experience negative reactions from its customers, vendors and employees;

- the merger agreement places certain restrictions on the conduct of South State s and Park Sterling s respective businesses prior to completion of the merger. Such restrictions, the waiver of which is subject to the consent of the other party (not to be unreasonably withheld or delayed), may prevent each company from taking certain specified actions during the pendency of the merger (see *The Merger Agreement Covenants and Agreements Conduct of Businesses Prior to the Completion of the Merger*); and

- matters relating to the merger (including integration planning) will require substantial commitments of time and resources by South State and Park Sterling management, which would otherwise have been devoted to other opportunities that may have been beneficial to South State and Park Sterling as an independent company.

Park Sterling will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Park Sterling. These uncertainties may impair Park Sterling s ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with Park Sterling to seek to change existing business relationships with Park Sterling. Retention of certain employees by Park Sterling may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles with Park Sterling or South State. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Park Sterling or South State, Park Sterling s business or, following the merger, the combined business could be harmed. In addition, subject to certain exceptions, Park Sterling has agreed to operate its business in the ordinary course prior to closing. See *The Merger Agreement Covenants and Agreements Conduct of Businesses Prior to the Completion of the Merger* for a description of the restrictive covenants applicable to Park Sterling.

If the merger is not completed, South State and Park Sterling will have incurred substantial expenses without realizing the expected benefits of the merger.

Each of South State and Park Sterling has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of filing, printing and mailing this joint proxy statement/prospectus and all filing and other fees paid to the SEC and fees to other regulators in connection with the merger. If the merger is not completed, South State and Park Sterling would have to recognize these and other expenses without realizing the expected benefits of the merger.

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The merger agreement limits Park Sterling s ability to pursue an alternative acquisition proposal and requires it to pay a termination fee of $25 million under certain circumstances.

The merger agreement prohibits Park Sterling from initiating, soliciting, knowingly encouraging or knowingly facilitating certain alternative acquisition proposals with any third party, subject to exceptions set forth in the merger agreement. See *The Merger Agreement Agreement Not to Solicit Other Offers*. The merger agreement also provides that Park Sterling must pay to South State a termination fee in the amount of $25 million in the event that the merger agreement is terminated for certain reasons, including circumstances involving a change in company recommendation by the Park Sterling board of directors. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Park Sterling from considering or proposing such an acquisition. See *The Merger Agreement Termination Fee*.

The merger agreement requires South State to pay a termination fee of $25 million under certain circumstances.

The merger agreement provides that South State must pay to Park Sterling a termination fee in the amount of $25 million in the event that the merger agreement is terminated for certain reasons, including circumstances involving a change in South State recommendation by the South State board of directors. See *The Merger Agreement Termination Fee*.

The shares of South State common stock to be received by Park Sterling shareholders as a result of the merger will have different rights from the shares of Park Sterling common stock.

Upon completion of the merger, Park Sterling shareholders will become South State shareholders and their rights as shareholders will be governed by South Carolina law and South State s articles of incorporation and bylaws, each as amended to date. The rights associated with Park Sterling common stock are different from the rights associated with South State common stock. Please see *Comparison of Shareholders Rights* beginning on page [ ] for a discussion of the different rights associated with South State common stock.

Park Sterling s shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Currently, Park Sterling s shareholders have the right to vote in the election of the Park Sterling board of directors and the power to approve or reject any matters requiring shareholder approval under North Carolina law and Park Sterling s articles of incorporation and bylaws, each as amended to date. Upon the completion of the merger, each Park Sterling shareholder will become a shareholder of South State, with a percentage ownership of South State that is smaller than the shareholder s current percentage ownership of Park Sterling.

After the merger, Park Sterling shareholders in the aggregate are expected to become owners of approximately [ ]% of the outstanding shares of South State common stock (without giving effect to any shares of South State common stock held by Park Sterling shareholders prior to the merger). Even if all former Park Sterling shareholders voted together on all matters presented from time to time to South State s shareholders, the former Park Sterling shareholders would exercise significantly less influence over South State after the merger relative to their influence over Park Sterling prior to the merger, and thus would have a less significant impact on the approval or rejection of future proposals submitted to a shareholder vote.

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THE SOUTH STATE SPECIAL MEETING

This section contains information for South State shareholders about the special meeting that South State has called to allow its shareholders to consider and vote on the merger agreement. South State is mailing this joint proxy statement/prospectus to you, as a South State shareholder, on or about [ ], 2017. Together with this joint proxy statement/prospectus, South State is also sending to you a notice of the special meeting of South State shareholders and a form of proxy card that the South State board of directors is soliciting for use at the special meeting and at any adjournments or postponements of the special meeting.

Date, Time and Place of Meeting

The special meeting will be held on [ ], at [ ] local time, at [ ].

Matters to Be Considered

At the special meeting of shareholders, you will be asked to consider and vote upon the following matters:

- the South State merger proposal;
- the South State amendment proposal; and
- the South State adjournment proposal.

Recommendation of the South State Board of Directors

The South State board of directors unanimously recommends that South State shareholders vote FOR the South State merger proposal, FOR the South State amendment proposal and FOR the South State adjournment proposal.

The South State board of directors has determined that the merger agreement and the transactions contemplated thereby, including the merger and the issuance of South State common stock, are advisable and in the best interests of South State and its shareholders and has unanimously approved the merger agreement. See *The Merger South State s Reasons for the Merger; Recommendation of the South State Board of Directors* for a more detailed discussion of the recommendation of the South State board of directors.

Record Date and Quorum

The South State board of directors has fixed the close of business on [ ], 2017 as the record date for determining the holders of South State common stock entitled to receive notice of and to vote at the South State special meeting.

As of the record date, there were [ ] shares of South State common stock outstanding and entitled to vote at the South State special meeting held by approximately [ ] holders of record. Each share of South State common stock entitles the holder to one vote at the South State special meeting on each proposal to be considered at the South State special meeting.

The presence at the special meeting, in person or by proxy, of holders of a majority of the outstanding shares of South State common stock entitled to vote at the special meeting will constitute a quorum for the transaction of business. All shares of South State common stock present in person or represented by proxy, including abstentions and broker non-votes, if any, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the South State special meeting.

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Vote Required; Treatment of Abstentions and Failure to Vote

Approval of the South State merger proposal requires the affirmative vote of holders of at least two-thirds of the outstanding shares of South State common stock entitled to vote on such proposal. **If you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee with respect to the South State merger proposal, it will have the same effect as a vote AGAINST such proposal.**

Approval of the South State amendment proposal requires the affirmative vote of holders of at least two-thirds of the outstanding shares of South State common stock entitled to vote on such proposal. **If you mark ABSTAIN on your proxy card or when voting by Internet or phone, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee with respect to the South State amendment proposal, it will have the same effect as a vote AGAINST such proposal.**

Approval of the South State adjournment proposal requires the votes cast by shareholders of South State in favor of the proposal to exceed the votes cast by shareholders of South State against the proposal at the South State special meeting. If you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the South State special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the South State adjournment proposal, it will have no effect on the proposal.

Shares Held by South State Officers and Directors

As of the record date, there were [ ] shares of South State common stock entitled to vote at the special meeting. As of the record date, Park Sterling and its subsidiaries held [ ] shares of South State common stock (other than shares held as fiduciary, custodian or agent).

As of the record date, the directors and executive officers of South State and their affiliates beneficially owned and were entitled to vote approximately [ ] shares of South State common stock representing approximately [ ]% of the shares of South State common stock outstanding on that date. We currently expect that South State s directors and executive officers will vote their shares in favor of the South State merger proposal, the South State amendment proposal and South State adjournment proposal, although they have no obligation to do so.

Voting of Proxies; Incomplete Proxies

Each copy of this joint proxy statement/prospectus mailed to holders of South State common stock is accompanied by a form of proxy with instructions for voting. If you hold stock in your name as a shareholder of record, you should complete and return the proxy card accompanying this joint proxy statement/prospectus, regardless of whether you plan to attend the special meeting.

If you hold your stock in street name through a bank, broker or other nominee, you must direct your bank, broker or other nominee how to vote in accordance with the instructions you have received from your bank, broker or other nominee.

All shares represented by valid proxies that South State receives through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted FOR the South State merger proposal, FOR the South State amendment proposal and FOR the South State adjournment proposal. No matters other than the matters described in this joint proxy statement/prospectus are anticipated to be presented for action at the special meeting or at any adjournment or postponement of the special meeting. However, if other business properly comes before the special meeting, the proxy agents will, in their discretion, vote upon such matters in their best judgment.

Shares Held in Street Name ; Broker Non-Votes

A bank, broker or other nominee holding shares in street name for a beneficial owner has discretion (but is not required) to vote the client s shares with respect to routine matters if the client does not provide voting instructions. The bank, broker or other nominee, however, is not permitted to vote the client s shares with respect to non-routine matters without voting instructions from the beneficial owner. A broker non-vote occurs when your bank, broker or other nominee submits a proxy for your shares but does not vote on a particular proposal because the bank, broker or other nominee does not have discretionary voting power for that item and has not received instructions from you.

We believe that the South State merger proposal, the South State amendment proposal and the South State adjournment proposal are non-routine proposals and your bank, broker or other nominee can vote your shares of South State common stock only with your specific voting instructions. Broker non-votes, if any, will be counted for purposes of determining a quorum but will not be treated as votes cast. Because approval of each of the South State merger proposal and the South State amendment proposal requires the affirmative vote of holders of at least two-thirds of the outstanding shares of South State common stock entitled to vote on the proposal, a broker non-vote will have the effect of a vote AGAINST the South State merger proposal and the South State amendment proposal, respectively. Broker non-votes will have no effect on the outcome of the South State adjournment proposal.

Revocability of Proxies and Changes to a South State Shareholder s Vote

If you hold stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date, (2) delivering a written revocation letter to William C. Bochette III, South State s corporate secretary, or (3) attending the special meeting in person, notifying Mr. Bochette and voting by ballot at the special meeting.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying Mr. Bochette, South State s corporate secretary) of a shareholder at the special meeting will not constitute revocation of a previously given proxy.

Written notices of revocation and other communications about revoking your proxy should be addressed to:

South State Corporation
520 Gervais Street
Columbia, South Carolina 29201
Attention: William C. Bochette III, Corporate Secretary

If your shares are held in street name by a bank, broker or nominee, you should follow the instructions of your bank, broker or nominee regarding the revocation of proxies.

Solicitation of Proxies

South State is soliciting your proxy in conjunction with the merger. South State will bear the entire cost of soliciting proxies from you. In addition to solicitation of proxies by mail, South State will request that banks, brokers and other nominees send proxies and proxy material to the beneficial owners of South State common stock and secure their voting instructions. South State will reimburse the record holders for their reasonable expenses in taking those actions. South State has not engaged a

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proxy solicitor to solicit proxies from shareholders. If necessary, South State may use its directors and several of its regular employees, who will not be specially compensated, to solicit proxies from the South State shareholders, either personally or by telephone, facsimile, letter or electronic means.

Attending the Meeting

All holders of South State common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. South State reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the special meeting is prohibited without South State s express written consent.

Assistance

If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of South State common stock, please contact William C. Bochette III, South State s corporate secretary, at the following address or telephone number:

520 Gervais Street
Columbia, South Carolina 29201
(800) 277-2175

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SOUTH STATE PROPOSALS

PROPOSAL NO. 1: SOUTH STATE MERGER PROPOSAL

South State is asking its shareholders to approve the merger agreement and the transactions contemplated thereby, including the merger and the issuance of South State common stock pursuant to the merger agreement. Holders of South State common stock should read this joint proxy statement/prospectus carefully and in its entirety for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this joint proxy statement/prospectus as **Annex A**.

The South State board of directors has determined that the merger agreement and the transactions contemplated thereby, including the merger and the issuance of South State common stock, are advisable and in the best interests of South State and its shareholders and has unanimously approved the merger agreement. See *The Merger South State s Reasons for the Merger; Recommendation of the South State Board of Directors* for a more detailed discussion of the recommendation of the South State board of directors.

The South State board of directors unanimously recommends a vote FOR the South State merger proposal.

PROPOSAL NO. 2: SOUTH STATE AMENDMENT PROPOSAL

South State is asking its shareholders to approve an amendment to the South State articles to increase the number of authorized shares of its common stock from 40 million shares to 80 million shares.

South State is currently authorized by the South State articles to issue up to 40 million shares of common stock. As of [ ], 2017, the record date, South State had [ ] shares of South State common stock issued and outstanding, [ ] shares of common stock held in treasury and [ ] shares of South State common stock reserved for issuance under various compensation and benefits plans, with the remaining [ ] shares being authorized, unissued and unreserved shares available for other corporate purposes. Based on the current number of shares of Park Sterling common stock outstanding as of [ ], 2017, the record date, South State expects to issue approximately [ ] shares of South State common stock in the aggregate upon completion of the merger.

South State currently has a sufficient number of authorized and unissued shares of South State common stock to complete the merger. Therefore, the proposed merger is not contingent upon the approval of the South State amendment proposal.

The South State board of directors considers the proposed increase in the number of authorized shares desirable because it will provide greater flexibility in the capital structure of the combined company following the merger by allowing it to raise capital that may be necessary to further develop its business, to fund potential acquisitions, to have shares available for use in connection with stock plans and to pursue other corporate purposes that may be identified by the South State board of directors in the future. Other than in connection with the merger and pursuant to South State s benefit plans, South State does not have any current plans to issue shares of common stock at this time.

The South State amendment proposal, if approved, would amend Article V of the South State articles to increase the number of authorized shares of South State common stock from 40 million shares to 80 million shares.

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The proposed amendment would amend and restate the first sentence of Article V of the South State articles in its entirety to state:

> The aggregate number of shares which the corporation shall have the authority to issue is (i) Eighty Million (80,000,000) shares of one class of Common Stock each of which shall have a par value of Two Dollars Fifty Cents ($2.50) and (ii) Ten Million (10,000,000) shares of preferred stock, par value $.01 per share (referred to in these amended and restated Articles of Incorporation as preferred stock).

Each share of South State common stock authorized for issuance has the same rights as, and is identical in all respects with, each other share of common stock. The newly authorized shares of common stock will not affect the rights, such as voting and liquidation rights, of the shares of common stock currently outstanding.

As is the case with South State s currently authorized but unissued shares of common stock, however, adoption of this proposal would permit the South State board of directors to issue additional shares in the future without further approval of South State s shareholders, unless otherwise required by law, the rules of NASDAQ or the South State articles. Under the South State articles, South State shareholders do not have preemptive rights. Therefore, should the South State board of directors elect to issue additional shares of common stock, existing common shareholders would not have any preferential rights to purchase those shares, and such issuance could have a dilutive effect on earnings per share, book value per share and the voting power and percentage of beneficial ownership of current shareholders, depending on the particular circumstances in which the additional shares of common stock are issued.

The proposed amendment is not intended as an anti-takeover provision. However, an increase in the authorized number of shares of South State s common stock could make it more difficult, and thereby discourage, attempts to acquire control of South State in the future. For example, the proposed amendment would permit issuances that would dilute the stock ownership of a person seeking to effect a change in the composition of the South State board of directors or contemplating a tender offer or other transaction for a change in control of South State that the South State board of directors does not believe is in the best interests of South State or its shareholders. The ability of the South State board of directors to cause South State to issue common stock without the need for shareholder approval, upon such terms and conditions as the South State board of directors may determine from time to time in the exercise of its business judgment may, among other things, be used to create voting impediments with respect to changes in control of South State or to dilute the stock ownership of holders of South State common stock seeking to obtain control of South State. The South State articles and South State s bylaws also contain other provisions that may have an anti-takeover effect.

See *Description of Capital Stock of South State* in this joint proxy statement/prospectus for a description of South State capital stock and the rights of South State shareholders.

The foregoing description of the proposed amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the form of Articles of Amendment to the Amended and Restated Articles of Incorporation of South State Corporation (which we refer to as the articles amendment), which is attached as **Annex F** to this joint proxy statement/prospectus.

If the South State amendment proposal is approved by the required vote of the South State shareholders, South State intends to file the articles amendment with the Secretary of State of the State of South Carolina. The articles amendment is expected to be effective immediately upon acceptance of filing by the South Carolina Secretary of State. However, the South State board of directors reserves the right to abandon or delay the filing of the articles amendment, even if it is approved by the South State shareholders.

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The vote on the South State amendment proposal is a vote separate and apart from the vote to approve the merger agreement. You may vote for the South State amendment proposal and against the South State merger proposal, and vice versa. The approval of the South State amendment is not a condition to the completion of the merger, and approval of the South State merger proposal is not a condition to the effectiveness of the South State articles amendment.

The South State board of directors unanimously recommends a vote FOR the South State amendment proposal.

PROPOSAL NO. 3: SOUTH STATE ADJOURNMENT PROPOSAL

The South State special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the South State merger proposal.

If, at the South State special meeting, the number of shares of South State common stock present or represented and voting in favor of the South State merger proposal is insufficient to approve such proposal, South State intends to move to adjourn the South State special meeting in order to solicit additional proxies for the approval of the South State merger proposal.

In this proposal, South State is asking its shareholders to authorize the holder of any proxy solicited by the South State board of directors on a discretionary basis to vote in favor of adjourning the South State special meeting to another time and place for the purpose of soliciting additional proxies, including the solicitation of proxies from South State shareholders who have previously voted.

The South State board of directors unanimously recommends a vote FOR the South State adjournment proposal.

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THE PARK STERLING SPECIAL MEETING

This section contains information for Park Sterling shareholders about the special meeting that Park Sterling has called to allow its shareholders to consider and vote on the merger agreement. Park Sterling is mailing this joint proxy statement/prospectus to you, as a Park Sterling shareholder, on or about [ ], 2017. Together with this joint proxy statement/prospectus, Park Sterling is also sending to you a notice of the special meeting of Park Sterling shareholders and a form of proxy card that Park Sterling s board of directors is soliciting for use at the special meeting and at any adjournments or postponements thereof.

This joint proxy statement/prospectus is also being furnished by South State to Park Sterling shareholders as a prospectus in connection with the issuance of shares of South State common stock as merger consideration upon the consummation of the merger.

Date, Time and Place of Meeting

The special meeting will be held on [ ], 2017, at [ ] Eastern Time, at [ ].

Matters to Be Considered

At the special meeting of shareholders, you will be asked to consider and vote upon the following matters:

- the Park Sterling merger proposal;
- the Park Sterling adjournment proposal; and
- the compensation proposal.

Recommendation of the Park Sterling Board of Directors

The Park Sterling board of directors unanimously recommends that Park Sterling shareholders vote FOR the Park Sterling merger proposal, FOR the Park Sterling adjournment proposal and FOR the compensation proposal.

The Park Sterling board of directors has determined that the merger agreement and the merger are advisable and in the best interests of Park Sterling and its shareholders and has unanimously approved the merger agreement. See *The Merger Park Sterling s Reasons for the Merger; Recommendation of Park Sterling s Board of Directors* for a more detailed discussion of the recommendation of Park Sterling s board of directors.

Record Date and Quorum

Shareholders of record of Park Sterling common stock as of the close of business on [ ], 2017, the record date established by Park Sterling s board of directors, are entitled to notice of and to vote at the Park Sterling special meeting and any adjournments thereof, either in person or by proxy. Each share of Park Sterling common stock is entitled to one vote on each proposal to be considered at the Park Sterling special meeting. On the record date, there were [ ] shares of Park Sterling common stock outstanding and entitled to vote at the Park Sterling special meeting.

Park Sterling shareholders may take action on a matter at the Park Sterling special meeting only if a quorum exists with respect to that matter. The presence in person or by proxy of the holders of record of a majority of the votes entitled to be cast on a matter constitutes a quorum for action on that matter. Votes for and against, abstentions and broker non-votes (described below) will all be counted as present for purposes of determining whether a quorum exists. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment (unless a new record date is set for the adjourned meeting). If a quorum is not present at the opening of the Park Sterling special meeting, the meeting may be adjourned from time to time by the vote of the holders of a majority of the votes cast on the motion to adjourn.

Vote Required; Treatment of Abstentions and Failure to Vote

Approval of the Park Sterling merger proposal requires the affirmative vote of at least a majority of the outstanding shares of Park Sterling common stock entitled to vote on the proposal. **Therefore, if you indicate ABSTAIN on your proxy card or when voting by Internet or phone, fail to either submit a proxy or vote in person at the Park Sterling special meeting or fail to instruct your bank, broker or other nominee how to vote with respect to the proposal to approve the merger agreement, it will have the same effect as a vote AGAINST the proposal.**

Approval of each of the Park Sterling adjournment proposal and the compensation proposal requires the votes cast by Park Sterling shareholders in favor of each such proposal to exceed the votes cast by Park Sterling shareholders against such proposal at the Park Sterling special meeting. Abstentions and broker non-votes, if any, will not be treated as a vote cast either for or against either of these matters. The compensation proposal is an advisory vote that will not be binding on Park Sterling s board of directors.

Shares Held by Park Sterling Officers and Directors

As of the record date, there were [ ] shares of Park Sterling common stock entitled to vote at the special meeting.

As of the record date, South State and its subsidiaries held [ ] shares of Park Sterling common stock (other than shares held as fiduciary, custodian or agent).

As of the record date, the directors and executive officers of Park Sterling and their affiliates beneficially owned and were entitled to vote approximately [ ] shares of Park Sterling common stock representing approximately [ ]% of the shares of Park Sterling common stock outstanding on that date. See *The Merger Interests of Park Sterling s Directors and Executive Officers in the Merger*.

Each director and current named executive officer of Park Sterling has entered into a voting agreement with South State, solely in his or her capacity as a shareholder of Park Sterling, in which each such person agreed, among other things, to vote the shares of Park Sterling common stock owned beneficially or of record by him or her in favor of the merger and against any proposal made in competition with the merger, as well as to certain other customary restrictions with respect to the voting and transfer of his or her shares of Park Sterling common stock. For more information regarding the voting agreements, see *The Merger Agreement Voting Agreements*.

Voting of Proxies; Incomplete Proxies

Each copy of this joint proxy statement/prospectus mailed to holders of Park Sterling common stock is accompanied by a form of proxy card with instructions for voting. You may vote at the special meeting: (i) in person, (ii) by phone, (iii) by mail via your proxy card or (iv) on the Internet, in each case in accordance with the instructions on your proxy card. If a bank, broker or other nominee holds your shares, you will receive voting instructions directly from the holder of record. If you hold stock in your name as a shareholder of record, you should complete and return the proxy card accompanying this joint proxy statement/prospectus or otherwise vote by phone or via the Internet, regardless of whether you plan to attend the special meeting.

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If you hold your stock in street name through a bank, broker or other nominee, you must direct your bank, broker or other nominee how to vote in accordance with the instructions you have received from your bank, broker or other nominee.

Do not send your Park Sterling stock certificates with your proxy card. After the merger is completed, you will be mailed a transmittal form with instructions on how to exchange your Park Sterling stock certificates for the merger consideration.

The form of proxy solicited by Park Sterling s board of directors permits you to specify a choice among for, against and abstain with respect to each of the matters to be acted upon at the Park Sterling special meeting. All shares represented by valid proxies that Park Sterling receives through this solicitation and that are not revoked will be voted according to your instructions on the proxy card or as instructed over the phone or via the Internet. If you properly submit a proxy without giving specific voting instructions, your shares will be voted in accordance with the recommendations of Park Sterling s board of directors, namely, FOR the Park Sterling merger proposal, FOR the Park Sterling adjournment proposal and FOR the compensation proposal. If other matters properly come before the Park Sterling special meeting, the persons appointed to vote the proxies will vote on these matters in accordance with their best judgment.

Shares Held in Street Name ; Broker Non-votes

A bank, broker or other nominee holding shares in street name for a beneficial owner has discretion (but is not required) to vote the client s shares with respect to routine matters if the client does not provide voting instructions. The bank, broker or other nominee, however, is not permitted to vote the client s shares with respect to non-routine matters without voting instructions from the beneficial owner. A broker non-vote occurs when your bank, broker or other nominee submits a proxy for your shares but does not vote on a particular proposal because the bank, broker or other nominee does not have discretionary voting power for that item and has not received instructions from you.

We believe that the Park Sterling merger proposal, the Park Sterling adjournment proposal and the compensation proposal are non-routine proposals and your bank, broker or other nominee can vote your shares of Park Sterling common stock only with your specific voting instructions. Broker non-votes, if any, will be counted for purposes of determining a quorum but will not be treated as votes cast. Accordingly, because approval of the Park Sterling merger proposal requires the affirmative vote of at least a majority of the outstanding shares of Park Sterling common stock entitled to vote on the proposal, a broker non-vote will have the effect of a vote AGAINST the Park Sterling merger proposal. Broker non-votes will have no effect on the outcome of the Park Sterling adjournment proposal or the compensation proposal.

Revocability of Proxies and Changes to a Park Sterling Shareholder s Vote

If you hold stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by (1) signing and returning a proxy card with a later date or re-voting by phone or over the Internet at a later time, (2) delivering a written revocation letter to Park Sterling s corporate secretary or (3) attending the special meeting in person, notifying the corporate secretary and voting by ballot at the special meeting.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying Park Sterling s corporate secretary) of a shareholder at the special meeting will not constitute revocation of a previously given proxy.

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Written notices of revocation and other communications about revoking your proxy should be addressed to:

Park Sterling Corporation
1043 E. Morehead Street, Suite 201
Charlotte, North Carolina 28204
Attention: Secretary

If your shares are held in street name by a bank, broker or other nominee, you should follow the instructions of your bank, broker or other nominee regarding the revocation of proxies.

Solicitation of Proxies

Park Sterling s board of directors is soliciting your proxy in conjunction with the merger. Park Sterling will bear the entire cost of soliciting these proxies from you. In addition to the delivery of the proxy materials by mail, Park Sterling may request banks, brokers and other record holders, or a proxy solicitor acting on its behalf, to send proxies and proxy materials to the beneficial owners of the Park Sterling common stock and secure their voting instructions and will reimburse them for their reasonable expenses in so doing. Park Sterling has not engaged a proxy solicitor to solicit proxies from shareholders; however, Park Sterling retains the right to do so if it deems such solicitation necessary. Furthermore, Park Sterling may also use one or more of its executive officers, directors or regular employees, who will not be specially compensated, to solicit proxies from shareholders, either in person, by telephone, by e-mail or by special letter.

Attending the Meeting

All holders of Park Sterling common stock, including shareholders of record and shareholders who hold their shares through banks, brokers or other nominees, are invited to attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor from the record holder of your shares, such as a bank, broker or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. Park Sterling reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

Assistance

If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies of this joint proxy statement/prospectus or need help voting your shares of Park Sterling common stock, please contact Ralph W. Brewer, Secretary, 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, (704) 716-2134.

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PARK STERLING PROPOSALS

PROPOSAL NO. 1: PARK STERLING MERGER PROPOSAL

Park Sterling is asking its shareholders to approve the merger agreement and the transactions contemplated thereby, including the merger. Holders of Park Sterling common stock should read this joint proxy statement/prospectus carefully and in its entirety for more detailed information concerning the merger agreement and the merger. A copy of the merger agreement is attached to this joint proxy statement/prospectus as **Annex A**.

The Park Sterling board of directors has determined that the merger agreement and the merger are advisable and in the best interests of Park Sterling and its shareholders and has unanimously approved the merger agreement. See *The Merger Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors* for a more detailed discussion of the recommendation of the Park Sterling board of directors.

The Park Sterling board of directors unanimously recommends a vote FOR the Park Sterling merger proposal.

PROPOSAL NO. 2: PARK STERLING ADJOURNMENT PROPOSAL

The Park Sterling special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the Park Sterling merger proposal.

If, at the Park Sterling special meeting, the number of shares of Park Sterling common stock present or represented and voting in favor of the Park Sterling merger proposal is insufficient to approve such proposal, Park Sterling intends to move to adjourn the Park Sterling special meeting in order to solicit additional proxies for the approval of the Park Sterling merger proposal.

In this proposal, Park Sterling is asking its shareholders to authorize the holder of any proxy solicited by the Park Sterling board of directors on a discretionary basis to vote in favor of adjourning the Park Sterling special meeting to another time and place for the purpose of soliciting additional proxies, including the solicitation of proxies from Park Sterling shareholders who have previously voted.

The Park Sterling board of directors unanimously recommends a vote FOR the Park Sterling adjournment proposal.

PROPOSAL NO. 3: COMPENSATION PROPOSAL

In accordance with Section 14A of the Exchange Act, the Park Sterling board of directors is providing shareholders with the opportunity to cast a non-binding advisory vote on the compensation payable to the named executive officers of Park Sterling in connection with the merger. This proposal gives Park Sterling shareholders the opportunity to express their views on the compensation that Park Sterling s named executive officers will be entitled to receive in connection with the proposed merger. This compensation is summarized in the table in the section titled *The Merger Interests of Park Sterling s Directors and Executive Officers in the Merger Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control*, including the footnotes to the table.

As required by Section 14A of the Exchange Act, Park Sterling is asking its shareholders to vote on the adoption of the following resolution:

> RESOLVED, that the compensation that may be paid or become payable to Park Sterling s named executive officers in connection with the merger, as disclosed in the section titled *The Merger Interests of Park Sterling s Directors and Executive Officers in the Merger Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control*,

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including the table, associated footnotes and narrative discussion related thereto, is hereby APPROVED.

The vote on the compensation proposal is a vote separate and apart from the vote to approve the merger agreement. You may vote for the compensation proposal and against the Park Sterling merger proposal, and vice versa. Because the vote on the compensation proposal is advisory only, it will not be binding on either Park Sterling or South State. Accordingly, because Park Sterling or South State, as applicable, is contractually obligated to pay the compensation, if the merger is completed, the compensation will be payable, subject to the conditions applicable thereto, regardless of the outcome of the advisory vote.

The Park Sterling board of directors unanimously recommends a vote FOR the compensation proposal.

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INFORMATION ABOUT SOUTH STATE

South State Corporation is a South Carolina corporation that is a BHC registered with the Federal Reserve Board under the BHC Act. South State provides a wide range of banking services and products to its customers through its wholly owned bank subsidiary, South State Bank, a South Carolina banking corporation. South State does not engage in any significant operations other than the ownership of its banking subsidiary.

South State Bank provides a full range of retail and commercial banking services, mortgage lending services, trust and investment services, and consumer finance loans through financial centers in South Carolina, North Carolina, northeast Georgia and coastal Georgia. South State coordinates the financial resources of the consolidated enterprise and thereby maintains financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. South State s operating revenues and net income are derived primarily from cash dividends received from South State Bank. As of March 31, 2017, South State had approximately $11.2 billion in assets, $7.9 billion in loans, $9.0 billion in deposits, $1.6 billion in shareholders equity, and a market capitalization of approximately $2.6 billion.

South State Bank began operating in 1934 and has maintained its ability to provide superior customer service while also leveraging its size to offer many products more common to super-regional banks. South State has pursued a growth strategy that relies primarily on organic growth, supplemented by the acquisition of select financial institutions or branches in certain market areas. In recent years, South State has continued to grow its business in South Carolina, and has expanded into North Carolina and Georgia through, among other things, the following acquisitions:

Community Bank & Trust January 29, 2010 FDIC purchase and assumption agreement

Habersham Bank February 18, 2011 FDIC purchase and assumption agreement

BankMeridian, N.A. July 29, 2011 FDIC purchase and assumption agreement

Peoples Bancorporation, Inc. April 24, 2012 Whole bank acquisition

The Savannah Bancorp, Inc. December 13, 2012 Whole bank acquisition

First Financial Holdings, Inc. July 26, 2013 Whole bank acquisition with FDIC purchase and assumption agreements of Cape Fear Bank and Plantation Federal Bank

Bank of America, N.A. (BOA) August 21, 2015 Branch acquisition, which resulted in the purchase of 12 South Carolina branch locations and one Georgia branch location from BOA

Southeastern Bank Financial Corporation January 3, 2017 Whole bank acquisition.

The principal executive offices of South State are located at 520 Gervais Street, Columbia, South Carolina 29201, and its telephone number is (800) 277-2175. South State s website can be accessed at http://www.southstatebank.com. Information contained in South State s website does not constitute part of, and is not incorporated into, this joint proxy statement/prospectus. South State common stock is quoted on the NASDAQ under the symbol SSB.

Additional information about South State and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

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INFORMATION ABOUT PARK STERLING

Park Sterling is a North Carolina corporation that is a BHC registered with the Federal Reserve Board under the BHC Act. Park Sterling was formed in 2010 to serve as the holding company for Park Sterling Bank. Park Sterling Bank was incorporated in September 2006 as a North Carolina-chartered commercial nonmember bank. Park Sterling provides a full array of retail and commercial banking services, including wealth management and capital market activities, through its offices located in North Carolina, South Carolina, Georgia and Virginia. Park Sterling s objective since inception has been to provide the strength and product diversity of a larger bank and the service and relationship attention that characterizes a community bank.

Park Sterling Bank serves its customers through 18 full-service branches in North Carolina, 23 full-service branches in South Carolina, nine full-service branches in Virginia and five full-service branches in North Georgia. Park Sterling Bank maintains 19 branches in the Charlotte-Concord-Gastonia Metropolitan Statistical Area (MSA) in North Carolina, 10 branches in the Greenville-Anderson-Mauldin MSA in South Carolina and 10 branches in the Richmond MSA in Virginia. Additionally, Park Sterling serves its communities through five branches in the Greenwood, South Carolina MSA, two each in the Spartanburg, South Carolina MSA and the Columbia, South Carolina MSA, and one each in the Newberry, South Carolina MSA, the Raleigh, North Carolina MSA, the Wilmington, North Carolina MSA and the Charleston-North Charleston, South Carolina MSA. Park Sterling s five North Georgia branches are not located in an identified MSA. As of June 30, 2017, Park Sterling employed 532 people and had 511 full-time equivalent employees.

The principal executive offices of Park Sterling are located at 1043 E. Morehead Street, Suite 201, Charlotte, North Carolina 28204, and its telephone number is (704) 716-2134. Park Sterling s website can be accessed at http://www.parksterlingbank.com. Information contained in Park Sterling s website does not constitute part of, and is not incorporated into, this joint proxy statement/prospectus. Park Sterling common stock is quoted on the NASDAQ Global Select Market under the symbol PSTB.

Additional information about Park Sterling and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

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THE MERGER

The following discussion contains certain information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement attached as **Annex A** to this joint proxy statement/prospectus. We urge you to read carefully this entire joint proxy statement/prospectus, including the merger agreement attached as **Annex A**, for a more complete understanding of the merger.

Terms of the Merger

Each of the South State board of directors and the Park Sterling board of directors has unanimously approved the merger agreement. The merger agreement provides for the merger of Park Sterling with and into South State, with South State continuing as the surviving entity. In the merger, each share of Park Sterling common stock, par value $1.00 per share, issued and outstanding immediately prior to the completion of the merger, except for specified shares of Park Sterling common stock held by Park Sterling or South State, will be converted into the right to receive 0.14 shares of South State common stock, par value $2.50 per share.

Immediately following the merger, Park Sterling Bank, a wholly owned bank subsidiary of Park Sterling, will merge with and into South State Bank, with South State Bank continuing as the surviving bank.

No fractional shares of South State common stock will be issued in connection with the merger, and holders of Park Sterling common stock will be entitled to receive, in lieu thereof, an amount in cash, rounded to the nearest whole cent, equal to (x) the fraction of a share of South State common stock to which the holder would otherwise be entitled multiplied by (y) the South State share value. For a discussion of the treatment of awards outstanding under Park Sterling s equity plans outstanding as of the effective time, see *The Merger Agreement Treatment of Park Sterling Equity Awards*.

Park Sterling shareholders and South State shareholders are being asked to approve the merger agreement. See *The Merger Agreement* for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the completion of the merger and the provisions for terminating or amending the merger agreement.

Background of the Merger

As part of the ongoing oversight and management of their respective companies, the South State board of directors and the Park Sterling board of directors each regularly review and assess their respective companies long-term strategic goals and opportunities, and consider ways to enhance their respective companies performance and prospects in light of competitive and other relevant developments, all with the goal of enhancing shareholder value. For each company, these reviews have included periodic discussions with respect to strategic alternatives, including potential business combinations, acquisitions and dispositions.

Members of Park Sterling senior management have regularly met with representatives of various investment banking firms experienced in the banking industry to discuss market conditions, current industry trends, Park Sterling s performance and potential acquisition opportunities. In February and March 2016, representatives of Stephens and KBW, on separate occasions, discussed with members of Park Sterling management various topics related to the community banking market and shared their respective strategic observations regarding Park Sterling. One of these observations was a possible business combination, including a potential business combination with South State, which each of Stephens and KBW identified as having the financial capacity and strategic fit to pursue a potential transaction with Park Sterling.

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In February 2016, Messrs. Robert R. Hill, Jr., South State s Chief Executive Officer, and James C. Mabry IV, South State s Executive Vice President, Investor Relations and Mergers & Acquisitions, reached out to Mr. James C. Cherry, Park Sterling s Chief Executive Officer, regarding South State s interest in exploring a combination of South State and Park Sterling. Thereafter, during the first half of 2016, the parties engaged in preliminary discussions regarding a potential strategic transaction with the authorization of their respective boards of directors. In connection with these discussions, in early May 2016, Park Sterling formally engaged Stephens as its financial advisor. The parties ultimately did not reach agreement on transaction terms and determined to cease discussions in late May 2016, with the understanding that they would remain in touch in the future.

In late January 2017, Mr. Hill called Mr. Cherry to request a meeting. During the meeting, which was held on February 1, 2017, Messrs. Hill, Mabry and Cherry discussed, on an informal basis, the operating achievements of both companies during 2016 and the strategic merits of a potential business combination. They agreed that resuming discussions to explore a combination was desirable, and Mr. Cherry indicated that Park Sterling would be willing to provide certain financial information for South State to use in evaluating the consideration that South State might be willing to offer in a strategic business combination transaction.

On February 1, 2017, the parties signed a mutual confidentiality agreement.

On February 1, 2017, South State engaged KBW as its financial advisor.

From February 3 through February 26, 2017, the parties exchanged preliminary due diligence information via an electronic dataroom. Each of the parties, with the assistance of their respective advisors, populated the electronic dataroom with documents responsive to the other party s requests.

On February 23, 2017, at a regular meeting of the Executive Committee of the South State board of directors, Mr. Mabry informed the Executive Committee of renewed discussions with Park Sterling and provided an overview of Park Sterling s recent financial performance and the merits of a potential transaction. The Executive Committee then had a discussion regarding the potential transaction. Following this discussion, the Executive Committee determined to authorize South State management to proceed with a non-binding indication of interest for a strategic business combination transaction with Park Sterling, subject to the completion of due diligence and negotiation of definitive documentation for a potential transaction.

On February 27, 2017, Messrs. Hill and Mabry met with Messrs. Cherry and Donald K. Truslow, Park Sterling s Chief Financial Officer, to present a non-binding indication of interest to acquire Park Sterling. South State s non-binding indication of interest proposed merger consideration consisting of 100% stock at a proposed exchange ratio of 0.14 shares of South State common stock for each share of Park Sterling common stock. Based on South State s closing stock price on February 24, 2017, the last trading day before delivery of the indication of interest, the 0.14 exchange ratio represented an implied offer of $12.62 per share of Park Sterling common stock.

On March 1, 2017, the Park Sterling board of directors held a special telephonic meeting to discuss South State s non-binding indication of interest. Representatives of McGuireWoods and Stephens attended the meeting. At that meeting, McGuireWoods advised the directors of their fiduciary duties under North Carolina law in connection with a possible transaction. Mr. Cherry then provided the Park Sterling board of directors an overview of the parties discussions regarding a combination, including the parties discussions in 2016 and their renewed conversations beginning in February 2017. Stephens then provided a market update and reviewed historical share price and operating performance data for both South State and Park Sterling, South State s recent non-binding indication of interest, pricing on recent comparable community banking transactions and the likelihood that there were other viable parties interested in and capable of acquiring Park Sterling. After thorough discussion, the Park Sterling board of directors made an initial determination that South State s non-binding indication of

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interest and the potential fit between the two companies was potentially compelling and merited further discussions, and it therefore charged Park Sterling management with holding further discussions and continuing due diligence with South State.

Subsequent to that meeting, on March 2, 2017, after individual discussions that Mr. Cherry held with several members of the Park Sterling board of directors, Mr. Cherry called Mr. Hill to suggest that it might be appropriate to delay further discussions regarding a business combination until the Park Sterling board of directors had a chance to hold its annual strategic review meeting, which was scheduled for March 21-22, 2017.

On March 9, 2017, the Executive Committee of the Park Sterling board of directors held a telephonic meeting, in which all directors participated. On that call, management updated the Executive Committee on further conversations with South State senior executives regarding the desire to delay further discussions with South State until after the Park Sterling board of directors had a chance to discuss its strategic options during its upcoming March 21-22, 2017 meeting. The Executive Committee of the Park Sterling board of directors determined to delay discussions with South State until its upcoming annual strategic planning board meeting, during which time it would consider management s strategic presentation which, among other options, included its analysis of a potential merger with South State.

On March 16, 2017, at a regularly scheduled meeting of the South State board of directors, Mr. Mabry informed the directors of renewed discussions with Park Sterling, which had been discussed with the Executive Committee on February 23, 2017. Mr. Mabry presented a proposed timeline for continued engagement with Park Sterling, as well as an overview of the strategic rationale and potential terms of a combination with Park Sterling. The South State board of directors then had a discussion on the potential transaction, including regarding market locations, merger history, growth prospects, leadership and board composition. After discussion, the South State board of directors instructed South State management to proceed with discussions.

In preparation for the upcoming strategic planning session of the Park Sterling board of directors, on March 20 and 21, 2017, Messrs. Cherry and Bryan Kennedy, Park Sterling s President, and Ms. Nancy Foster, Park Sterling s Chief Risk Officer, met with South State senior executives at South State s corporate headquarters in Columbia, South Carolina. At these meetings, the parties discussed the potential strategic fit of the two companies by lines of business.

On March 21 and 22, 2017, the Park Sterling board of directors held its regular annual strategic planning board meeting. At the March 21 portion of the meeting, representatives of Stephens made a presentation on current market conditions, Park Sterling s positioning in the market and its analysis of a potential combination with South State. Stephens noted, among other things, a number of strengths that made a combination with South State attractive, including South State s very respected management team, its very strong deposit base, and its return on average assets. Stephens also noted that South State had closed a transaction in January 2017 that had pushed it over the $10 billion asset threshold with no significant impact on its share price.

When the meeting reconvened the next morning on March 22, 2017, Park Sterling management presented to the Park Sterling board of directors its outlook and strategic vision. Park Sterling management reviewed the significant financial progress that Park Sterling had made in recent years. The management team then discussed the challenges of continuing to improve returns and to grow the company in the future in light of the consolidation of community banks taking place in Park Sterling s markets, and the fact that Park Sterling now found itself competing more often against larger banks. The management team also discussed the implications that consolidation in Park Sterling s markets would have for winning new business, retaining existing customers and maintaining a high quality offering of products and services, as well as for the ability to afford the infrastructure needed to meet ever-increasing regulatory demands. Messrs. Cherry and Truslow also led a discussion regarding possible attractive candidates for a strategic business combination transaction with Park Sterling, noting that the number of such candidates had decreased significantly in recent years. The Park Sterling board of directors and management then discussed South State s non-binding indication of interest. After discussion, the meeting was adjourned with discussion to be continued in upcoming days.

On March 29, 2017, the Park Sterling board of directors reconvened. Stephens provided an update on its presentation and the Park Sterling board of directors had further discussion regarding the South State non-binding indication of interest. The Park Sterling board of directors concluded that a combination with South State on the terms set forth in the non-binding indication of interest continued to be compelling and charged Park Sterling management to continue discussions and due diligence with South State.

In late March and early April of 2017, due diligence between the parties continued. Members of senior management of each party held periodic discussions regarding the price and terms of a potential strategic transaction, and each party exchanged materials and information and scheduled meetings to facilitate mutual due diligence.

On April 11, 2017, at a special meeting of the South State board of directors, Mr. Hill provided the South State board of directors with an update, among other things, on the proposed merger with Park Sterling, noting that substantial due diligence had been performed. Mr. Hill expressed his view that a transaction with Park Sterling would enable South State to gain meaningful market presence in North Carolina, specifically in and around Charlotte, North Carolina. He also noted that the parties continued to engage in discussions regarding the terms of a potential transaction and that the consideration would be 100% stock, and confirmed that the parties had discussed the possibility of adding two Park Sterling directors to the South State board of directors in connection with the proposed transaction to ensure that Park Sterling shareholders and other constituencies had continued representation on the combined company s board of directors. General discussions were held regarding the parties markets and competition, the parties operating systems, the timeline of the proposed merger and the ability and readiness of the South State team for the acquisition and strategic fit.

On April 13, 2017, representatives of Wachtell Lipton, South State s legal counsel, provided McGuireWoods a draft merger agreement and draft form of voting agreement.

On April 17, 2017, to facilitate the completion of South State s and Park Sterling s due diligence, South State and Park Sterling, accompanied by their advisors, including representatives of KBW, Wachtell Lipton, Stephens and McGuireWoods, attended an all-day in-person meeting at South State s corporate headquarters in Columbia, South Carolina. Throughout the day, members of management of each of the companies and their advisors engaged in a series of comprehensive discussions about Park Sterling s and South State s respective business operations and financial condition.

On April 19, 2017, representatives of McGuireWoods provided Wachtell Lipton a revised draft of the merger agreement, and over the course of the following week representatives of McGuireWoods and Wachtell Lipton exchanged several additional drafts of the merger agreement and related transaction documents, and discussed and negotiated the terms and conditions set forth in the merger agreement and related transaction documents.

In the morning of April 26, 2017, the Park Sterling board of directors held its previously scheduled April board meeting at Park Sterling s offices. Members of Park Sterling s senior management, as well as representatives of Stephens and McGuireWoods, participated in the meeting. The Park Sterling board of directors was informed that the South State board of directors was scheduled to meet later that day to approve a merger agreement that would result in the holders of Park Sterling common stock receiving 0.14 shares of South State common stock per share of Park Sterling common stock. Representatives of Stephens reviewed the transaction, provided an overview of Park Sterling and South State, discussed its analysis of the potential combined companies, discussed with the Park Sterling

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board of directors its financial analysis of the proposed transaction with South State and answered the questions of the Park Sterling board of directors. Stephens then delivered its oral opinion to the Park Sterling board of directors, which opinion was confirmed in writing, to the effect that, as of April 26, 2017, and based upon and subject to factors, assumptions, qualifications and limitations set forth therein, the consideration to be paid to the holders of the outstanding shares of Park Sterling common stock in the merger was fair, from a financial point of view, to such holders. Representatives of McGuireWoods reviewed the fiduciary duties of the Park Sterling board of directors under North Carolina law in the context of a strategic transaction and made a presentation to the Park Sterling board of directors concerning the terms and conditions of the final merger agreement that had been negotiated with South State and its counsel and answered the questions of the Park Sterling board of directors. The Park Sterling board of directors then discussed the merger agreement and proposed merger. After considering the proposed terms of the merger agreement and the various presentations of its financial and legal advisors, and taking into consideration the matters discussed during the meeting, including factors described under *Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors*, the Park Sterling board of directors unanimously voted to adopt the merger agreement and to approve the execution of the merger agreement.

In the afternoon of April 26, 2017, the South State board of directors held a special meeting to review the terms of the proposed merger agreement with Park Sterling. Representatives of Wachtell Lipton and KBW also participated in the meeting. Representatives of Wachtell Lipton reviewed the fiduciary duties of the directors in the context of the strategic transaction, and summarized and discussed the material terms and conditions set forth in the draft merger agreement. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered to the South State board of directors an opinion (which was initially rendered verbally and confirmed in a written opinion, dated April 26, 2017) to the effect that, as of that date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to South State. Representatives of Wachtell Lipton then reviewed resolutions to approve and authorize the execution of the merger agreement and the submission of the merger agreement to South State s shareholders for approval. After considering the proposed terms of the merger agreement and the various presentations of its financial and legal advisors, and taking into consideration the matters discussed during the meeting, including factors described under *South State s Reasons for the Merger; Recommendation of the South State Board of Directors*, the South State board of directors unanimously voted to adopt the merger agreement and approve the execution of the merger agreement.

Thereafter, on the evening of April 26, 2017, the merger agreement was executed by South State and Park Sterling and the voting agreements were executed by South State and certain Park Sterling shareholders party thereto, and the transaction was announced the following morning on April 27, 2017 in a joint press release issued by South State and Park Sterling.

South State s Reasons for the Merger; Recommendation of the South State Board of Directors

After careful consideration, the South State board of directors, at a meeting held on April 26, 2017, unanimously determined that the merger agreement and the transactions contemplated thereby, including the merger and the issuance of South State common stock, are advisable and in the best interests of South State and its shareholders.

Accordingly, the South State board of directors unanimously adopted and approved the merger agreement and unanimously recommends that South State shareholders vote (1) FOR the proposal to approve the merger agreement and (2) FOR the proposal to adjourn the South State special meeting, if necessary or appropriate, to solicit additional proxies in favor of the South State merger proposal.

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In reaching its decision to adopt and approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, and to recommend that South State shareholders approve the merger, the South State board of directors evaluated the merger agreement and the merger in consultation with South State management, as well as with South State s outside financial and legal advisors, and considered a number of factors, including the following material factors:

- each of South State s, Park Sterling s and the combined company s businesses, operations, financial condition, asset quality, earnings and prospects. In reviewing these factors, the South State board of directors considered its view that Park Sterling s financial condition and asset quality are sound, that Park Sterling s business and operations complement those of South State, and that the merger and the other transactions contemplated by the merger agreement would result in a combined company with a larger market presence and more diversified loan portfolio as well as a more attractive funding base, than South State on a stand-alone basis. The South State board of directors further considered that Park Sterling s earnings and prospects, and the synergies potentially available in the proposed merger, create the opportunity for the combined company to have superior future earnings and prospects compared to South State s earnings and prospects on a stand-alone basis. In particular, the South State board of directors considered the following:
  - the strategic rationale for the merger, given its potential of extending South State s footprint throughout the Carolinas, Georgia and into Virginia and the close proximity of Park Sterling to South State s existing franchise;
  - potential growth opportunities through South State s entrance into the growth markets of Richmond, Virginia and Raleigh, North Carolina;
  - Park Sterling s position in the Charlotte, North Carolina market, which would enable South State to meaningfully enhance its competitive position and ability to attract talent in Charlotte, North Carolina;
  - the complementary nature of the cultures of the two companies, which management believes should facilitate integration and implementation of the transaction; and
  - Park Sterling s proven organic growth capabilities;
- the anticipated pro forma impact of the merger on the combined company, including the expected positive impact on certain financial metrics;
- its understanding of the current and prospective environment in which South State and Park Sterling operate, including national, regional and local economic conditions, the competitive environment for financial institutions generally and the likely effect of these factors on South State both with and without the merger;
- its review and discussions with South State s management concerning the due diligence examination of Park Sterling s business;
- South State management s expectation that South State will retain its strong capital position and asset quality upon completion of the transaction;
- the opinion, dated April 26, 2017, of KBW, South State s financial advisor, to the South State board of directors, to the effect that, as of that date, and based on the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by KBW as set forth in the opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to South State, as more fully described below in *Opinion of South State s Financial*

Advisor ;

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- its review with its outside legal advisor, Wachtell Lipton, of the terms of the merger agreement, including the tax treatment, deal protection and termination provisions;
- the fact that South State s shareholders would have an opportunity to approve the merger;
- South State s past record of integrating acquisitions and of realizing projected financial goals and benefits of acquisitions;
- the possibility of encountering difficulties in achieving anticipated cost synergies and savings in the amounts estimated or in the time frame contemplated;
- the possibility of encountering difficulties in successfully integrating Park Sterling s business, operations and workforce with those of South State;
- certain anticipated merger-related costs;
- the diversion of management attention and resources from the operation of South State s business and toward the completion of the merger; and
- the regulatory and other approvals required in connection with the merger and the bank merger and the risk that such regulatory approvals will not be received in a timely manner or may impose unacceptable conditions.

While the South State board of directors considered the foregoing potentially positive and potentially negative factors, the South State board of directors concluded that, overall, the potentially positive factors outweighed the potentially negative factors. Accordingly, the South State board of directors unanimously determined the merger agreement to be fair, advisable and in the best interests of South State and its shareholders, as well as South State s other constituencies.

The foregoing discussion of the information and factors considered by the South State board of directors is not intended to be exhaustive, but includes the material factors considered by the South State board of directors. In view of the wide variety of the factors considered in connection with its evaluation of the merger and the complexity of these matters, the South State board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, the individual members of the South State board of directors may have given different weight to different factors. The South State board of directors considered all these factors as a whole and considered the factors overall to be favorable to, and to support, its determination.

The foregoing explanation of the South State board of directors reasoning and all other information presented in this section contains information that is forward-looking in nature, and therefore should be read in light of the factors discussed in *Cautionary Statement Regarding Forward-Looking Statements*.

Opinion of South State s Financial Advisor

South State engaged KBW to render financial advisory and investment banking services to South State, including providing an opinion to the South State board of directors as to the fairness, from a financial point of view, to South State of the exchange ratio in the merger. South State selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and familiarity with South State and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

In connection with its engagement, representatives of KBW attended the meeting of the South State board of directors held on April 26, 2017 at which the South State board of directors evaluated the proposed merger. At this meeting, KBW reviewed the financial aspects of the merger and rendered

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an oral opinion (subsequently confirmed in writing) to the South State board of directors to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in such opinion, the exchange ratio in the merger was fair, from a financial point of view, to South State. The South State board of directors approved the merger agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the written opinion, dated April 26, 2017, which is attached as **Annex B** to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion. South State s shareholders are encouraged to read the opinion in its entirety.

KBW s opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the South State board of directors (in its capacity as such) in connection with its consideration of the financial terms of the merger. The opinion addressed only the fairness, from a financial point of view, of the exchange ratio in the merger to South State. It did not address the underlying business decision of South State to engage in the merger or enter into the merger agreement or constitute a recommendation to the South State board of directors in connection with the merger, and it does not constitute a recommendation to any holder of South State common stock or any shareholder of any other entity as to how to vote in connection with the merger or any other matter.

KBW s opinion was reviewed and approved by KBW s Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of South State and Park Sterling and bearing upon the merger, including, among other things:

- a draft of the merger agreement, dated April 24, 2017 (the most recent draft made available to KBW);

- the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended December 31, 2016 of South State;

- the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended December 31, 2016 of Park Sterling;

- certain unaudited quarterly financial results for the quarter ended March 31, 2017 of South State (contained in the Current Report on Form 8-K filed by South State with the Securities and Exchange Commission on April 21, 2017);

- certain preliminary and unaudited quarterly financial results for the quarter ended March 31, 2017 of Park Sterling (provided by representatives of Park Sterling);

- certain regulatory filings of South State, Park Sterling and their respective subsidiaries, including (as applicable) the semi-annual reports on Form FR Y-9SP and quarterly reports on Form FR Y-9C and quarterly call reports required to be filed with respect to each semi-annual period and quarter (as the case may be) during the three year period ended December 31, 2016;

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- certain other interim reports and other communications of South State and Park Sterling to their respective shareholders; and

- other financial information concerning the respective businesses and operations of South State and Park Sterling furnished to KBW by South State and Park Sterling or which KBW was otherwise directed to use for purposes of its analysis.

KBW s consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

- the historical and current financial position and results of operations of South State and Park Sterling;

- the assets and liabilities of South State and Park Sterling;

- the nature and terms of certain other merger transactions and business combinations in the banking industry;

- a comparison of certain financial and stock market information of South State and Park Sterling with similar information for certain other companies, the securities of which were publicly traded;

- publicly available consensus street estimates of Park Sterling for 2017 published by FactSet Research Systems, as well as assumed Park Sterling long-term growth rates provided to KBW by South State management, all of which information was discussed with KBW by South State management and used and relied upon by KBW at the direction of South State management and with the consent of the South State board of directors;

- publicly available consensus street estimates of South State for 2017 published by FactSet Research Systems, as well as assumed South State long-term growth rates provided to KBW by South State management, all of which information was discussed with KBW by such management and used and relied upon by KBW at the direction of such management and with the consent of the South State board of directors; and

- estimates regarding certain pro forma financial effects of the merger on South State (including without limitation the cost savings and related expenses expected to result or be derived from the merger) that were prepared by South State management, provided to and discussed with KBW by such management, and used and relied upon by KBW at the direction of such management and with the consent of the South State board of directors.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also participated in discussions that were held by the managements of South State and Park Sterling regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information that was provided to it or publicly available and did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of South State as to the reasonableness and achievability of the 2017 publicly available consensus street estimates of South State and Park Sterling, the assumed long-term growth rates of South State and Park Sterling, and the estimates regarding certain pro forma financial effects of the merger on South State (including, without limitation, the cost savings and related expenses expected to result or be derived from the merger), all as referred to above, as well as the assumptions set forth in and the bases for all such information. KBW assumed, at the direction of South State, that all of the foregoing information was reasonably prepared on bases reflecting, or in the case of the publicly available consensus street estimates of South State and Park Sterling referred to above that such estimates were consistent with, the best currently available estimates and judgments of South State management, and that the forecasts and estimates reflected in such information would be realized in the amounts and in the time periods estimated.

It is understood that the portion of the foregoing financial information of South State and Park Sterling that was provided to KBW was not prepared with the expectation of public disclosure, that all of the foregoing financial information, including the 2017 publicly available consensus street estimates of South State and Park Sterling, was based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such information. KBW assumed, based on discussions with the management of South State and with the consent of the South State board of directors, that all such information provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either South State or Park Sterling since the date of the last financial statements of each such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with South State s consent, that the aggregate allowances for loan and lease losses for each of South State and Park Sterling are adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of South State or Park Sterling, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability or fair value of South State or Park Sterling under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed, in all respects material to its analyses:

- the merger and any related transaction (including the bank merger) would be completed substantially in accordance with the terms set forth in the merger agreement (the final terms of which KBW assumed would not differ in any respect material to its analyses from the draft version of the merger agreement referred to above that had been reviewed by KBW) with no adjustments to the exchange ratio;

- the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement were true and correct;

- each party to the merger agreement or any of the related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

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- that all conditions to the completion of the merger and any related transaction (including the bank merger) would be satisfied without any waivers or modifications to the merger agreement or any related documents; and

- in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger and any related transactions (including the bank merger), no delay, limitation, restriction or condition, including any divestiture requirements, termination or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of South State, Park Sterling or the pro forma entity or the contemplated benefits of the merger, including without limitation the cost savings and related expenses expected to result or be derived from the merger.

KBW assumed that the merger will be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended (which we refer to as the Exchange Act), and all other applicable federal and state statutes, rules and regulations. KBW was further advised by representatives of South State that South State relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to South State, Park Sterling, the merger and any related transaction (including the bank merger), and the merger agreement. KBW did not provide advice with respect to any such matters.

KBW s opinion addressed only the fairness, from a financial point of view, as of the date of such opinion, of the exchange ratio in the merger to South State. KBW expressed no view or opinion as to any other terms or aspects of the merger or any term or aspect of any related transaction (including the bank merger), including without limitation, the form or structure of the merger or any such related transaction, or any consequences of the merger or any such related transaction to South State, its shareholders, creditors or otherwise. KBW s opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW s opinion may have affected, and may affect, the conclusion reached in KBW s opinion and KBW did not and does not have an obligation to update, revise or reaffirm its opinion. KBW s opinion did not address, and KBW expressed no view or opinion with respect to:

- the underlying business decision of South State to engage in the merger or enter into the merger agreement;

- the relative merits of the merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by South State or the South State board of directors;

- the fairness of the amount or nature of any compensation to any of South State s officers, directors or employees, or any class of such persons, relative to any compensation to the holders of South State common stock or relative to the exchange ratio;

- the effect of the merger or any related transaction (including the bank merger) on, or the fairness of the consideration to be received by, holders of any class of securities of South State, Park Sterling or any other party to any other transaction contemplated by the merger agreement;

- the actual value of South State common stock to be issued in the merger;

- the prices, trading range or volume at which South State common stock or Park Sterling common stock might trade following the public announcement of the merger or the prices, trading range or volume at which South State common stock might trade following the consummation of the merger;

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any advice or opinions provided by any other advisor to any of the parties to the merger or any other transaction contemplated by the merger agreement; or

any legal, regulatory, accounting, tax or similar matters relating to South State, Park Sterling, any of their respective shareholders, or relating to or arising out of or as a consequence of the merger or any other related transaction (including the bank merger), including whether or not the merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, South State and Park Sterling. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the South State board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the South State board of directors with respect to the fairness of the exchange ratio. The type and amount of consideration payable in the merger were determined through negotiation between South State and Park Sterling and the decision to enter into the merger agreement was solely that of the South State board of directors.

Summary of Analysis by KBW

The following is a summary of the material financial analyses presented by KBW to the South State board of directors in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the South State board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

For purposes of the financial analyses described below, KBW utilized an implied transaction value for the merger of $680.5 million, or $12.68 per outstanding share of Park Sterling common stock outstanding as of March 31, 2017, based on the exchange ratio of 0.14 and the closing price of South State common stock on April 25, 2017. In addition to the financial analyses described below, KBW reviewed with the South State board of directors for informational purposes, among other things, the implied transaction multiple for the merger of 18.4x Park Sterling s estimated 2018 earnings per share (EPS), which was taken from publicly available consensus street estimates for Park Sterling published by FactSet Research Systems, based on the implied transaction value for the merger of $12.68 per outstanding share of Park Sterling common stock.

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South State Selected Companies Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of South State to 13 selected banks that were listed on the NASDAQ, the New York Stock Exchange or NYSE MKT and headquartered in the Southeast with total assets between \$8.0 billion and \$20.0 billion.

The selected companies were as follows:

BancorpSouth, Inc.	Simmons First National Corporation
Capital Bank Financial Corp.	Trustmark Corporation
FCB Financial Holdings, Inc.	Union Bankshares Corporation
Home BancShares, Inc.	United Bankshares, Inc.
Bank of the Ozarks, Inc.	United Community Banks, Inc.
Pinnacle Financial Partners, Inc.	WesBanco, Inc.
Renasant Corporation	

To perform this analysis, KBW used profitability data and other financial information for, as of, or, in the case of latest 12 months (LTM) information, through, the most recent completed quarter (MRQ) available (which in the case of South State was the fiscal quarter ended March 31, 2017) and market price information as of April 25, 2017. KBW also used 2017 and 2018 EPS estimates, which were taken from publicly available consensus street estimates for South State and the selected companies published by FactSet Research Systems. Certain financial data prepared by KBW, as referenced in the tables presented below, may not correspond to the data presented in South State s historical financial statements, or the data prepared by Stephens presented under the section *Opinion of Park Sterling s Financial Advisor*, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW s analysis showed the following concerning the financial performance of South State and the selected companies:

		Selected Companies			
	South State	**25th Percentile**	**Median**	**Average**	**75th Percentile**
MRQ Core Return on Average Assets (%)(1)	1.23	1.03	1.12	1.25	1.25
MRQ Core Return on Average Equity (%)(1)	8.60	7.87	8.64	9.72	10.55
MRQ Core Return on Average Tangible Common Equity (%)(1)	12.82	11.48	13.12	13.69	15.76
MRQ Net Interest Margin (%)	4.08	3.41	3.61	3.77	3.98
MRQ Efficiency Ratio (%)	62.0(2)	45.4	55.6	54.1	62.3

(1) Core income excluded extraordinary items, non-recurring items and gains / (losses) on sale of securities and non-controlling interests and included amortization of intangibles and goodwill impairment.

(2) Calculated by dividing noninterest expense, excluding branch consolidation cost and merger cost, by net interest income and noninterest income, excluding gains (losses) on sale of securities, other than temporary impairment and FDIC early termination of South State s loss share agreement, which occurred in the second quarter of 2016.

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KBW s analysis also showed the following concerning the financial condition of South State and the selected companies:

		Selected Companies			
	South State	25th Percentile	Median	Average	75th Percentile
Tangible Common Equity / Tangible Assets (%)	8.85	8.74	9.49	9.58	10.26
Leverage Ratio (%)	10.00	9.95	10.50	10.53	10.94
CET1 Ratio (%)	11.90	11.23	12.18	11.39	12.16
Total Risk Based Capital Ratio (%)	13.30	12.97	13.59	13.54	14.22
Loans / Deposits (%)	88.1	88.3	91.0	91.4	94.2
Loan Loss Reserve / Gross Loans (%)	0.69(2)	0.88	0.67	0.75	0.58
Nonperforming Assets / Loans + OREO (%)(1)	0.71	1.31	1.05	1.02	0.70
LTM Net Charge-Offs / Average Loans (%)	0.05	0.13	0.12	0.13	0.08

(1) NPAs / Loans + OREO adjusted to exclude loans and other real estate owned (OREO) covered by FDIC loss share agreements. Nonperforming assets otherwise included nonaccrual loans, restructured loans and OREO.

(2) Calculated by dividing the allowance for non-acquired loans by non-acquired loans.

In addition, KBW s analysis showed the following concerning the market performance of South State and the selected companies:

		Selected Companies			
	South State	25th Percentile	Median	Average	75th Percentile
One - Year Stock Price Change (%)	30.0	18.8	31.2	28.5	36.1
One - Year Total Return (%)	32.2	20.6	32.6	30.9	40.4
Stock Price / Book Value per Share (%)	168	151	168	173	190
Stock Price / Tangible Book Value per Share (%)	285	211	224	243	259
Stock Price / 2017 EPS Estimate (x)	21.7	17.3	18.6	18.4	19.1
Stock Price / 2018 EPS Estimate (x)	17.9	15.0	15.6	15.7	16.2
Dividend Yield (%)(1)	1.5	1.3	1.6	1.8	2.3
MRQ Dividend Payout Ratio (%)(1)	52.4	26.3	31.7	35.5	44.4

(1) Dividend yield and MRQ dividend payout ratio reflected most recent quarterly dividend annualized as a percentage of stock price and annualized MRQ EPS, respectively. One of the selected companies did not pay dividends in its most recent completed quarter.

No company used as a comparison in the above-selected companies analysis is identical to South State. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Park Sterling Selected Companies Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of Park Sterling to eight selected banks that were listed on the NASDAQ, the New York Stock Exchange or NYSE MKT and headquartered in Georgia, North Carolina, South Carolina or Virginia with total assets between \$2.0 billion and \$5.0 billion. Merger targets were excluded from the selected companies.

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The selected companies were as follows:

Fidelity Southern Corporation	HomeTrust Bancshares, Inc.
State Bank Financial Corporation	Atlantic Capital BancShares, Inc.
First Bancorp	First Community Bancshares, Inc.
Xenith Bankshares, Inc.	WashingtonFirst Bankshares, Inc.

To perform this analysis, KBW used profitability data and other financial information for, as of, or, in the case of LTM information, through, the most recent completed quarter available (which in the case of Park Sterling was the fiscal quarter ended December 31, 2016) and market price information as of April 25, 2017. KBW also used 2017 and 2018 EPS estimates, which were taken from publicly available consensus street estimates for Park Sterling and the selected companies published by FactSet Research Systems. Certain financial data prepared by KBW, as referenced in the tables presented below, may not correspond to the data presented in Park Sterling s historical financial statements, or the data prepared by Stephens presented under the section *Opinion of Park Sterling s Financial Advisor*, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW s analysis showed the following concerning the financial performance of Park Sterling and the selected companies:

	Park Sterling	Selected Companies			
		25th Percentile	Median	Average	75th Percentile
MRQ Core Return on Average Assets (%)(1)	0.93	0.68	0.90	0.84	0.96
MRQ Core Return on Average Equity (%)(1)	8.36	4.86	7.68	7.15	9.26
MRQ Core Return on Average Tangible Common Equity (%)(1)	10.55	5.19	9.49	8.41	10.91
MRQ Net Interest Margin (%)	3.60	3.26	3.40	3.62	3.97
MRQ Efficiency Ratio (%)	66.6	61.2	65.2	67.0	73.4

(1) Core income excluded extraordinary items, non-recurring items and gains / (losses) on sale of securities and non-controlling interests and included amortization of intangibles and goodwill impairment.

KBW s analysis also showed the following concerning the financial condition of Park Sterling and the selected companies:

	Park Sterling	Selected Companies			
		25th Percentile	Median	Average	75th Percentile
Tangible Common Equity / Tangible Assets (%)	8.84	8.80	10.30	10.56	12.66
Leverage Ratio (%)	9.92	9.67	10.46	10.81	11.35
CET1 Ratio (%)	11.04	10.77	11.61	12.04	14.11
Total Risk Based Capital Ratio (%)	12.48	13.28	13.63	14.14	15.60
Loans / Deposits (%)	96.1	91.5	96.3	95.9	99.4
Loan Loss Reserve / Gross Loans (%)	0.50	0.98	0.91	0.93	0.89
Nonperforming Assets / Loans + OREO (%)(1)	0.58	2.25	1.78	1.56	0.65
LTM Net Charge-Offs / Average Loans (%)	(0.02)	0.17	0.14	0.20	0.11

(1) NPAs / Loans + OREO adjusted to exclude loans and OREO covered by FDIC loss share agreements. Nonperforming assets otherwise included nonaccrual loans, restructured loans and OREO.

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In addition, KBW s analysis showed the following concerning the market performance of Park Sterling and the selected companies:

	Park Sterling	Selected Companies 25th Percentile	Median	Average	75th Percentile
One-Year Stock Price Change (%)	75.3	29.0	36.8	38.4	42.8
One-Year Total Return (%)	78.4	32.4	37.8	40.1	44.0
Stock Price / Book Value per Share (%)	183	132	163	156	172
Stock Price / Tangible Book Value per Share (%)	232	164	182	179	199
Stock Price / 2017 EPS Estimate (x)	20.7	17.7	19.1	20.9	25.0
Stock Price / 2018 EPS Estimate (x)	17.8	14.4	17.1	17.3	18.6
Dividend Yield (%)[(1)]	1.3	1.0	2.1	1.7	2.1
MRQ Dividend Payout Ratio (%)[(1)]	40.0	20.6	30.0	32.5	42.1

(1) Dividend yield and MRQ dividend payout ratio reflected most recent quarterly dividend annualized as a percentage of stock price and annualized MRQ EPS, respectively. Three of the selected companies did not pay dividends in its most recent completed quarter.

No company used as a comparison in the above-selected companies analysis is identical to Park Sterling. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Select Transactions Analysis. KBW reviewed publicly available information related to 24 selected U.S. whole bank and thrift transactions announced since January 1, 2016 with announced deal values between $200 million and $1 billion. The selected transactions were as follows:

Acquiror	Acquired Company
PacWest Bancorp	CU Bancorp
Home BancShares, Inc.	Stonegate Bank
First Merchants Corporation	Independent Alliance Banks, Inc.
Heartland Financial USA, Inc.	Citywide Banks of Colorado, Inc.
FB Financial Corporation	American City Bank / Clayton Bank and Trust
First Busey Corporation	First Community Financial Partners, Inc.
Simmons First National Corporation	First Texas BHC, Inc.
Columbia Banking System, Inc.	Pacific Continental Corporation
Simmons First National Corporation	Southwest Bancorp, Inc.
Pacific Premier Bancorp, Inc.	Heritage Oaks Bancorp
Independent Bank Group, Inc.	Carlile Bancshares, Inc.
First Interstate BancSystem, Inc.	Cascade Bancorp
Access National Corporation	Middleburg Financial Corporation
Community Bank Systems, Inc.	Merchants Bancshares, Inc.
United Bankshares, Inc.	Cardinal Financial Corporation
Cathay General Bancorp	SinoPac Bancorp
First Midwest Bancorp, Inc.	Standard Bancshares, Inc.
People s United Financial, Inc.	Suffolk Bancorp
South State Corporation	Southeastern Bank Financial Corporation
WesBanco, Inc.	Your Community Bankshares, Inc.
Mechanics Bank	California Republic Bancorp
Pinnacle Financial Partners, Inc.	Avenue Financial Holdings, Inc.
Old National Bancorp	Anchor BanCorp Wisconsin Inc.
OceanFirst Financial Corp.	Cape Bancorp, Inc.

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For each selected transaction, KBW derived the following implied transaction statistics, in each case based on the transaction consideration value paid for the acquired company and using financial data based on the acquired company s then latest publicly available financial statements and, to the extent publicly available, publicly available one-year forward year EPS consensus street estimates published by FactSet Research Systems prior to the announcement of the respective transaction:

Price per common share to tangible book value per share of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by total tangible common equity);

Price per common share to LTM EPS of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by LTM net income);

Price per common share to estimated EPS of the acquired company in the 15 selected transactions in which consensus street estimates for the acquired company were then available; and

Tangible equity premium to core deposits (which was defined as total deposits less time deposits greater than $100,000) of the acquired company, referred to as the core deposit premium.

KBW also reviewed the price per common share paid for the acquired company for the 15 selected transactions in which the acquired company was publicly traded as a premium/discount to the closing price of the acquired company one day prior to the announcement of the acquisition (expressed as a percentage and referred to as the one-day market premium). The above transaction statistics for the selected transactions were compared with the corresponding transaction statistics for the proposed merger based on the implied transaction value for the merger of $680.5 million and using historical financial information for Park Sterling as of or for the 12 months ended December 31, 2016 and publicly available 2017 EPS consensus street estimates for Park Sterling published by FactSet Research Systems. The results of the analysis are set forth in the following table (excluding the impact of the LTM EPS multiples for two of the selected transactions, which multiples were considered to be not meaningful because they were greater than 35.0x):

		Selected Transactions			
Transaction Price to	**South State / Park Sterling Merger**	**25th Percentile**	**Average**	**Median**	**75th Percentile**
Tangible Book Value (%)	240	185	209	209	233
LTM EPS (x)	26.9	18.4	22.0	21.9	27.2
Estimated EPS (x)	21.6	19.2	22.5	21.8	25.3
Core Deposit Premium (%)	18.5	11.3	14.0	13.7	18.6
One-Day Market Premium (%)	3.1	8.8	20.1	15.9	29.5

No company or transaction used as a comparison in the above-selected transactions analysis is identical to Park Sterling or the merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Relative Contribution Analysis. KBW analyzed the relative standalone contribution of South State and Park Sterling to various pro forma balance sheet and income statement items and the pro forma market value of the combined entity. This analysis did not include purchase accounting adjustments or cost savings. To perform this analysis, KBW used (i) balance sheet and net income data of South State as of or for the twelve-month period ended March 31, 2017 and of Park Sterling as of or for the twelve-month period ended December 31, 2016, (ii) publicly available EPS consensus street estimates of South State and Park Sterling for 2017 published by FactSet Research Systems and assumed long-term growth rates provided by South State management, and (iii) market price data as of April 25,

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2017. The results of KBW s analysis are set forth in the following table, which also compares the results of KBW s analysis with the implied pro forma ownership percentages of South State and Park Sterling shareholders in the combined company based on the exchange ratio of 0.14 in the merger:

	South State as a % of Total	Park Sterling as a % of Total
Balance Sheet		
Total Assets	77.4%	22.6%
Gross Loans	76.7%	23.3%
Total Deposits	78.2%	21.8%
Equity	81.6%	18.4%
Tangible Common Equity	76.8%	23.2%
Income Statement		
LTM GAAP Net Income	82.7%	17.3%
2017 Estimated GAAP Net Income	81.8%	18.2%
2018 Estimated GAAP Net Income	81.8%	18.2%
Market Value	80.2%	19.8%
Pro Forma Ownership Based on Merger Exchange Ratio	79.8%	20.2%

Pro Forma Financial Impact Analysis. KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of South State and Park Sterling. Using closing balance sheet estimates as of December 31, 2017 for South State and Park Sterling that were provided by South State management, publicly available EPS consensus street estimates of South State for 2017 published by SNL Financial, publicly available EPS consensus street estimates for Park Sterling for 2017 published by FactSet Research Systems, assumed long-term growth rates provided by South State management and pro forma assumptions (including, without limitation, the cost savings and related expenses expected to result from the merger and certain accounting adjustments assumed with respect thereto) provided by South State management, KBW analyzed the estimated financial impact of the merger on certain projected financial results. This analysis indicated that the merger could be accretive to South State s 2018 estimated EPS and dilutive to South State s estimated tangible book value per share at closing. Furthermore, the analysis indicated that, pro forma for the merger, South State s tangible common equity to tangible assets ratio, leverage ratio, Common Equity Tier 1 Ratio, Tier 1 Risk-Based Capital Ratio, and Total Risk-Based Capital Ratio at closing could be lower. For all of the above analysis, the actual results achieved by South State following the merger may vary from the projected results, and the variations may be material.

Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis to estimate a range for the implied equity value of Park Sterling, taking into account the cost savings and related expenses expected to result from the merger as well as certain accounting adjustments assumed with respect thereto. In this analysis, KBW used publicly available EPS consensus street estimates of Park Sterling for 2017 published by FactSet Research Systems, assumed long-term growth rates provided by South State management, and estimated cost savings and related expenses and accounting adjustments provided by South State management. KBW assumed discount rates ranging from 9.0% to 12.0%. The ranges of values were derived by adding (i) the present value of the estimated excess cash flows that Park Sterling could generate over the five-year period from 2018 to 2022 and (ii) the present value of Park Sterling s implied terminal value at the end of such period, in each case applying estimated cost savings and related expenses and accounting adjustments. KBW assumed that Park Sterling would maintain a tangible-common-equity-to-tangible-assets ratio of 8.00% and Park Sterling would retain sufficient earnings to maintain that level. In calculating the terminal value of Park Sterling, KBW applied a range of 14.0x to 18.0x estimated 2023 earnings. This discounted cash flow analysis resulted in a range of implied values per share of Park Sterling common stock, taking into account the cost savings

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and related expenses expected to result from the merger as well as certain accounting adjustments assumed with respect thereto, of $12.12 per share to $16.53 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Park Sterling.

Miscellaneous. KBW acted as financial advisor to South State in connection with the proposed merger and did not act as an advisor to or agent of any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. KBW and its affiliates, in the ordinary course of its and their broker-dealer businesses (and further to certain existing sales and trading relationships between a KBW affiliate and South State, and between KBW and certain of its affiliates and Park Sterling), may from time to time purchase securities from, and sell securities to, South State and Park Sterling. In addition, as market makers in securities, KBW and its affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of South State or Park Sterling for its and their own accounts and for the accounts of its and their respective customers and clients.

Pursuant to the KBW engagement agreement, South State agreed to pay KBW a non-refundable cash fee equal to $3,000,000, the entire amount of which is contingent upon the consummation of the merger. South State also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its engagement and to indemnify KBW against certain liabilities relating to or arising out of KBW s engagement or KBW s role in connection therewith. In addition to this present engagement, in the two years preceding the date of KBW s opinion, KBW has provided investment banking and financial advisory services to South State for which compensation was received. KBW acted as financial advisor to South State in connection with its January 2017 acquisition of Southeastern Bank Financial Corporation. In addition, KBW acted as financial advisor to South State in connection with its acquisition of certain branches of Bank of America, National Association, which acquisition was completed in August 2015. In connection with those acquisitions, KBW received fees of approximately $2.1 million in the aggregate from South State. In the two years preceding the date of KBW s opinion, KBW provided investment banking and financial advisory services to Park Sterling and received compensation for such services. KBW acted as financial advisor to Park Sterling in connection with its January 2016 acquisition of First Capital Bancorp, Inc. In connection with that acquisition, KBW received a fee of approximately $0.65 million from Park Sterling. KBW may in the future provide investment banking and financial advisory services to South State and receive compensation for such services.

Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors

After careful consideration, Park Sterling s board of directors, at a meeting held on April 26, 2017, unanimously determined that the merger agreement and the merger are in the best interests of Park Sterling and its shareholders.

Accordingly, Park Sterling s board of directors unanimously adopted and approved the merger agreement and unanimously recommends that Park Sterling shareholders vote (1) FOR the approval of the Park Sterling merger proposal, (2) FOR the approval of the Park Sterling adjournment proposal, if necessary or appropriate, and (3) FOR the approval of the compensation proposal.

In reaching its decision to adopt and approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, and to recommend that its shareholders approve the merger, Park Sterling s board of directors consulted with Park Sterling s management, as well as its

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independent financial and legal advisors, and considered a number of factors, including the following potentially positive material factors:

- the value of the consideration to be received by Park Sterling s shareholders relative to recent prices, dividend history, book value and earnings per share of Park Sterling s common stock. The board also considered the historical performance of South State s common stock, South State s liquidity in terms of average daily trading volume and the levels of future cash dividends anticipated to be received by Park Sterling shareholders, and the fact that as a result of the stock consideration to be received in the merger, Park Sterling s shareholders will have the opportunity to participate in the future growth and opportunities of the combined company;

- information about South State and Park Sterling, including but not limited to, the business and financial condition, results of operations, earnings and business prospects, and debt service and other existing financial obligations, as well as the competence, experience and integrity of management of both South State and Park Sterling;

- the likelihood of successful execution of the proposed merger, in light of, among other things, the conditions to the closing of the merger, the likelihood of obtaining required regulatory approvals and the remedies available to Park Sterling under the merger agreement in the event of various breaches by South State;

- the prospects of the combined company and bank relative to those of Park Sterling and Park Sterling Bank as an independent institution, which are influenced by, among other things, the following factors:

  - the board s view that the combined bank will operate with greater scale and operating efficiency and will, as a result, have enhanced financial performance;

  - the board s view that the combined bank, given its larger size and increased geographic footprint, will have an enhanced competitive presence through access to new markets, product offerings and legal lending limits;

  - the board s view that the combined bank will receive greater recognition from potential customers, investors and potential strategic partners; and

  - the board s view that a combination with South State represented a unique strategic fit given the complementary strengths and market positions of each company and provided an opportunity to fulfill Park Sterling s longstanding strategic objective to become a regional community bank with sufficient scale to afford offering a broad array of commercial and consumer banking services;

- the financial terms of recent business combinations involving banks and bank holding companies, particularly in the southeastern United States, and a comparison of the multiples of selected combinations with the terms of the proposed merger with South State, as well as the other terms of the merger agreement and their comparability to those in other recent consolidation transactions;

- the risks and uncertainties facing Park Sterling shareholders associated with alternatives to the proposed merger (including potential alternative acquisition proposals and the possibility of remaining independent), and the timing and likelihood of accomplishing such alternatives;

- Park Sterling s prospects as an independent entity, including challenges related to increasing regulatory burdens and overhead expense and Park Sterling s ability to successfully compete against banks in its footprint that are becoming significantly larger due to the rapid consolidation taking place in the community bank market;

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- the current environment in the financial services industry, including national, regional and local economic conditions, continued consolidation, increased regulatory burdens, evolving trends in technology, increasing nationwide and global competition, current financial market conditions, the current environment for community banks, particularly in the markets in which Park Sterling operates, and the likely effects of these factors on the combined company s potential growth, development, productivity, profitability and strategic options;

- the fact that, notwithstanding that the implied value of the merger consideration as of April 25, 2017, the last trading day prior to the execution of the merger agreement, of approximately $12.68 for each share of Park Sterling common stock, based on South State s closing stock price of $90.55 on that date, represented a premium of approximately 3.2% over the closing price of Park Sterling s common stock on that date, the implied value of the merger consideration also represented a 16.8% premium over the closing price of Park Sterling s common stock of $10.86 on January 20, 2017, the last trading day prior to the announcement of the acquisition of BNC Bancorp by Pinnacle Financial Partners, Inc., after which Park Sterling s board of directors believes that Park Sterling s common stock began trading at a higher price due to market perceptions about the likelihood of Park Sterling or another similarly situated community bank in North Carolina undertaking a strategic transaction and the relative scarcity of such community banks that could undertake such a transaction;

- the opinion of Stephens delivered to the Park Sterling board of directors on April 26, 2017, and subsequently confirmed in writing, to the effect that, as of April 26, 2017, the merger consideration was fair, from a financial point of view, to the holders of Park Sterling s common stock, as more fully described below in *Opinion of Park Sterling s Financial Advisor* ;

- the fact that the merger agreement provides that Park Sterling may take certain actions in response to an unsolicited bona fide written acquisition proposal under specific circumstances, in the event that Park Sterling s board of directors concludes in good faith (in accordance with the merger agreement and after consultation with its outside legal counsel and financial advisors) that the failure to take such actions would be reasonably likely to violate the directors fiduciary duties under applicable law;

- the fact that the proposed merger was structured as a tax-free exchange, providing certain tax benefits to Park Sterling s shareholders;

- the continued representation of Park Sterling on South State s board of directors after the closing of the merger through the appointment of two directors currently serving as Park Sterling directors to the board of directors of each of South State and South State Bank; and

- South State s commitment in the merger agreement to undertake a balanced selection process in filling positions, honor certain incentive plan payments that were projected as of the date of the merger agreement to be earned by certain Park Sterling employees, provide severance benefits to employees who would not continue with the combined company but who would be critical to see Park Sterling s operations through to closing or conversion and maintain certain benefits to continuing Park Sterling employees for the remainder of the fiscal year following the closing date.

In the course of reaching its decision, Park Sterling s board of directors also considered a number of potentially negative factors including, among others, the following:

- the potential risk of diverting management attention and resources from the operation of Park Sterling s business and towards the completion of the merger, and the possibility of employee attrition or adverse effects on client and business relationships as a result of the announcement and pendency of the merger;

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the potential risks associated with achieving anticipated cost synergies and savings and successfully integrating Park Sterling s business, operations and workforce with those of South State;

the fact that, because the merger consideration is a fixed exchange ratio of 0.14 shares of South State common stock for each share of Park Sterling common stock, Park Sterling shareholders could be adversely affected by a decrease in the trading price of South State common stock prior to the completion of the proposed merger;

the fact that some of Park Sterling s directors and executive officers have other interests in the merger that are different from, or in addition to, their interests as Park Sterling shareholders (see *Interests of Park Sterling s Directors and Executive Officers in the Merger*);

the risk that necessary regulatory approvals may be delayed, conditioned or denied;

the restrictions on the conduct of Park Sterling s business prior to the completion of the proposed merger, which could delay or prevent Park Sterling from realizing certain business opportunities or taking certain actions with respect to its operations that it would otherwise take absent the proposed merger;

the fact that the merger agreement prohibits Park Sterling from soliciting alternative proposals; and

the possibility that the termination fee payable to South State if the merger agreement is terminated under certain circumstances might have the effect of discouraging alternative acquisition proposals or reducing the price offered in such proposals.

While Park Sterling s board of directors considered the foregoing potentially positive and potentially negative factors, Park Sterling s board of directors concluded that, overall, the potentially positive factors outweighed the potentially negative factors. Accordingly, Park Sterling s board of directors unanimously determined the merger agreement to be fair, advisable and in the best interests of Park Sterling and its shareholders.

The foregoing discussion of the information and factors considered by the Park Sterling board of directors is not intended to be exhaustive but includes the material factors considered by the Park Sterling board of directors. In view of the wide variety of the factors considered in connection with its evaluation of the merger and the complexity of these matters, the Park Sterling board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, the individual members of the Park Sterling board of directors may have given different weight to different factors. The Park Sterling board of directors conducted an overall analysis of the factors described above including thorough discussions with, and questioning of, Park Sterling s management and Park Sterling s legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination.

The foregoing explanation of Park Sterling s board of directors reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed in the section *Cautionary Statement Regarding Forward-Looking Statements*.

Opinion of Park Sterling s Financial Advisor

Park Sterling engaged Stephens to render financial advisory and investment banking services to Park Sterling, including an opinion to the Park Sterling board of directors as to the fairness, from a financial point of view, to the holders of Park Sterling common stock, other than the directors, officers, managers and affiliates of Park Sterling (who we refer to as the public shareholders), of the merger consideration in the proposed merger of Park Sterling with and into South State. Park Sterling selected Stephens because Stephens is a nationally recognized investment banking firm with substantial

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experience in transactions similar to the merger. As part of its investment banking business, Stephens is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

At the April 26, 2017 meeting of the Park Sterling board of directors, representatives of Stephens rendered its oral opinion, which was subsequently confirmed by delivery of a written opinion to the Park Sterling board dated April 26, 2017, as to the fairness, as of such date, from a financial point of view, to Park Sterling s public shareholders, of the merger consideration to be received by such shareholders in the transaction pursuant to the merger agreement, based upon and subject to the qualifications, assumptions and other matters considered in connection with the preparation of its opinion.

The full text of the written opinion of Stephens is attached as **Annex C** to this joint proxy statement/prospectus. The summary of the opinion of Stephens set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of such written opinion. Holders of Park Sterling common stock are urged to read this opinion in its entirety.

Stephens provided its opinion for the information of the Park Sterling board of directors (solely in its capacity as such) in connection with, and for purposes of, its consideration of the merger transaction and its opinion only addresses whether the merger consideration to be received by Park Sterling s public shareholders, in the transaction pursuant to the merger agreement was fair, from a financial point of view, to such holders. The opinion of Stephens does not address any other term or aspect of the merger agreement or the merger transaction contemplated thereby. The Stephens opinion does not constitute a recommendation to the Park Sterling board or to any holder of Park Sterling common stock as to how the board, such shareholder or any other person should vote or otherwise act with respect to the merger transaction or any other matter. Stephens does not express any opinion as to the likely trading range of South State common stock following the merger, which may vary depending on numerous factors that generally impact the price of securities or on the operations, financial condition or prospects of South State at that time.

In connection with its review of the proposed merger transaction and the preparation of its opinion, Stephens, among other things:

reviewed the most recent draft provided to Stephens of the merger agreement;

analyzed certain publicly available financial statements and reports regarding Park Sterling and South State;

analyzed certain publicly available consensus earnings estimates of Park Sterling and South State for 2017 and 2018, as well as assumed long-term growth rates based thereon, all of which information was discussed with Stephens by Park Sterling and South State management and used and relied upon by Stephens with permission of such management;

analyzed, on a pro forma basis in reliance upon publicly available consensus earnings estimates published by FactSet Research Systems and other information concerning Park Sterling and South State prepared by, and assumptions provided by, the management teams of Park Sterling and South State, the effect of the merger on the balance sheet, capitalization ratios, earnings and book value both in the aggregate and, where applicable, on a per share basis of South State;

reviewed the reported prices and trading activity for the common stock of Park Sterling and South State;

compared the financial performance and trading prices of Park Sterling and South State with that of certain other publicly traded companies that Stephens deemed relevant to its analysis of the merger;

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reviewed the financial terms, to the extent publicly available, of certain merger or acquisition transactions that Stephens deemed relevant to its analysis of the merger;

discussed with management of Park Sterling and management of South State the operations of and future business prospects for Park Sterling and South State and the anticipated financial consequences of the merger to Park Sterling and South State, including potential cost savings or potential synergies;

assisted in Park Sterling deliberations regarding the material terms of the merger and in negotiations with South State; and

performed such other analyses as Stephens deemed appropriate.

Stephens relied on the accuracy and completeness of the information and financial data provided to it by Park Sterling and South State and on the other information reviewed by it in connection with the preparation of its opinion, and its opinion is based upon such information. Stephens has not assumed any responsibility for independent verification of the accuracy or completeness of any of such information or financial data. The managements of Park Sterling and South State informed Stephens that they were not aware of any relevant information that had been omitted or remained undisclosed to Stephens. Stephens has not assumed any responsibility for making or undertaking an independent evaluation or appraisal of any of the assets or liabilities of Park Sterling or of South State, and Stephens was not furnished with any such evaluations or appraisals; nor did Stephens evaluate the solvency or fair value of Park Sterling or of South State under any laws relating to bankruptcy, insolvency or similar matters. Stephens has not received or reviewed any individual credit files nor did Stephens make an evaluation of the adequacy of the allowance for loan losses of Park Sterling or South State. Stephens has not assumed any obligation to conduct any physical inspection of the properties or facilities of Park Sterling or South State. Stephens has further relied, with the consent of Park Sterling, upon Park Sterling and South State management as to the reasonableness and achievability of (i) the publicly available consensus earnings estimates of Park Sterling and South State and the assumed long-term growth rates based thereon that were discussed with Stephens by such management and that it was directed by such management to use and (ii) the projected balance sheet and capital data of Park Sterling and the estimates regarding certain pro forma financial effects of the merger on South State (and the assumptions and bases therefor, including but not limited to cost savings and related expenses expected to result from the merger) that were prepared by South State management and provided to and discussed with Stephens by such management. Stephens has assumed, with the consent of Park Sterling, that all such information is consistent with (in the case of Park Sterling and South State earnings estimates), or was otherwise reasonably prepared on a basis reflecting, the best currently available estimates and judgments of such management and that the forecasts, estimates and projected data reflected in such information will be realized in the amounts and in the time periods currently estimated. Stephens has also assumed that the representations and warranties contained in the merger agreement are true, correct and complete in all material respects. In formulating its opinion, Stephens considered only the merger consideration to be received by Park Sterling s public shareholders, and Stephens did not consider, and its opinion did not address, the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of Park Sterling, or such class of persons, in connection with the merger transaction whether relative to the merger consideration or otherwise. Stephens was not requested to opine as to, and its opinion did not express an opinion as to or otherwise address, among other things: (1) the fairness of the merger transaction to the holders of any class of securities, creditors or other constituencies of Park Sterling, or to any other party, except for Park Sterling s public shareholders; or (2) the fairness of the transaction to any one class or group of Park Sterling s or any other party s security holders or other constituents vis-à-vis any other class or group of Park Sterling s or such other party s security holders or other constituents.

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Material Financial Analyses. The following summarizes the material financial analyses reviewed by Stephens with the Park Sterling board of directors at its meeting on April 26, 2017, which material was considered by Stephens in rendering its opinion. No company or transaction used in the analyses described below is identical or directly comparable to Park Sterling, South State or the contemplated merger transaction. For purposes of the financial analyses described below, Stephens utilized an implied transaction value for the proposed merger of $12.68 per share of Park Sterling common stock based on the 0.14x exchange ratio in the merger agreement and the closing price of South State common stock on April 25, 2017. In addition to the financial analyses described below, Stephens reviewed with the Park Sterling board for informational purposes, among other things, implied transaction statistics for the proposed merger of 23.5x, 21.5x and 18.4x Park Sterling s LTM, 2017 and 2018 EPS, respectively, using reported LTM EPS and consensus EPS estimates for Park Sterling and 234.3% of Park Sterling s tangible book value (TBV) per share as of March 31, 2017, in each case based on the implied transaction value for the proposed merger of $12.68 per share of Park Sterling common stock.

Selected Public Companies Analysis. Using publicly available information, Stephens compared the financial performance and financial condition of Park Sterling to 13 selected banks and thrifts headquartered in District of Columbia, Georgia, Maryland, North Carolina, South Carolina, Tennessee and Virginia that were traded on NASDAQ, the New York Stock Exchange or NYSE MKT with total assets between $2.0 billion and $5.0 billion. Stephens also reviewed the market performance of the selected companies. The selected companies were as follows:

Access National Corporation

Atlantic Capital Bancshares, Inc.

Carolina Financial Corporation

FB Financial Corporation

Fidelity Southern Corporation

First Bancorp

First Community Bancshares, Inc.

Franklin Financial Network, Inc.

HomeTrust Bancshares, Inc.

Old Line Bancshares, Inc.

Southern National Bancorp of Virginia, Inc.

WashingtonFirst Bankshares, Inc.

Xenith Bankshares, Inc.

To perform this analysis, Stephens used MRQ profitability data and other financial information as of, or for the fiscal quarter or, where indicated, the LTM ended, March 31, 2017 and market price information as of April 25, 2017. Stephens also used 2017 and 2018 EPS estimates of the selected companies taken from consensus estimates. Certain financial data prepared by Stephens, as referenced in the tables presented below, may not correspond to the data presented in Park Sterling s historical financial statements as a result of the different assumptions and methods used by Stephens to compute the financial data presented.

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Stephens s analysis showed the following concerning the financial performance of Park Sterling and the selected companies:

	MRQ Core ROAA(1)	MRQ Core ROAE(2)	MRQ NIM(3)	MRQ Efficiency
Median	0.96%	9.29%	3.57%	63.9%
25th Percentile	0.88%	7.11%	3.30%	59.0%
75th Percentile	1.08%	11.57%	3.95%	71.0%
Park Sterling	0.93%	8.41%	3.68%	63.6%

(1) Return on Average Assets. Core income excludes extraordinary items, nonrecurring items and gains / (losses) on sale of securities.

(2) Return on Average Equity. Core income excludes extraordinary items, nonrecurring items and gains / (losses) on sale of securities.

(3) Net Interest Margin.

Stephens s analysis also showed the following concerning the financial condition of Park Sterling and the selected companies:

	TCE / TA(1)	Leverage Ratio	Tier 1 Capital Ratio	Total Capital Ratio	NPAs / Assets
Median	9.75%	10.32%	12.29%	13.50%	0.67%
25th Percentile	8.70%	9.14%	10.61%	13.24%	0.51%
75th Percentile	10.52%	10.70%	13.74%	15.06%	1.44%
Park Sterling	8.89%	9.99%	12.01%	12.48%	0.46%

(1) Tangible Common Equity / Tangible Assets.

In addition, Stephens s analysis showed the following concerning the market performance of the selected companies to the extent publicly available:

	Price / TBV(1) per share	Price / LTM EPS	Price / 2017E EPS	Price / 2018E EPS
Median	199%	19.5x	18.5x	15.4x
25th Percentile	179%	17.9x	17.3x	13.8x
75th Percentile	217%	22.3x	20.8x	17.3x
Park Sterling	227%	22.8x	20.8x	17.8x

(1) Tangible Book Value.

Furthermore, Stephens applied the median, 25th percentile and 75th percentile relative valuation multiples for each of the metrics to Park Sterling s actual and projected financial results and determined the implied equity price per share of Park Sterling common stock and then compared those implied equity values per share to the implied transaction value for the proposed merger of $12.68 per share. The results of this are summarized below:

	Price / TBV per share	Price / LTM EPS	Price / 2017E EPS	Price / 2018E EPS
Median	$ 10.75	$ 10.51	$ 10.89	$ 10.61
25th Percentile	$ 9.69	$ 9.67	$ 10.22	$ 9.53
75th Percentile	$ 11.74	$ 12.06	$ 12.28	$ 11.96
Merger Consideration	$ 12.68	$ 12.68	$ 12.68	$ 12.68

The low and high price-to-tangible-book-value-per-share multiples of the selected companies compared to Park Sterling were 136% and 328%, respectively. The low and high price-to-LTM-EPS

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multiples of the selected companies compared to Park Sterling were 13.3x and 34.2x, respectively. The low and high price-to-2017-estimated-EPS multiples of the selected companies compared to Park Sterling were 14.9x and 27.5x, respectively. The low and high stock-price-to-2018-estimated-EPS multiples of the selected companies compared to Park Sterling were 11.6x and 24.3x, respectively.

No company used as a comparison in the above-selected companies analysis is identical to Park Sterling. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning the differences in financial and operating characteristics of the companies involved.

Using publicly available information, Stephens compared the financial performance and financial condition of South State to 14 selected banks and thrifts headquartered in Arkansas, Florida, Georgia, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Virginia and West Virginia that were traded on NASDAQ, the New York Stock Exchange or NYSE MKT with total assets between $8.0 billion and $15.0 billion. Stephens also reviewed the market performance of the selected companies. The selected companies were as follows:

Capital Bank Financial Corp.

Community Bank System, Inc.

Customers Bancorp, Inc.

FCB Financial Holdings, Inc.

Home BancShares, Inc.

NBT Bancorp Inc.

Northwest Bancshares, Inc.

Provident Financial Services, Inc.

Renasant Corporation

Simmons First National Corporation

Trustmark Corporation

Union Bankshares Corporation

United Community Banks, Inc.

WesBanco, Inc.

To perform this analysis, Stephens used MRQ profitability data and other financial information as of, or for the fiscal quarter or, where indicated, the latest 12 months ended, March 31, 2017 and market price information as of April 25, 2017. Stephens also used 2017 and 2018 EPS estimates of South State and the selected companies taken from consensus estimates. Certain financial data prepared by Stephens, as referenced in the tables presented below, may not correspond to the data presented in South State s historical financial statements as a result of the different assumptions and methods used by Stephens to compute the financial data presented.

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Stephens s analysis showed the following concerning the financial performance for South State and the selected companies:

	MRQ Core ROAA(1)	MRQ Core ROAE(1)	MRQ NIM	MRQ Efficiency
Median	1.08%	8.48%	3.52%	59.4%
25th Percentile	0.95%	7.75%	3.37%	54.9%
75th Percentile	1.21%	10.23%	3.69%	62.1%
South State	1.25%	8.67%	4.08%	60.7%

(1) Core income excludes extraordinary items, non-recurring items and gains / (losses) on sale of securities

Stephens s analysis also showed the following concerning the financial condition of South State and the selected companies:

	TCE / TA	Leverage Ratio	Tier 1 Capital Ratio	Total Capital Ratio	NPAs / Assets
Median	8.87%	10.16%	12.50%	13.45%	0.79%
25th Percentile	8.34%	9.39%	11.48%	12.84%	0.50%
75th Percentile	9.32%	10.58%	13.38%	14.36%	0.87%
South State	8.85%	10.00%	12.80%	13.30%	0.35%

In addition, Stephens s analysis showed the following concerning the market performance of the selected companies to the extent publicly available:

	Price / TBV per Share	Price / 2017E EPS	Price / 2018E EPS
Median	225%	18.3x	15.7x
25th Percentile	210%	17.5x	15.1x
75th Percentile	260%	19.0x	16.9x
South State	285%	21.7x	17.9x

The low and high price-to-tangible-book-value-per-share multiples of the selected companies compared to South State were 148% and 370%, respectively. The low and high price-to-2017-estimated-EPS multiples of the selected companies compared to South State were 12.3x and 23.4x, respectively. The low and high stock-price-to-2018-estimated-EPS multiples of the selected companies compared to South State were 10.5x and 21.5x, respectively.

No company used as a comparison in the above-selected companies analysis is identical to South State. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning the differences in financial and operating characteristics of the companies involved.

Selected Transaction Analysis. Stephens analyzed publicly available information relating to selected transactions announced since January 1, 2016 involving nationwide targets with total assets between \$1.5 billion and \$5.0 billion. Stephens prepared a summary of the relative valuation multiples paid in these transactions. The selected transactions used in the analysis included (public announcement date of transaction shown in parentheses):

National:

Acquisition of CU Bancorp by PacWest Bancorp (4/6/17)

Acquisition of Stonegate Bank by Home BancShares Inc. (3/27/17)

Acquisition of First Texas BHC Inc. by Simmons First National Corp. (1/23/17)

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Acquisition of Pacific Continental Corp. by Columbia Banking System Inc. (1/9/17)

Acquisition of Southwest Bancorp Inc. by Simmons First National Corp. (12/14/16)

Acquisition of Heritage Oaks Bancorp by Pacific Premier Bancorp (12/13/16)

Acquisition of Carlile Bancshares Inc. by Independent Bank Group Inc. (11/21/16)

Acquisition of Cascade Bancorp by First Interstate BancSystem (11/17/16)

Acquisition of Merchants Bancshares Inc. by Community Bank System Inc. (10/24/16)

Acquisition of Cardinal Financial Corp. by United Bankshares Inc. (8/18/16)

Acquisition of Standard Bancshares Inc. by First Midwest Bancorp Inc. (6/28/16)

Acquisition of Suffolk Bancorp by People s United Financial Inc. (6/27/16)

Acquisition of Southeastern Bank Financial Corp. by South State Corporation (6/17/16)

Acquisition of Lake Sunapee Bank Group by Bar Harbor Bankshares (5/5/16)

Acquisition of Your Community Bankshares Inc. by WesBanco Inc. (5/3/16)

Acquisition of California Republic Bancorp by Mechanics Bank (4/28/16)

Acquisition of Anchor BanCorp Wisconsin Inc. by Old National Bancorp (1/12/16)

Acquisition of Cape Bancorp Inc. by OceanFirst Financial Corp. (1/5/16)

Stephens examined valuation multiples of transaction value compared to the target companies MRQ TBV, estimated next-twelve-months (NTM) earnings, LTM earnings, MRQ core deposits and closing stock price prior to transaction announcement, where such information was publicly available. Core deposits are defined as total deposits less time deposits of $100,000 or more. Stephens reviewed the median, 25th percentile and 75th percentile relative valuation multiples of the selected transactions and compared them to corresponding valuation multiples for Park Sterling implied by the merger consideration. Furthermore, Stephens applied the median, 25th percentile and 75th percentile relative valuation multiples from the nationwide transactions to Park Sterling s MRQ TBV, LTM earnings, estimated NTM earnings, MRQ core deposits and closing stock price on April 25, 2017 to determine the implied equity price per share and then compared those implied equity values per share to the implied transaction value for the proposed merger of $12.68 per share. The results of the selected transactions analysis are summarized below:

	Price / TBV per share	Price / LTM EPS	Price / NTM EPS	Premium to Core Deposits	Market Premium
Median	204%	20.7x	20.5x	14.4%	20.7%
25th Percentile	176%	18.4x	19.2x	11.3%	7.8%
75th Percentile	236%	23.8x	22.6x	18.8%	33.9%
Merger Consideration	234%	23.5x	20.8x	19.0%	3.1%

	Price / TBV per share	Price / LTM EPS	Price / NTM EPS	Premium to Core Deposits	Market Premium
Median	$ 11.04	$ 11.20	$ 12.50	$ 10.93	$ 14.83
25th Percentile	$ 9.55	$ 9.94	$ 11.74	$ 9.73	$ 13.25
75th Percentile	$ 12.79	$ 12.83	$ 13.79	$ 12.60	$ 16.46
Merger Consideration	$ 12.68	$ 12.68	$ 12.68	$ 12.68	$ 12.68

The low and high transaction-price-to-tangible-book-value-per-share multiples of the selected transactions were 123% and 306%, respectively. The low and high transaction price-to-LTM-EPS

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multiples of the selected transactions were 12.4x and 27.2x, respectively. The low and high transaction-price-to-NTM-EPS multiples of the selected transactions were 13.6x and 29.4x, respectively. The low and high premium to core deposits of the selected transactions were 5.5% and 21.1%, respectively. The low and high market premiums of the selected transactions were (0.1%) and 50.1%, respectively.

No company or transaction used as a comparison in the above-selected transactions analysis is identical to Park Sterling or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Discounted Cash Flow Analysis. Stephens performed a discounted cash flow analysis to estimate a range for the implied equity value of Park Sterling. In this analysis, Stephens used financial forecasts and projections relating to the earnings and assets of Park Sterling prepared, and provided to Stephens, by Park Sterling management, and assumed discount rates ranging from 11.0% to 15.0%. Stephens utilized the equity build-up method to calculate an appropriate range of discount rates for Park Sterling common stock. As detailed in the following table, which sets forth the calculation of the discount rate utilized, the discount rate equals the sum of the risk-free rate, the equity risk premium and the size premium:

Risk-free rate[1]	2.71%
Equity risk premium[2]	7.56%
Size premium[2]	2.38%
Discount rate	***12.65%***

(1) The risk-free rate is represented as the yield on the twenty-year U.S. Treasury note as of April 25, 2017.

(2) The equity risk premium and size premium were sourced from the Duff & Phelps 2017 Valuation Handbook.

The ranges of implied equity values for Park Sterling were derived by adding (i) the present value of the estimated free cash flows that Park Sterling could generate over the period from 2018 to 2021 as a standalone company and (ii) the present value of Park Sterling s implied terminal value at the end of such period. Stephens assumed that Park Sterling would maintain a tangible common equity to tangible assets ratio of 8.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of Park Sterling, Stephens applied a range of 16.0x to 20.0x estimated 2022 earnings. Stephens selected these multiples on the basis of its experience and professional judgment, including its review of, among other things, the trading multiples of selected companies that Stephens determined to be comparable to Park Sterling, as discussed above. This discounted cash flow analysis resulted in a range of implied values per share of Park Sterling common stock of approximately $9.69 per share to $13.53 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Park Sterling.

Relative Contribution Analysis. Stephens analyzed the relative standalone contribution of Park Sterling and South State to various pro forma balance sheet and income statement items of the combined entity. This analysis excluded purchase accounting adjustments. To perform this analysis, Stephens used (i) balance sheet data for Park Sterling and South State as of March 31, 2017 and (ii) operating income consensus estimates for Park Sterling and South State, where operating income is defined as income excluding extraordinary items, nonrecurring items and gains / (losses) on sale of securities. The results of the analysis are set forth in the following table, which also compares the results of the analysis with the implied pro forma ownership percentages of Park Sterling s and South

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State s respective shareholders in the combined company based on the 0.14x exchange ratio in the proposed merger:

	South State % of Total	Park Sterling % of Total
Balance Sheet		
Assets	77.1%	22.9%
Gross Loans	76.3%	23.7%
Deposits	78.3%	21.7%
Equity	81.4%	18.6%
Tangible Common Equity	76.4%	23.6%
Income Statement		
LTM Operating Income	81.1%	18.9%
2017 Estimated Operating Income	81.6%	18.4%
2018 Estimated Operating Income	79.8%	20.2%
Ownership		
100% Common Stock at 0.14x Exchange Ratio	79.7%	20.3%

Pro Forma Financial Impact Analysis. Stephens performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of Park Sterling and South State. Using closing balance sheet estimates as of December 31, 2017 for Park Sterling and South State per South State management, 2017 operating income consensus estimates for Park Sterling, 2017 operating income consensus estimates for South State, income growth rates provided by South State management and pro forma assumptions (including certain purchase accounting adjustments, cost savings and related expenses) provided by South State management, Stephens analyzed the potential financial impact of the merger on certain projected financial results of South State. This analysis indicated the merger could be accretive to South State s 2018 estimated EPS, accretive to South State s estimated book value per share as of December 31, 2017 and dilutive to South State s estimated tangible book value per share as of December 31, 2017. Furthermore, the analysis indicated that, pro forma for the proposed merger, each of South State s tangible common equity to tangible assets ratio, Leverage Ratio, Tier 1 Risk-Based Capital Ratio and Total Risk-Based Capital Ratio as of December 31, 2017 could be lower. For all of the above, the actual results achieved by South State following the merger may vary from the projected results, and the variations may be material.

Additional Considerations. The preparation of a fairness opinion is a complex process and is not susceptible to a partial analysis or summary description. Stephens believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering the analyses taken as a whole, would create an incomplete view of the process underlying its opinion. In addition, Stephens considered the results of all such analyses and did not assign relative weights to any of the analyses, but rather made qualitative judgments as to significance and relevance of each analysis and factor, so the ranges of valuations resulting from any particular analysis described above should not be taken to be the view of Stephens as to the actual value of Park Sterling.

In performing its analyses, Stephens made numerous assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the control of Park Sterling. The analyses performed by Stephens are not necessarily indicative of actual values, trading values or actual future results which might be achieved, all of which may be significantly more or less favorable than suggested by such analyses. Such analyses were provided to the Park Sterling board of directors (solely in its capacity as such) and were prepared solely as part of the analysis of Stephens of the fairness, from a financial point of view, to Park Sterling s public shareholders, of the merger consideration to be received by such holders in connection with the proposed merger transaction pursuant to the merger agreement. The analyses do not purport to be

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appraisals or to reflect the prices at which companies may actually be sold, and such estimates are inherently subject to uncertainty. The opinion of Stephens was one of many factors taken into account by the Park Sterling board in making its determination to approve the merger transaction (See *Park Sterling s Reasons for the Merger; Recommendation of the Park Sterling Board of Directors*). Neither Stephens s opinion nor the analyses described above should be viewed as determinative of the Park Sterling board of directors or Park Sterling management s views with respect to Park Sterling, South State or the proposed merger. Stephens provided advice to Park Sterling with respect to the proposed transaction. Stephens did not, however, recommend any specific amount of consideration to the Park Sterling board or that any specific merger consideration constituted the only appropriate consideration for the merger transaction. Park Sterling placed no limits on the scope of the analysis performed, or opinion expressed, by Stephens.

The Stephens opinion was necessarily based upon market, economic and other circumstances and conditions existing as of, and can be evaluated on, the information made available to Stephens as of April 25, 2017. It should be understood that subsequent developments may affect the opinion of Stephens and that Stephens does not have any obligation to update, revise or reaffirm its opinion. Stephens has assumed that the transaction will be consummated on the terms of the latest draft of the merger agreement provided to it, without material waiver or modification. Stephens has also assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the transaction, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that would have a material adverse effect on the contemplated benefits of the transaction to Park Sterling s public shareholders.

Park Sterling has agreed to pay Stephens a fee of $5.5 million for advisory services in connection with the merger transaction upon the closing of the transaction. For services rendered in connection with the delivery of its opinion, Park Sterling paid Stephens a fee of $500,000 upon delivery of its opinion, which will be credited against the fee payable upon the closing of the transaction. Park Sterling has also agreed to reimburse Stephens for its expenses incurred in connection with its services, including the fees and expenses of its counsel, and will indemnify Stephens against certain liabilities arising out of its engagement.

Stephens is actively involved in the investment banking business and regularly undertakes the valuation of investment securities in connection with public offerings, private placements, business combinations and similar transactions. In the ordinary course of business, Stephens makes a market in the stock of Park Sterling and South State and may trade in the securities of Park Sterling and South State for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. Stephens may provide investment banking, financial advisory and other financial services to Park Sterling and/or South State or other participants in the merger transaction in the future, for which Stephens may receive compensation. Except as described above, Park Sterling has paid Stephens no other fees or commissions for other services during the two years preceding the date of its opinion. South State has not paid Stephens fees or commissions for investment banking services during the two years preceding the date of its opinion.

Certain South State and Park Sterling Unaudited Prospective Financial Information

South State and Park Sterling do not, as a matter of course, publicly disclose forecasts or internal projections as to future performance, revenues, earnings, financial condition or other results due to, among other reasons, the inherent uncertainty of the underlying assumptions and estimates and the inherent difficulty of accurately predicting financial performance for future periods. South State and Park Sterling have included in this joint proxy statement/prospectus certain limited unaudited prospective financial information for South State and Park Sterling (which we refer to as the projections) to give South State and Park Sterling shareholders access to certain information

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provided to the South State board of directors and the Park Sterling board of directors, respectively, and the parties respective financial advisors in connection with the merger.

The projections provided were considered in good faith by management to be reasonable, based on the best available information at the time, but were not prepared with a view toward public disclosure. As a result, the inclusion of the projections in this joint proxy statement/prospectus should not be regarded as an indication that South State, Park Sterling or any other recipient of the projections considered, or now considers, them to be necessarily predictive of actual future results, or that it should be construed as financial guidance, and it should not be relied on as such. This information was prepared solely for internal use and is subjective in many respects. While presented with numeric specificity, the unaudited prospective financial information reflects numerous estimates and assumptions made with respect to business, economic, market, competition, regulatory and financial conditions and matters specific to South State s business and Park Sterling s business, all of which are difficult to predict and many of which are beyond South State s and Park Sterling s control. In addition, since the projections cover multiple years, such information by its nature becomes less predictive with each successive year.

The projections also reflect assumptions as to certain business decisions that are subject to change. The projections reflect subjective judgment in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the projections constitute forward-looking information and are subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such prospective information, including, but not limited to, South State s performance, Park Sterling s performance, industry performance, general business and economic conditions, customer requirements, competition, adverse changes in applicable laws, regulations or rules, and the various risks set forth in South State s and Park Sterling s respective reports filed with the SEC. For other factors that could cause the actual results to differ, please see the *Risk Factors* section and *Cautionary Statement Regarding Forward-Looking Statements* in this joint proxy statement/prospectus.

The projections were not prepared with a view toward complying with the guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation or presentation of financial information. None of Dixon Hughes Goodman LLP, which serves as South State s and Park Sterling s current independent registered public accounting firm, or any other independent accountants, have compiled, examined or performed any procedures with respect to the projections included below, or expressed any opinion or any other form of assurance on such information or its achievability.

Furthermore, the projections do not take into account any circumstances or events occurring after the date they were prepared, including the transactions contemplated by the merger agreement (other than with respect to certain projections related to the combined company set forth under *Pro Forma Financial Analysis* below). Further, the projections do not take into account the effect of any possible failure of the merger to occur. None of South State, Park Sterling nor any of their financial advisors nor any of their affiliates intends to, and each of them disclaims any obligation to, update, revise or correct the projections if they are or become inaccurate (even in the short term). The inclusion of the projections herein should not be deemed an admission or representation by South State or Park Sterling that they are viewed by South State or Park Sterling as material information of South State or Park Sterling, respectively, particularly in light of the inherent risks and uncertainties associated with such forecasts. The projections included below are not being included to influence your decision whether to vote in favor of the South State merger proposal or the Park Sterling merger proposal or any other proposal to be considered at the special meetings but are being provided solely because they were made available to and considered by South State s and Park Sterling s respective financial advisors and boards of directors in connection with the merger.

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In light of the foregoing, and considering that the South State and Park Sterling special meetings will be held several months after the unaudited prospective financial information was prepared, as well as the uncertainties inherent in any forecasted information, South State shareholders and Park Sterling shareholders are cautioned not to place unwarranted reliance on such information, and South State shareholders and Park Sterling shareholders are urged to review South State s most recent SEC filings for a description of South State s reported financial results and the financial statements of South State included in this joint proxy statement/prospectus and Park Sterling s most recent SEC filings for a description of Park Sterling s reported financial results and the financial statements of Park Sterling included in this joint proxy statement/prospectus. See *Where You Can Find More Information*.

Certain Projections Regarding Park Sterling

Park Sterling provided South State, KBW and Stephens with an estimated EPS (prior to anticipated cost savings) of $0.59 of Park Sterling for fiscal year 2017. Park Sterling s estimates were the same as the consensus street estimates published by FactSet Research Systems for the period. KBW then used an assumed annual EPS growth rate of 5.0% for fiscal years 2018 through 2023 at the direction of South State management. In addition, South State provided KBW with estimates of total assets as of December 31, 2017 for Park Sterling of $3.42 billion, which reflected Park Sterling s total assets of $3.31 billion as of March 31, 2017, extrapolated based on an annual growth rate of 5.0% assumed by KBW at the direction of South State management. KBW then estimated at the direction of South State management the value of Park Sterling s total assets as of December 31, 2018 through 2023, which reflected an assumed year-over-year annual growth rate of 5.0%.

Certain Projections Regarding South State

South State provided Park Sterling, KBW and Stephens, and South State and Park Sterling s management discussed with each party, (1) an estimated EPS of $4.79 of South State for fiscal year 2017, which reflect consensus street estimates published by SNL Financial, and (2) an assumed annual EPS growth rate of 5.0% for fiscal years 2018 through 2023.

Pro Forma Financial Analysis

For the pro forma merger analysis, South State provided the following assumptions to Park Sterling, KBW and Stephens:

Purchase Accounting Adjustments:

Credit mark to loans of approximately $61 million

Pro Forma Capital Assumptions:

Tangible-common-equity-to-tangible-assets ratio of approximately 8.7%

Total capital ratio of approximately 12.6%

Cost Savings:

35% of Park Sterling s expected non-interest expense for 2018 of approximately $84.7 million (75% realized in 2018, 100% thereafter)

Related Expenses:

Approximately $50 million after-tax

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Other Assumptions:

- Includes the full impact of lost interchange revenue caused by the Durbin Amendment
- Includes balance sheet repositioning
- Core deposit intangible of 1.5%

Interests of Park Sterling s Directors and Executive Officers in the Merger

In considering the recommendation of Park Sterling s board of directors that you vote to approve the merger agreement, you should be aware that some of Park Sterling s executive officers and directors have financial interests in the merger that are different from, or in addition to, those of Park Sterling shareholders generally. The independent members of Park Sterling s board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger, and in recommending to the shareholders that the merger agreement be approved. For purposes of all of Park Sterling s agreements and plans described below, the completion of the merger will constitute a change in control.

Board of Directors of South State

Immediately following the effective time, South State will appoint James C. Cherry, Park Sterling s current Chief Executive Officer, and one current non-employee member of the board of directors of Park Sterling to the South State board of directors. South State Bank will also appoint Mr. Cherry and such other Park Sterling director to its board of directors. Mr. Cherry and the other Park Sterling director will serve on the board of directors of each of South State and South State Bank until the next annual meeting of shareholders of such company, at which time Mr. Cherry will be considered in good faith for nomination to a new term on the board of directors of each of South State and South State Bank. Additionally, Mr. Cherry will be appointed to the Executive Committee of the South State board of directors, where he will serve for a period of one year from the date of his appointment. Mr. Cherry and the other Park Sterling director appointed to South State s board of directors will participate in South State s director compensation program, the current terms of which are set forth in South State s annual proxy statement that was filed with the Securities and Exchange Commission on March 6, 2017. See *Where You Can Find More Information*.

Voting Agreements

Each director and current named executive officer of Park Sterling has entered into a voting agreement with South State, solely in his or her capacity as a shareholder of Park Sterling, pursuant to which he or she has agreed, among other things, to vote in favor of the Park Sterling merger proposal and the other proposals presented at the Park Sterling special meeting and against alternative acquisition proposals, as well as certain other customary restrictions with respect to the voting and transfer of his or her shares of Park Sterling common stock.

Director and Officer Indemnification and Insurance

The merger agreement provides that from and after the completion of the merger, the surviving corporation will indemnify and hold harmless all present and former directors and officers of Park Sterling or any of its subsidiaries against all liabilities arising out of the fact that such person is or was a director or officer of Park Sterling or any of its subsidiaries if the claim pertains to any matter of fact arising, existing or occurring at or before the effective time of the merger (including the merger and the other transactions contemplated by the merger agreement), regardless of whether such claims are asserted before or after the effective time, to the fullest extent permitted by applicable law. Further, the merger agreement requires the surviving corporation to use its reasonable best efforts to maintain

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for a period of six years after completion of the merger, directors and officers liability insurance. For additional information, see *The Merger Agreement Covenants and Agreements Director and Officer Indemnification and Insurance*.

Acceleration of Vesting of Restricted Stock

The current executive officers and directors of Park Sterling held an aggregate of 216,188 restricted shares of Park Sterling common stock as of July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus. As of the effective time, each Park Sterling restricted share will vest in full, become free of all restrictions and the holder of such Park Sterling restricted shares will be entitled to receive the merger consideration in exchange for each Park Sterling restricted share. The following table sets forth the number of Park Sterling restricted shares that are held by each of the current executive officers and directors of Park Sterling as of July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus, all of which will vest at the effective time of the merger. For information on the value of accelerated vesting of restricted shares held by the named executive officers of Park Sterling, see *Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control* below. Park Sterling estimates that the aggregate value of the merger consideration that would be received by its non-employee directors for their Park Sterling restricted shares if the effective time of the merger were July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus, and based on a price per share of Park Sterling common stock of $12.24 (the average closing price per share of Park Sterling stock for the five trading days after the date the merger was announced), is $1,276,045.

Name of Current Executive Officer or Director	Outstanding number of restricted shares of Park Sterling common Stock that vest in the merger
Walter C. Ayers	11,253
Leslie M. Baker, Jr.	9,653
Larry W. Carroll	9,653
Jean E. Davis	9,653
Grant S. Grayson	6,387
Patricia C. Hartung	12,720
Thomas B. Henson	9,653
Jeffrey S. Kane	9,653
Kim S. Price	9,587
Ben R. Rudisill, II	9,653
Robert G. Whitten	6,387
All non-employee directors as a group	***104,252***
James C. Cherry	45,750
Bryan F. Kennedy, III	23,683
Donald K. Truslow	18,817
Nancy J. Foster	23,683
All current executive officers as a group	***111,936***

Treatment of Park Sterling Stock Options

The current executive officers and directors of Park Sterling held an aggregate of 995,381 options to purchase shares of Park Sterling common stock as of July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus. At the effective time, each outstanding option to acquire shares of Park Sterling common stock, whether or not vested, that is not exercised prior to the effective time will be cancelled by virtue of the merger and converted into the right to receive a cash payment (without interest and less applicable withholding taxes) equal to the product of (i) the number

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of shares of Park Sterling common stock subject to such Park Sterling stock option and (ii) the excess, if any, of (A) the product of the exchange ratio and the South State share value minus (B) the per-share exercise price of such Park Sterling stock option. If the product obtained by the prior sentence is zero or a negative number, then the Park Sterling stock option will be cancelled for no consideration. Payments with respect to options to purchase shares of Park Sterling common stock cancelled under the merger agreement will be made as soon as reasonably practicable following the effective time. The following table sets forth the total number of Park Sterling stock options held by each of the current executive officers and directors of Park Sterling as of July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus. For information on the value of stock options held by the named executive officers being converted into the right to receive cash, see *Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control* below. Park Sterling estimates that the aggregate amount that would become payable to its non-employee directors in settlement of their options to purchase Park Sterling common stock if the effective time of the merger were July 6, 2017, the most practicable date before the date of this joint proxy statement/prospectus, and based on a price per share of Park Sterling common stock of $12.24 (the average closing price per share of Park Sterling stock for the five trading days after the date the merger was announced), is $1,369,222.

Name of Current Executive Officer or Director	Total number of options
Walter C. Ayers	32,340
Leslie M. Baker, Jr.	40,425
Larry W. Carroll	46,090
Jean E. Davis	32,340
Grant S. Grayson	
Patricia C. Hartung	
Thomas B. Henson	46,090
Jeffrey S. Kane	32,340
Kim S. Price	25,000
Ben R. Rudisill, II	4,351
Robert G. Whitten	
All non-employee directors as a group	***258,976***
James C. Cherry	363,825
Bryan F. Kennedy, III	186,380
Donald K. Truslow	
Nancy J. Foster	186,380
All executive officers as a group	***736,585***

Terms of Certain Employment Agreements

Messrs. Cherry, Kennedy and Truslow and Ms. Foster are each parties to various agreements with Park Sterling and its affiliates that provide, among other matters, that each such named executive officer would be entitled to certain benefits in connection with a change in control of Park Sterling (such as the merger) or in the event that such named executive officer experienced a qualifying termination of employment following a change in control of Park Sterling.

Employment Agreement with James C. Cherry

Mr. Cherry is a party to an Employment Agreement with Park Sterling. In the event that Mr. Cherry s employment were terminated without cause, he resigned for good reason or his agreement expired as a result of South State s failure to renew its terms, in each case within the period beginning on the date of the signing of a letter of intent or similar agreement that would result in a change of

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control transaction and ending 12 months following a change of control, Mr. Cherry would be entitled to receive (a) severance in an amount equal to two times Mr. Cherry s annual base salary at the highest rate in effect during the previous 12 months, payable monthly over two years; (b) an amount equal to two times the highest annual bonus Mr. Cherry received or earned during the three years preceding termination, payable in a lump sum, and (c) 18 months of COBRA payments. In addition, Mr. Cherry would be entitled to an amount equal to his annual base salary plus his annual bonus compensation (measured at the highest bonus received during the three years prior to termination), payable in a lump sum. The foregoing severance benefits are subject to Mr. Cherry s execution of a release of claims in favor of Park Sterling and its affiliates. In the event it were determined that Mr. Cherry s payments related to a change of control would be subject to the excise tax imposed by Section 4999 of the Code, then the amount of such payments would be reduced if and to the extent that such reduction would result in a greater after-tax benefit to Mr. Cherry. Mr. Cherry s employment agreement provides that, upon termination of employment, for a term of 12 months thereafter, Mr. Cherry will not compete with Park Sterling and will not solicit, divert or hire away to any competing business any person employed by Park Sterling. The agreement also contains covenants by Mr. Cherry regarding the confidentiality of Park Sterling information.

In connection with the execution of the merger agreement, South State Bank entered into a Consulting and Noncompetition Agreement with Mr. Cherry, the material terms of which are discussed below under *Consulting or Employment Agreements between South State and Certain Executive Officers of Park Sterling*. If the merger is consummated, the Consulting and Noncompetition Agreement by and between Mr. Cherry and South State Bank would replace the existing employment agreement with Mr. Cherry, which would have no further force and effect. Because any payments due upon consummation of the merger would be paid pursuant to the Consulting and Noncompetition Agreement with South State Bank and not the existing employment agreement with Mr. Cherry, the information provided below under *Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control* is based on the terms of the Consulting and Noncompetition Agreement and not the existing employment agreement with Mr. Cherry.

Employment Agreement with Bryan F. Kennedy, III

Mr. Kennedy is a party to an Employment Agreement with Park Sterling. In the event that Mr. Kennedy s employment were terminated without cause, he resigned for good reason or his agreement expired as a result of South State s failure to renew its terms, in each case within the period beginning on the date of the signing of a letter of intent or similar agreement that would result in a change of control transaction and ending 12 months following a change of control, Mr. Kennedy would be entitled to receive (a) severance in an amount equal to two times Mr. Kennedy s annual base salary at the highest rate in effect during the previous 12 months, payable monthly over two years; (b) an amount equal to two times the highest annual bonus Mr. Kennedy received or earned during the three years preceding termination, payable in a lump sum, and (c) 18 months of COBRA payments. The foregoing severance benefits are subject to Mr. Kennedy s execution of a release of claims in favor of Park Sterling and its affiliates. In the event it were determined that Mr. Kennedy s payments related to a change of control would be subject to the excise tax imposed by Section 4999 of the Code, then the amount of such payments would be reduced if and to the extent that such reduction would result in a greater after-tax benefit to Mr. Kennedy. Mr. Kennedy s employment agreement provides that, upon termination of employment, for a term of 12 months thereafter, Mr. Kennedy will not compete with Park Sterling and will not solicit, divert or hire away to any competing business any person employed by Park Sterling. The agreement also contains covenants by Mr. Kennedy regarding the confidentiality of Park Sterling information.

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In connection with the execution of the merger agreement, South State Bank entered into an Employment and Noncompetition Agreement with Mr. Kennedy, the material terms of which are discussed below under *Consulting or Employment Agreements between South State and Certain Executive Officers of Park Sterling*. If the merger is consummated, the Employment and Noncompetition Agreement by and between Mr. Kennedy and South State Bank would replace the existing employment agreement with Mr. Kennedy, which would have no further force and effect. Because any payments due upon consummation of the merger would be paid pursuant to the Employment and Noncompetition Agreement with South State Bank and not the existing employment agreement with Mr. Kennedy, the information provided below under *Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control* is based on the terms of the Employment and Noncompetition Agreement and not the existing employment agreement with Mr. Kennedy.

Employment Agreement with Donald K. Truslow

Mr. Truslow is a party to an Employment Agreement with Park Sterling. In the event that Mr. Truslow s employment were terminated without cause, he resigned for good reason or his agreement expired as a result of South State s failure to renew its terms, in each case within the period beginning on the date of the signing of a letter of intent or similar agreement that would result in a change of control transaction and ending 12 months following a change of control, Mr. Truslow would be entitled to receive (a) severance in an amount equal to two times Mr. Truslow s annual base salary at the highest rate in effect during the previous 12 months, payable monthly over two years; (b) an amount equal to two times the highest annual bonus Mr. Truslow received or earned during the three years preceding termination, payable in a lump sum, and (c) 18 months of COBRA payments. The foregoing severance benefits are subject to Mr. Kennedy s execution of a release of claims in favor of Park Sterling and its affiliates. In the event it were determined that Mr. Truslow s payments related to a change of control would be subject to the excise tax imposed by Section 4999 of the Code, then the amount of such payments would be reduced if and to the extent that such reduction would result in a greater after-tax benefit. Mr. Truslow s employment agreement provides that upon termination of employment, for a term of 12 months thereafter, Mr. Truslow will not compete with Park Sterling and will not solicit, divert or hire away to any competing business any person employed by Park Sterling. The agreement also contains covenants by Mr. Truslow regarding confidentiality of Park Sterling information.

In connection with the execution of the merger agreement, South State Bank entered into an Employment and Noncompetition Agreement with Mr. Truslow, the material terms of which are discussed below under *Consulting or Employment Agreements between South State and Certain Executive Officers of Park Sterling*. If the merger is consummated, the Employment and Noncompetition Agreement by and between Mr. Truslow and South State Bank would replace the existing employment agreement with Mr. Truslow, which would have no further force and effect. Because any payments due upon consummation of the merger would be paid pursuant to the Employment and Noncompetition Agreement with South State Bank and not the existing employment agreement with Mr. Truslow, the information provided below under *Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control* is based on the terms of the Employment and Noncompetition Agreement and not the existing employment agreement with Mr. Truslow.

Employment Agreement with Nancy J. Foster

Ms. Foster is a party to an Employment Agreement with Park Sterling. In the event that Ms. Foster s employment were terminated without cause, she resigned for good reason or her agreement expired as a result of South State s failure to renew its terms, in each case within the period beginning on the date of the signing of a letter of intent or similar agreement that would result in a change of control transaction and ending 12 months following a change of control, Ms. Foster would be entitled to receive (a) severance in an amount equal to two times Ms. Foster s annual base salary at the highest rate in effect during the previous 12 months, payable monthly over two years; (b) an amount equal to two times the highest annual bonus Ms. Foster received or earned during the three years preceding termination, payable in a lump sum, and (c) 18 months of COBRA payments. The foregoing severance benefits are subject to Ms. Foster s execution of a release of claims in favor of Park Sterling and its affiliates. In the event it were determined that Ms. Foster s payments related to a change of control would be subject to the excise tax imposed by Section 4999 of the Code, then the amount of such change-in-control-related payments would be reduced if and to the extent that such reduction would result in a greater after-tax benefit. Ms. Foster s employment agreement provides that upon termination of employment, for a term of 12 months thereafter, Ms. Foster will not compete with Park Sterling and will not solicit, divert or hire away to any competing business any person employed by Park Sterling. The agreement also contains covenants by Ms. Foster regarding the confidentiality of Park Sterling information.

Consulting or Employment Agreements between South State and Certain Executive Officers of Park Sterling

In connection with the execution of the merger agreement, South State Bank entered into the Consulting Agreement with James C. Cherry as well as the Replacement Agreements. The Consulting Agreement and the Replacement Agreements will become effective upon the closing of the merger and will be void if the merger is not consummated.

Mr. Cherry s Consulting Agreement provides for Mr. Cherry to continue providing services as a consultant to South State Bank for a period of three years following the closing of the merger, unless the Consulting Agreement is terminated earlier. Under the Consulting Agreement, Mr. Cherry would be entitled to an annual retainer of $333,334 per year, would be eligible to receive an incentive bonus for 2017 (if the merger were consummated before Park Sterling pays its 2017 bonuses) and would be entitled to reimbursement for expenses related to his duties under the Consulting Agreement. In addition, Mr. Cherry would be entitled to a one-time payment of $1,633,854 to be paid no later than ten days following the closing of the merger, a cash payment of $1,080,000 payable in equal monthly installments over 24 months beginning on the first 15th day of a month that occurs six months following the closing of the merger and a one-time payment of $3,000,000 to be paid no later than 120 days following the completion of the systems conversion.

The Consulting Agreement provides that, upon a termination of Mr. Cherry s services, Mr. Cherry would receive any portion of the one-time payments of $1,633,854 and $1,080,000 not already paid. In addition, the Consulting Agreement provides that, upon a termination of Mr. Cherry s services by South State Bank for other than for cause, including termination for death or disability, or by Mr. Cherry for good reason, Mr. Cherry would receive (i) the one-time payment of $3,000,000 due upon systems conversion, if not already paid; (ii) any unpaid annual incentive bonus for 2017, if not already paid and the termination occurs on or after January 1, 2018; and (iii) severance that is equal to the annual retainer that would have been payable for the period beginning on the date following Mr. Cherry s termination and ending on the third anniversary of the closing of the merger. The foregoing payments are subject to Mr. Cherry s execution of a release of claims in favor of South State Bank and its affiliates and compliance with covenants not to compete and not to solicit clients or employees for a period of five years following the closing of the merger (regardless of whether he is providing services to South State Bank). The Consulting Agreement also contains covenants by Mr. Cherry regarding the confidentiality of South State information.

The Replacement Agreements provide for Mr. Kennedy and Mr. Truslow to be employed on a full-time basis, at an annual base salary of $360,000 each, for a period of three years following the closing of the merger, unless the executive s Replacement Agreement is terminated earlier. Each of Mr. Kennedy and Mr. Truslow would be eligible for an incentive bonus in 2017 (if the merger were consummated before Park Sterling pays its 2017 bonuses). For fiscal years following 2017, Mr. Kennedy would be eligible to participate in South State s Management Incentive Plan and Mr. Truslow would be eligible to participate in South State s Executive Incentive Plan. In addition, each of Mr. Kennedy and Mr. Truslow would (i) be entitled to participate in employee benefit plans, vacation and sick leave plans, and receive reimbursement for expenses related to their respective duties under the Replacement Agreements, and (ii) receive a one-time payment of $413,616, which amount would be paid no later than ten days following the closing of the merger, and a one-time contribution of $720,000 to South s State Deferred Income Plan, which amount would be paid in equal monthly installments over 24 months beginning on the first 15th day of a month that occurs following the executive s termination of employment.

The Replacement Agreements provide that, upon a termination of employment by South State Bank or the executive for any reason, the executive would receive the one-time payment of $413,616 as well as the one-time contribution of $720,000 to South s State s Deferred Income Plan on the schedule described above, if not already paid or contributed. In addition, if a change of control of South State occurs during the term of the Replacement Agreement and the executive s employment were terminated by South State for any reason other than for cause or as a result of the executive s death or disability, or by the executive for good reason within one year following the change of control, the executive would also receive severance that is equal to the sum his base salary and target annual bonus opportunity as of his termination to be paid within 60 days following his termination. The foregoing payments are subject to the applicable executive s execution of a release of claims in favor of South State and its affiliates and compliance with covenants not to compete and not to solicit clients or employees, with respect to Mr. Kennedy, from the closing of the merger until the later of the fourth anniversary of the closing of the merger and the first anniversary of his termination and, with respect to Mr. Truslow, from the closing of the merger until the first anniversary of his termination. The Replacement Agreements also contain covenants by Mr. Kennedy and Mr. Truslow regarding confidentiality of South State information.

For the purposes of the Consulting Agreement and Replacement Agreements, cause generally means, with respect to Mr. Cherry, Mr. Kennedy, or Mr. Truslow, as applicable (a) a material breach of the terms of the Consulting Agreement or Replacement Agreement, including failure to perform his responsibilities and duties thereunder; (b) the commission of an act constituting fraud against, misappropriation from, or material dishonesty to South State Bank; (c) conviction of a felony or any crime involving breach of trust or moral turpitude; (d) conduct that amounts to willful misconduct, gross and willful insubordination, or gross neglect or inattention to his duties and responsibilities under the Consulting Agreement or Replacement Agreement, including prolonged unexcused absences; (e) behavior related to his services or employment, as applicable, that is materially disruptive to the orderly conduct of South State Bank s business operations; (f) receipt of written notice that any regulatory agency with jurisdiction over South State has made a final determination that Mr. Cherry, Mr. Kennedy, or Mr. Truslow, as applicable, has violated a particular law or regulation; or (g) his removal or permanent prohibition from participating in the conduct of South State Bank s affairs.

For the purposes of the Consulting Agreement, good reason generally means (a) a material breach by South State Bank of the Consulting Agreement, which includes a material reduction by South State Bank in annual retainer or the failure to pay certain amounts due under the Consulting Agreement or (b) South State Bank requiring relocation of his primary office or worksite a distance greater than 25 miles from 1043 E. Morehead Street, Suite 201 Charlotte, North Carolina 28204, each if not corrected by South State Bank within 60 days of receiving notice of such circumstances. For purposes of the Replacement Agreements, good reason generally means, with respect to Mr. Kennedy or Mr. Truslow, as applicable (a) a material reduction in his authority, duties, or responsibilities; (b) a material reduction in the authority, duties, or responsibilities of the supervisor he is required to report, including a requirement that he report directly to a corporate officer or employee instead of the board of directors; (c) a material reduction in the budget (if any) over which he has

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authority; (d) South State Bank reducing his total compensation (except for across-the-board salary reductions); (e) South State Bank requiring him to be based anywhere other than within 50 miles of his last assigned area of responsibility; or (f) South State Bank s failure to pay certain amounts due under the Replacement Agreement or any other material breach by South State Bank of the Replacement Agreement, each if not corrected by South State Bank within 30 days of receiving notice of such circumstances.

In the event it were determined that the payments related to a change of control under the Consulting Agreement or a Replacement Agreement, as applicable, would be subject to the excise tax imposed by Section 4999 of the Code, then the amount of such payments would be reduced if and to the extent that such reduction would result in a greater after-tax benefit to the applicable executive.

In addition, South State Bank and Park Sterling Bank have entered into a letter agreement with Mr. Ladnier pursuant to which he may become entitled to a severance benefit if South State Bank is unable to identify a job position for him with South State Bank following the closing and Mr. Ladnier continues his employment with Park Sterling through the closing.

2017/2018 Incentive Bonuses

Each participant in a Park Sterling annual incentive plan in respect of 2017 will be entitled to the payment of such incentives, based on specific company, business unit and/or personal performance goals, subject to his or her continued employment until the date such incentives would become payable in the ordinary course of business. Notwithstanding the foregoing, in the event a participant s employment is terminated without cause prior to the payment of his or her annual incentive compensation for 2017, such participant will receive full payment of such 2017 incentives within 60 days following his or her termination. If the closing of the merger does not occur prior to January 1, 2018, Park Sterling may award and pay annual incentive compensation for 2018 based on the same factors as applied for 2017, calculated on a pro rata basis and paid within 60 days of the closing.

Potential Payments and Benefits to Park Sterling Named Executive Officers in Connection with a Change in Control

The following table and related footnotes are intended to comply with Item 402(t) of Regulation S-K under the Exchange Act, which requires disclosure of information about the payments and benefits that each of the Park Sterling named executive officers, as determined for the purposes of Park Sterling s most recent Annual Report on Form 10-K, will or may receive that are based on or otherwise relate to the merger, assuming the merger was completed on July 6, 2017. The amounts reported below are estimates based on multiple assumptions that may or may not actually occur on the relevant date, including an assumption that the employment of each of the five named executive officers is terminated without cause immediately following the completion of the merger, and do not reflect certain compensation actions that may occur before the completion of the merger and do reflect some events that may not occur following the merger.

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Compensation Subject to Compensation Proposal

Name	Cash ($)	Equity ($)[8]	Pension/ NQDC ($)	Perquisites/ Benefits ($)	Tax Reimbursement ($)	Other ($)	Total ($)[10]
James C. Cherry	$ 6,382,104(3)	$ 2,649,974	$	$	$	$	$ 9,032,078
Bryan F. Kennedy, III	$ 1,356,366(4)	$ 1,360,541	$	$	$	$	$ 2,716,907
Donald K. Truslow	$ 1,354,819(5)	$ 230,395	$	$	$	$	$ 1,585,214
David L. Gaines[1]	$	$	$	$	$	$	$
Nancy J. Foster	$ 1,376,721(6)	$ 1,360,542	$	$	$	$	$ 2,737,263
Mark S. Ladnier[2]	$ 300,948(7)	$ 54,070	$	$	$	$	$ 355,018

(1) Mr. Gaines stepped down as Executive Vice President and Chief Financial Officer of Park Sterling effective February 5, 2016. As a result, Mr. Gaines will not be employed by Park Sterling at the time of the merger and did not and will not receive any compensation based on or otherwise related to the merger.

(2) Effective 2017, the Park Sterling board of directors has determined that Mr. Ladnier s role does not involve policy-making for the company and is no longer considered an executive officer position.

(3) The amount set forth represents (a) a one-time payment of $1,633,854, which amount would be paid no later than ten days following the closing of the merger; (b) a one-time cash payment of $1,080,000, which amount would be paid in equal monthly installments over 24 months beginning on the first 15th day of a month that occurs six months following the closing of the merger; (c) a one-time payment of $3,000,000, which amount would be paid upon the completion of the systems conversion; (d) the annual incentive bonus earned in respect of 2017, which for purposes of this table is estimated to be $668,250.

Mr. Cherry s service as an employee will terminate automatically upon the closing of the merger pursuant to the Consulting Agreement and he will become a consultant to South State Bank. Although not included in the amount set forth above, if Mr. Cherry s services as a consultant were terminated by South State Bank for other than for cause, including termination for death or disability, or by Mr. Cherry for good reason following the closing of the merger, he would be entitled to a severance payment that is equal to the annual retainer that would have been payable for the period beginning on the date following his termination and ending on the third anniversary of the closing of the merger (which amount would be $1,000,002 if his consulting services were terminated immediately following the closing of the merger), which severance payment would be paid in a lump sum on the 55th day following the termination of his services as a consultant.

(4) The amount set forth represents (a) a one-time cash payment equal to $413,616, which amount would be paid upon the closing of the merger, whether or not Mr. Kennedy s employment is terminated; (b) a one-time contribution of $720,000 to South s State Deferred Income Plan, which amount would be paid in equal monthly installments over 24 months beginning on the first 15th day of a month that occurs following the termination of Mr. Kennedy s employment; and (c) the annual incentive bonus earned in respect of 2017, which for purposes of this table is estimated to be $222,750.

(5) The amount set forth represents (a) a one-time cash payment equal to $413,616, which amount would be paid upon the closing of the merger, whether or not Mr. Truslow s employment is terminated; (b) a one-time contribution of $720,000 to South s State Deferred Income Plan, which amount would be paid in equal monthly installments over 24 months beginning on the first 15th day of a month that occurs following the termination of Mr. Truslow s employment; and (c) the annual incentive bonus earned in respect of 2017, which for purposes of this table is estimated to be $221,203.

(6) The amount set forth represents (a) a one-time cash payment equal to $413,616 representing two times the highest annual incentive bonus earned by Ms. Foster over the last three years; (b) a severance payment of $720,000 representing two times Ms. Foster s annual base compensation; (c) the annual incentive bonus earned in respect of 2017, which for purposes of this table is estimated to be $222,750; and (d) 18 months of COBRA payments, which for purposes of this table are estimated to be $20,355.

(7) The amount set forth represents (a) severance equal to one year of base compensation of $225,010 pursuant to a letter agreement entered into among South State Bank, Park Sterling Bank and Mr. Ladnier; and (b) the annual incentive bonus earned in respect of 2017, which for purposes of this table is estimated to be $75,938.

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(8)
The amounts set forth comprise the value of restricted stock subject to accelerated vesting as a result of the merger, measured as the average closing price of Park Sterling common stock for the five trading days after the merger was announced on April 27, 2017. The estimated equity compensation is as follows:

	Vesting Stock Awards		Incentive Stock Options		
Name	**Stock Awards that Vest**	**Value Realized Upon Vesting(9)**	**Incentive Stock Options that Vest**	**Value Realized Upon Vesting(9)**	**Total Equity Compensation**
Cherry	45,750	$ 560,163	363,825	$ 2,089,811	$ 2,649,974
Kennedy	23,683	$ 289,975	186,380	$ 1,070,567	$ 1,360,541
Truslow	18,817	$ 230,395			$ 230,395
Gaines		$			$
Foster	23,683	$ 289,975	186,380	$ 1,070,567	$ 1,360,542
Ladnier	4,416	$ 54,070			$ 54,070

(9)
The Value Realized Upon Vesting of Stock Awards is based on an assumed price of $12.24 per share of Park Sterling s common stock, the average closing price of Park Sterling s common stock for the five trading days after the date the merger was announced, April 27, 2017. The Value Realized Upon Vesting of Incentive Stock Options is based on the difference between the option exercise price and the assumed price of $12.24 per share of Park Sterling s common stock.

(10)
Pursuant to the applicable agreements, if any of these amounts are considered excess parachute payments under Code Section 280G, they may be reduced if such reduction would result in the named executive officer receiving a greater after-tax payment.

Public Trading Markets

South State common stock is listed for trading on the NASDAQ under the symbol SSB, and Park Sterling common stock is listed for trading on the NASDAQ under the symbol PSTB. Upon completion of the merger, Park Sterling common stock will no longer be listed for trading on the NASDAQ.

Under the merger agreement, South State will use reasonable best efforts to cause the shares of South State common stock to be issued in connection with the merger to be approved for listing on the NASDAQ, and the merger agreement provides that neither South State nor Park Sterling will be required to complete the merger if such shares are not approved for listing, subject to notice of issuance, on the NASDAQ. Following the merger, South State expects that its common stock will continue to be traded on the NASDAQ.

South State s Dividend Policy

No assurances can be given that any dividends will be paid by South State or that dividends, if paid, will not be reduced or eliminated in future periods. Special cash dividends, stock dividends or returns of capital may, to the extent permitted by the policies and regulations of the Federal Reserve Board, be paid in addition to, or in lieu of, regular cash dividends. Dividends from South State will depend, in large part, upon receipt of dividends from South State Bank, and any other banks which South State acquires, because South State will have limited sources of income other than dividends from South State Bank and earnings from the investment of proceeds from the sale of shares of common stock retained by South State. The South State board of directors may change its dividend policy at any time, and the payment of dividends by financial holding companies is generally subject to legal and regulatory limitations. For further information, see *Comparative Historical and Unaudited Pro Forma Per Share Data*.

Dissenters Rights in the Merger

Park Sterling is incorporated under North Carolina law. Under the NCBCA, dissenters rights are not available to holders of shares of any class or series of shares that are traded in an organized market and have at least 2,000 shareholders and a market value of at least $20,000,000. Because Park Sterling common stock is traded on the NASDAQ, an organized market, and has at least 2,000

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shareholders and a market value of at least $20,000,000, Park Sterling shareholders do not have the right to dissent from the merger agreement and seek an appraisal in connection with the merger.

Regulatory Approvals Required for the Merger

Completion of the merger is subject to the prior receipt of all approvals and consents required to be obtained from applicable governmental and regulatory authorities, without certain conditions being imposed by any governmental authority as part of a regulatory approval that would reasonably be likely to have a material adverse effect on South State and its subsidiaries, taken as a whole, or Park Sterling and its subsidiaries, taken as a whole, in each case measured on a scale relative to Park Sterling and its subsidiaries, taken as a whole. Subject to the terms and conditions of the merger agreement, South State and Park Sterling have agreed to use their reasonable best efforts and cooperate to prepare and file, as promptly as possible, all necessary documentation and to obtain as promptly as practicable all regulatory approvals required or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval of the merger and the bank merger, as applicable, by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the South Carolina State Board of Financial Institutions and the North Carolina Commissioner of Banks. South State and Park Sterling have filed certain applications and notifications to obtain the required regulatory approvals and will file such additional applications and notifications as may be requested.

Federal Reserve Board

South State is a bank holding company under Section 3 of the BHC Act. The primary regulator of South State is the Federal Reserve Board. Accordingly, the transactions contemplated by the merger agreement are subject to approval by the Federal Reserve Board under Section 3 of the BHC Act. In considering the approval of a transaction such as the merger, the BHC Act requires the Federal Reserve Board to review, with respect to the bank holding companies and the banks concerned: (1) the competitive impact of the transaction, (2) the financial condition and future prospects, including capital positions and managerial resources, (3) the convenience and needs of the communities to be served and the record of the insured depository institution subsidiaries of the bank holding companies under the Community Reinvestment Act of 1977 (which we refer to as the CRA), (4) the effectiveness of the companies and the depository institutions concerned in combating money-laundering activities, and (5) the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. In connection with its review, the Federal Reserve Board provides an opportunity for public comment on the application and is authorized to hold a public meeting or other proceeding if they determine that such meeting or other proceeding would be appropriate.

Under the CRA, the Federal Reserve Board must take into account the record of performance of the companies and the depository institutions concerned in meeting the credit needs of the entire community, including low- and moderate-income neighborhoods, served by such companies and depository institutions. Depository institutions are periodically examined for compliance with the CRA by their primary federal supervisor and are assigned ratings. In evaluating the record of performance of an institution in meeting the credit needs of the entire community served by the institution, the Federal Reserve Board considers the institution s record of compliance with the CRA, including the most recent rating assigned by its primary federal supervisor. As of their last respective CRA examinations, each of South State Bank and Park Sterling Bank was rated Satisfactory with respect to CRA compliance.

Federal Deposit Insurance Corporation

The applicable federal statute (the Bank Merger Act) mandates that the prior approval of the FDIC, the primary federal regulator of the resulting bank, is required to merge Park Sterling Bank with and into South State Bank. In evaluating an application filed under the Bank Merger Act, the FDIC generally considers: (1) the competitive impact of the transaction, (2) financial and managerial

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resources of the banks party to the bank merger or mergers, (3) the convenience and needs of the community to be served and the record of the banks under the CRA, including their CRA ratings, (4) the banks effectiveness in combating money-laundering activities and (5) the extent to which the bank merger or mergers would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. In connection with its review, the FDIC provides an opportunity for public comment on the application and is authorized to hold a public meeting or other proceeding if they determine that would be appropriate.

South Carolina State Board of Financial Institutions

The merger of Park Sterling Bank with and into South State Bank must be approved by the South Carolina State Board of Financial Institutions under Section 34-25-230 of the South Carolina Code. In considering a merger application, the South Carolina State Board of Financial Institutions considers if: (i) the proposed transaction will not be detrimental to the safety and soundness of the applicant or the resulting bank, (ii) any new officers and directors of the resulting bank are qualified by character, experience and financial responsibility to direct and manage the resulting bank and (iii) the proposed merger is consistent with the convenience and needs of the communities to be served by the resulting bank in this South Carolina and is otherwise in the public interest.

North Carolina Commissioner of Banks

The mergers of Park Sterling with and into South State and of Park Sterling Bank with and into South State Bank must be approved by the North Carolina Commissioner of Banks under Section 53-211 of the North Carolina General Statutes. To approve an application for a South Carolina bank holding company to acquire a North Carolina bank holding company and a North Carolina bank, the North Carolina Commissioner of Banks must: (a) determine that the laws of South Carolina permit North Carolina bank holding companies to acquire South Carolina bank holding companies and South Carolina banks and (b) make the acquisition subject to any conditions, restrictions, requirements or limitations that would apply to the acquisition by a North Carolina bank holding company of a bank or bank holding company in South Carolina, but that would not apply to the acquisition of a bank or bank holding company in South Carolina by a bank holding company all of the subsidiaries of which are located in South Carolina.

Additional Regulatory Approvals and Notices

Notifications and/or applications requesting approval may be submitted to various other federal and state regulatory authorities and self-regulatory organizations.

South State and Park Sterling believe that the merger does not raise substantial antitrust or other significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals. However, neither South State nor Park Sterling can assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any such approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. In addition, there can be no assurance that such approvals will not impose conditions or requirements that, individually or in the aggregate, would or could reasonably be expected to have a material adverse effect on the financial condition, results of operations, assets or business of South State following completion of the merger.

The parties obligation to complete the merger is conditioned upon the receipt of all required regulatory approvals. South State and Park Sterling will use their respective reasonable best efforts to resolve any objections that may be asserted by any regulatory authority with respect to the merger agreement or the merger or the other transactions contemplated by the merger agreement.

Neither South State nor Park Sterling is aware of any material governmental approvals or actions that are required for completion of the merger other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

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THE MERGER AGREEMENT

The following describes certain aspects of the merger, including certain material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this joint proxy statement/prospectus as **Annex A** and is incorporated by reference into this joint proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing the merger.

Explanatory Note Regarding the Merger Agreement

The merger agreement and this summary of terms are included to provide you with information regarding the terms of the merger agreement. Factual disclosures about South State and Park Sterling contained in this joint proxy statement/prospectus or in the public reports of South State and Park Sterling filed with the SEC may supplement, update or modify the factual disclosures about South State and Park Sterling contained in the merger agreement. The merger agreement contains representations and warranties by South State, on the one hand, and by Park Sterling, on the other hand. The representations, warranties and covenants made in the merger agreement by South State and Park Sterling were qualified and subject to important limitations agreed to by South State and Park Sterling in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purpose of establishing circumstances in which a party to the merger agreement may have the right not to consummate the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. The representations and warranties also may be subject to a contractual standard of materiality different from that generally applicable to shareholders and reports and documents filed with the SEC and some were qualified by the matters contained in the confidential disclosure schedules that South State and Park Sterling each delivered in connection with the merger agreement and certain documents filed with the SEC. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this joint proxy statement/prospectus, may have changed since the date of the merger agreement.

For the foregoing reasons, the representations and warranties or any descriptions of those provisions should not be read alone or relied upon as characterizations of the actual state of facts or condition of South State or Park Sterling or any of their respective subsidiaries or affiliates. Instead, such provisions or descriptions should be read only in conjunction with the other information provided elsewhere in this document or incorporated by reference into this joint proxy statement/prospectus. Please see *Where You Can Find More Information.* South State and Park Sterling will provide additional disclosures in their public reports to the extent they are aware of the existence of any material facts that are required to be disclosed under federal securities laws and that might otherwise contradict the terms and information contained in the merger agreement and will update such disclosure as required by federal securities laws.

Structure of the Merger

Each of the South State board of directors and the Park Sterling board of directors has unanimously approved the merger agreement. The merger agreement provides for the merger of Park Sterling with and into South State, with South State continuing as the surviving entity in the merger. Immediately following the merger, Park Sterling Bank, a wholly owned bank subsidiary of Park Sterling, will merge with and into South State s wholly owned bank subsidiary, South State Bank, with South State Bank continuing as the surviving bank.

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Merger Consideration

Each share of Park Sterling common stock issued and outstanding immediately prior to the completion of the merger, except for certain specified shares of Park Sterling common stock held by Park Sterling or South State, will be converted into the right to receive 0.14 shares of South State common stock. If the shares of common stock of either South State or Park Sterling are increased, decreased or changed into or exchanged for a different number or kind of shares or securities before the merger is completed as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or similar change in capitalization, or if there is any extraordinary dividend or distribution paid, then the merger consideration will be proportionately adjusted to give holders of Park Sterling common stock the same economic effect as contemplated by the merger agreement prior to such event.

Fractional Shares

South State will not issue any fractional shares of South State common stock in the merger. Instead, a Park Sterling shareholder who otherwise would have received a fraction of a share of South State common stock will receive an amount in cash rounded to the nearest whole cent. This cash amount will be determined by multiplying (x) the fraction of a share of South State common stock to which the holder would otherwise be entitled by (y) the South State share value.

Board of Directors

Immediately following the effective time, South State will appoint James C. Cherry, Park Sterling s current Chief Executive Officer, and one current non-employee member of the board of directors of Park Sterling to the South State board of directors. South State Bank will also appoint Mr. Cherry and such other Park Sterling director to its board of directors. Mr. Cherry and the other Park Sterling director will serve on the board of directors of each of South State and South State Bank until the next annual meeting of shareholders of such company, at which time Mr. Cherry will be considered in good faith for nomination to a new term on the board of directors of each of South State and South State Bank. Additionally, Mr. Cherry will be appointed to the Executive Committee of the South State board of directors, where he will serve for a period of one year from the date of his appointment. Following the closing, Mr. Robert R. Horger will continue to serve as Chairman of the board of directors of South State.

Officers

The officers of South State in office immediately prior to the effective time, together with such additional persons as may thereafter be elected or appointed, shall serve as the officers of the surviving corporation from and after the effective time of the merger in accordance with the bylaws of South State.

Treatment of Park Sterling Equity Awards

Options

At the effective time, each outstanding option to acquire shares of Park Sterling common stock, whether or not vested, that is not exercised prior to the effective time will be cancelled by virtue of the merger and converted into a right to receive a cash payment (without interest and less applicable withholding taxes) equal to the product of (i) the number of shares of Park Sterling common stock subject to such Park Sterling stock option and (ii) the excess, if any, of (A) the product of the exchange ratio and the South State share value over (B) the per-share exercise price of such Park Sterling stock option. In the event that the product obtained by the prior sentence is zero or a negative number, then the Park Sterling stock option will be cancelled for no consideration.

Restricted Stock Awards

At the effective time, each restricted stock award in respect of Park Sterling common stock will vest in full and the restrictions thereon will lapse, and shall be converted into a right to receive the merger consideration with respect to each share subject to the award.

Closing and Effective Time of the Merger

The merger will be completed only if all conditions to the merger discussed in this joint proxy statement/prospectus and set forth in the merger agreement are either satisfied or waived. See *Conditions to Completion of the Merger*.

The merger will become effective as of the date and time specified in the Articles of Merger filed with the Secretary of State of the State of North Carolina and the Articles of Merger filed with the Secretary of State of the State of South Carolina. The closing of the transactions contemplated by the merger will occur at 10:00 a.m., New York City time on a date no later than three business days after the satisfaction or waiver of the last of the conditions specified in the merger agreement (other than those conditions that by their nature are to be satisfied or waived at the closing, but subject to the satisfaction or waiver of such conditions), or such other date as mutually agreed to by the parties. It currently is anticipated that the completion of the merger will occur in the fourth quarter of 2017, subject to the receipt of regulatory approvals and other customary closing conditions, but neither Park Sterling nor South State can guarantee when or if the merger will be completed.

Conversion of Shares; Exchange of Certificates

The conversion of Park Sterling common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. After completion of the merger, the exchange agent will exchange certificates representing shares of Park Sterling common stock for the merger consideration, any cash in lieu of fractional shares and any unpaid dividends and distributions on the South State common stock deliverable in respect of each share of Park Sterling common stock to be received pursuant to the terms of the merger agreement.

Letter of Transmittal

As soon as reasonably practicable after the completion of the merger, the exchange agent will mail appropriate transmittal materials and instructions to those persons who were holders of Park Sterling common stock immediately prior to the completion of the merger. These materials will contain instructions on how to surrender shares of Park Sterling common stock in exchange for the merger consideration, any cash in lieu of fractional shares and any unpaid dividends and distributions on the South State common stock deliverable in respect of each share of Park Sterling common stock that the holder is entitled to receive under the merger agreement.

If a certificate for Park Sterling common stock has been lost, stolen or destroyed, the exchange agent will issue the merger consideration, any cash in lieu of fractional shares and any unpaid dividends and distributions on the South State common stock deliverable in respect of each share of Park Sterling common stock to which such Park Sterling common stock is entitled upon receipt of (1) an affidavit of that fact by the claimant and (2) if reasonably required, such bond as South State may determine is necessary as indemnity against any claim that may be made against South State with respect to such lost, stolen or destroyed certificate.

After completion of the merger, there will be no further transfers on the stock transfer books of Park Sterling.

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Withholding

The exchange agent (and following the first anniversary of the effective time, South State) will be entitled to deduct and withhold from the merger consideration otherwise payable to any Park Sterling shareholder such amounts as the exchange agent or South State, as applicable, is required to deduct and withhold under any applicable federal, state, local or foreign tax law. If any such amounts are withheld, these amounts will be treated for all purposes of the merger agreement as having been paid to the shareholders from whom they were withheld.

Dividends and Distributions

Whenever a dividend or other distribution is declared by South State on South State common stock, the record date for which is after the effective time of the merger, the declaration will include dividends or other distributions on all shares of South State common stock issuable under the merger agreement, but such dividends or other distributions will not be paid to the holder thereof until such holder has duly surrendered or transferred his, her or its Park Sterling stock certificates or book-entry shares.

Representations and Warranties

The merger agreement contains customary representations and warranties of South State and Park Sterling relating to their respective businesses. The representations and warranties in the merger agreement will not survive the effective time of the merger.

The merger agreement contains representations and warranties made by Park Sterling to South State relating to a number of matters, including the following:

- corporate matters, including due organization and qualification and subsidiaries;
- capitalization;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;
- required governmental and other regulatory filings and consents and approvals in connection with the merger;
- reports to regulatory authorities, including to the SEC;
- financial statements, internal controls, books and records and the absence of off-balance-sheet arrangements ;
- the absence of undisclosed liabilities;
- the absence of certain changes or events;
- legal proceedings;
- tax matters;
- employee benefit matters;

labor matters;

compliance with applicable laws;

certain material contracts;

the absence of agreements with regulatory authorities;

investment securities;

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- derivative instruments and transactions;
- environmental matters;
- insurance matters;
- title to real and personal property;
- intellectual property matters;
- broker s fees payable in connection with the merger;
- the absence of any broker-dealer, investment adviser and insurance matters;
- loan matters;
- customer relationships;
- related-party transactions;
- inapplicability of takeover statutes;
- the absence of knowledge of any reasons why all required regulatory approvals should not be obtained on a timely basis;
- the opinion of Park Sterling s financial advisor; and
- the accuracy of information supplied by Park Sterling for inclusion in this joint proxy statement/prospectus and other similar documents.

The merger agreement contains representations and warranties made by South State to Park Sterling relating to a number of matters, including the following:

- corporate matters, including due organization and qualification and subsidiaries;
- capitalization;
- authority relative to execution and delivery of the merger agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the merger;

required governmental and other regulatory filings and consents and approvals in connection with the merger;

reports to regulatory authorities, including to the SEC;

financial statements, internal controls, books and records and absence of off-balance-sheet arrangements ;

the absence of undisclosed liabilities;

the absence of certain changes or events;

legal proceedings;

compliance with applicable laws;

tax matters related to the merger;

the absence of agreements with regulatory authorities;

environmental matters;

intellectual property matters;

certain loan matters;

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- broker s fees payable in connection with the merger;
- inapplicability of takeover statutes;
- the absence of knowledge of any reasons why all required regulatory approvals should not be obtained on a timely basis;
- the opinion of South State s financial advisor; and
- the accuracy of information supplied by South State for inclusion in this joint proxy statement/prospectus and other similar documents.

Certain representations and warranties of South State and Park Sterling are qualified as to materiality or material adverse effect. For purposes of the merger agreement, a material adverse effect, when used in reference to Park Sterling, South State or the surviving corporation, means any event, circumstance, development, change or effect that, individually or in the aggregate, (1) is, or is reasonably likely to be, material and adverse to the business, operations, financial condition or results of operations of such party and its subsidiaries taken as a whole or (2) prevents or materially impairs, or would be reasonably likely to prevent or materially impair, the ability of such party to timely consummate the closing (including the merger and the other transactions contemplated by the merger agreement) on the terms set forth in the merger agreement or to perform its agreements or covenants under the merger agreement; provided that in the case of clause (1) of this sentence, a material adverse effect will not be deemed to include any event, circumstance, development, change or effect to the extent resulting from:

- changes in GAAP, except to the extent that the effects of such changes disproportionately affect the applicable party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which the applicable party operates;
- changes in laws generally applicable to companies in the financial services industry, except to the extent that the effects of such changes disproportionately affect the applicable party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which the applicable party operates;
- changes in political or regulatory conditions or general economic or market conditions in the United States or any state or territory thereof, in each case generally affecting other companies in the financial services industry, except to the extent that the effects of such changes disproportionately affect the applicable party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which the applicable party operates;
- failure, in and of itself, to meet earnings projections or internal financial forecasts, but not including any underlying causes thereof, or changes in the trading price of a party s common stock, in and of itself, but not including any underlying causes thereof;
- public disclosure of the merger agreement; or
- any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism, except to the extent that the effects of such changes disproportionately affect the applicable party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which the applicable party operates.

Covenants and Agreements

Conduct of Businesses Prior to the Completion of the Merger

Park Sterling has agreed that, prior to the effective time of the merger, it will, and will cause each of its subsidiaries to, conduct its business in the ordinary course consistent with past practice, use reasonable best efforts to maintain and preserve intact its business organization, rights, franchises and

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other authorizations issued by governmental entities and its current relationships and take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of Park Sterling or South State to obtain any required regulatory approvals or, except as set forth in the merger agreement, the Park Sterling shareholder approval, to perform their respective obligations under the merger agreement or to consummate the transactions contemplated by the merger agreement.

Additionally, Park Sterling has agreed that prior to the effective time of the merger, except as expressly required or contemplated by the merger agreement or with the prior written consent of South State (which shall not be unreasonably withheld or delayed), Park Sterling will not, and will not permit any of its subsidiaries to, subject to certain exceptions, undertake the following actions:

(1) create or incur indebtedness for borrowed money, except for certain indebtedness incurred in the ordinary course of business consistent with past practice (and after good faith consultation with South State with respect to any sales of brokered or internet certificates of deposit with a term that exceeds six months) or (2) assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, except in connection with presentation of items for collection (*e.g.*, personal or business checks) in the ordinary course of business consistent with past practice;

(1) adjust, split, combine or reclassify any capital stock or other equity interest; (2) set any record or payment dates for any dividends or distributions on its capital stock, make, declare or pay any dividend or distribution (other than (A) dividends paid in the ordinary course of business by any direct or indirect wholly owned subsidiary to Park Sterling or any other direct or indirect wholly owned subsidiary, (B) regular quarterly dividends on Park Sterling common stock at a rate not in excess of $0.04 per share of Park Sterling common stock and on payment dates consistent with past practice and (C) dividends required in respect of the outstanding trust preferred securities as of April 26, 2017) or redeem, purchase or otherwise acquire any securities or obligations convertible into or exchangeable for any shares of its capital stock or other equity interest; (3) grant any equity awards, stock appreciation rights, restricted stock, restricted stock units or other equity-based compensation or grant any right to acquire any shares of its capital stock; (4) issue or commit to issue any additional shares of capital stock or issue, sell, lease, transfer, mortgage, encumber or otherwise dispose of any capital stock in any Park Sterling subsidiary, except for issuances upon the exercise or settlement of Park Sterling options outstanding as of April 26, 2017 in accordance with the terms of such awards, or (5) enter into any agreement, understanding or arrangement with respect to the sale or voting of its capital stock;

sell, lease, transfer, mortgage, encumber or otherwise dispose of any of its properties or assets (other than to a direct or indirect wholly owned subsidiary), except for sales of OREO, loans, loan participations and sales of investment securities in the ordinary course of business consistent with past practice to third parties who are not affiliates of Park Sterling;

(1) acquire direct or indirect control over any business or person or (2) make any other investment in any person, except in connection with a foreclosure of collateral or conveyance of such collateral in lieu of foreclosure taken in connection with collection of a loan in the ordinary course of business consistent with past practice and with respect to loans made to third parties who are not affiliates of Park Sterling, and with respect to (2) only, purchases of equity securities made in connection with Federal Home Loan Bank borrowings that are incurred in accordance with the terms of the merger agreement;

except as required under applicable law or the terms of any Park Sterling employee benefit plan as in effect on April 26, 2017, (1) enter into, adopt, amend or terminate, commence participation in, or agree to enter into, adopt or terminate, any employee benefit plan,

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(2) increase or agree to increase the compensation or benefits payable to any current or former employee, officer, director or independent contractor of Park Sterling or any of its subsidiaries, (3) enter into any new, or amend any existing, collective bargaining agreement or similar agreement, (4) cause the funding of any rabbi trust or similar arrangement, (5) grant or accelerate the vesting or lapsing of restrictions with respect to any equity-based awards or other incentive compensation under any employee benefit plan, (6) hire or promote any employee, or engage any independent contractor that is a natural person, who has (or with respect to hiring, engaging or promoting, will have) an annual target compensation opportunity of $200,000 or more (other than internal promotions made in connection with the departure of a former employee) or (7) other than in the ordinary course of business, terminate the employment of any employee, or service of any independent contractor that is a natural person, other than a termination of employment or service for cause;

settle any claim, action or proceeding other than in the ordinary course of business consistent with past practice involving solely money damages where the amounts not reimbursable or recoverable pursuant to insurance policies exceed $200,000 individually or $500,000 in the aggregate; waive, compromise, assign, cancel or release any material rights or claims; or agree to any injunction, decree, order or judgment restricting or otherwise affecting its business or operations;

pay, discharge or satisfy any material claims, liabilities or obligations, other than in the ordinary course of business and consistent with past practice;

implement or adopt any change in accounting principles, practices or methods, except as required by GAAP as concurred in by Park Sterling s independent auditors, or by applicable laws;

make, change or revoke any material tax election, change an annual tax accounting period, adopt or change any material tax accounting method, file any amended tax return, enter into any material closing agreement with respect to taxes, or settle any tax claim, audit, assessment or dispute or surrender any right to claim a refund of taxes;

amend the articles of incorporation or bylaws of Park Sterling or comparable organizational documents of its subsidiaries;

except as reasonably required in connection with changes in prevailing market interest rates and in consultation with South State, (1) materially restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported or (2) invest in any mortgage-backed or mortgage-related securities that would be considered high-risk securities under applicable regulatory pronouncements or any collateralized debt obligations or private label (non-agency) mortgage-backed securities;

except with respect to any loans or loan commitments, enter into, modify, amend or terminate any material contract, other than (1) with respect to currency, exchange, commodities or other hedging contracts, in the ordinary course of business consistent with past practice and in consultation with South State, (2) renewals of promissory notes, loan agreements or certain contracts or instruments for the borrowing of money in the ordinary course of business consistent with past practice and (3) normal renewals of real property leases in the ordinary course of business and in consultation with South State;

change in any material respect its credit policies and collateral eligibility requirements and standards;

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except as required by applicable law, enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management, interest rate or fee pricing with respect to depository accounts, hedging and other material banking and operating policies or practices, including policies and practices with respect to underwriting, pricing, originating, securitization, acquiring, selling, servicing, or buying or selling rights to service loans;

permit the construction of new structures or facilities upon, or purchase or lease any real property in respect of, any branch or other facility, or file any application or take any other action to establish, relocate or terminate the operation of any banking office, other than normal renewals of real property leases in respect of any branches or other facilities that are utilized by Park Sterling as of April 26, 2017 in the ordinary course of business and in consultation with South State;

make, or commit to make, any capital expenditures in excess of specified amounts;

without previously notifying and consulting with South State, (1) except to the extent approved by Park Sterling and committed to prior to the date of the merger agreement and disclosed to South State, make or acquire any loan or loan participation or issue a commitment (or renew or extend an existing commitment) for any loan relationship aggregating in excess of $5,000,000, (2) amend, renew, restructure or modify in any material respect any existing loan relationship or loan participation that would result in total credit exposure to the applicable borrower in excess of $5,000,000, (3) make, acquire or increase the concentrations of its shared national credits, or (4) increase the credit exposure of its loans or loan participations (including any acquisition, development and construction loans or loan participations or commercial real estate loans or loan participations) in excess of the planned concentration line limitations as in effect as of April 26, 2017 and disclosed to South State (with certain agreed upon modifications); provided that for purposes of clauses (1) and (2), with respect to any loan relationship having total credit exposure to the applicable borrower in excess of $5,000,000 as of April 26, 2017, such loans or loan participations or commitments (or renewals or extensions) or modifications are permitted so long as such loans or commitments (or renewals or extensions) or modifications do not result in an increase in total credit exposure in the aggregate, between April 26, 2017 and the closing of the merger, of greater than $2,500,000;

take any action that is intended to, would or would be reasonably likely to result in any of the conditions to the completion of the merger not being satisfied or prevent or materially delay the transactions contemplated by the merger agreement, including the merger and the bank merger, except as may be required by applicable law;

take any action, or knowingly fail to take any action, which would prevent or impede, or could reasonably be expected to prevent or impede, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code; or

agree to take, make any commitment to take or adopt any resolutions of the Park Sterling board of directors in support of, any of the above-prohibited actions.

South State has agreed to a more limited set of restrictions on its business prior to the completion of the merger. Specifically, South State has agreed that prior to the effective time of the merger, except as expressly required or contemplated by the merger agreement or with the prior written consent of Park Sterling (which consent shall not be unreasonably withheld or delayed), South State will not, and will not permit any of its subsidiaries to, subject to certain exceptions, undertake the following actions:

amend the articles of incorporation or bylaws of South State in a manner that would materially and adversely affect the holders of Park Sterling common stock, or adversely affect

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the holders of Park Sterling common stock relative to other holders of South State common stock;

take any action that is intended to, would or would be reasonably likely to result in any of the conditions to the completion of the merger not being satisfied or prevent or materially delay the transactions contemplated in the merger agreement, including the merger and the bank merger, except as may be required by applicable law;

take any action, or knowingly fail to take any action, which would prevent or impede, or could reasonably be expected to prevent or impede, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

adjust, split, combine or reclassify any South State common stock;

take any action that is intended to or would reasonably be likely to adversely affect or materially delay the ability to obtain any necessary regulatory approvals required for the transactions contemplated by the merger agreement or, except as otherwise set forth in the merger agreement, the South State shareholder approval, or to perform its covenants and agreements under the merger agreement or to consummate the transactions contemplated by the merger agreement; or

agree to take, make any commitment to take or adopt any resolutions of the South State board of directors in support of, any of the above-prohibited actions.

Regulatory Matters

South State and Park Sterling have agreed to use, and to cause their respective subsidiaries to use, their respective reasonable best efforts to take, and assist and cooperate with the other party in taking, all actions that are necessary, proper or advisable to comply promptly with all legal requirements with respect to the merger and the other transactions contemplated by the merger agreement and to obtain all permits, consents, authorizations, orders, clearances, waivers or approvals of any regulatory authority required or advisable in connection with the merger and the other transactions contemplated by the merger agreement. However, in no event will South State be required, or will Park Sterling and its subsidiaries be permitted (without South State s prior written consent in its sole discretion), to take any action or agree to any condition or restriction involving South State, Park Sterling or any of their respective subsidiaries if such action, condition or restriction would have, or would be reasonably likely to have, individually or in the aggregate, a material adverse effect on South State and its subsidiaries, taken as a whole, or on Park Sterling and its subsidiaries, taken as a whole, in each case measured on a scale relative to Park Sterling and its subsidiaries, taken as a whole. South State and Park Sterling have also agreed to furnish each other with all information reasonably necessary in connection with any statement, filing, notice or application in connection with the transactions contemplated by the merger agreement, as well as to keep each other apprised of the status of matters related to the completion of the transactions contemplated by the merger agreement.

Tax Matters

South State and Park Sterling have agreed to use their respective reasonable best efforts to cause the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code.

Employee Benefits Matters

For the first year following the closing of the merger, the employees (as a group) of Park Sterling who are actively employed by Park Sterling and its subsidiaries as of the closing of the merger and continue to be actively employed thereafter (which we refer to as the covered employees) will be provided employee benefits that, in the aggregate, are at least substantially comparable to the employee

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benefits (excluding severance benefits) that are generally made available to similarly situated employees of South State or its subsidiaries (other than Park Sterling and its subsidiaries). Notwithstanding the foregoing, until such time as South State has caused the covered employees to participate in the employee benefit plans that are made available to similarly situated employees of South State or its subsidiaries (other than Park Sterling and its subsidiaries), a covered employee s continued participation in the employee benefit plans of Park Sterling and its subsidiaries will be deemed to satisfy the requirements of the merger agreement. If requested by South State prior to the closing, Park Sterling will terminate its tax-qualified 401(k) retirement plan, effective as of the day prior to closing, and distribute all plan assets after the closing. Upon a qualifying termination of employment within the first year following the closing of the merger, a covered employee who is not a party to a severance agreement with Park Sterling or its affiliates will be eligible for severance benefits in the form of continued base salary or wages for a number of weeks equal to the product of (a) two multiplied by (b) his or her completed years of severance with Park Sterling, subject to a minimum of four weeks and a maximum of 16 weeks. In addition, a covered employee whose employment is terminated without cause prior to the payment of annual bonuses for 2017 under the Park Sterling benefit plans will remain eligible for an annual bonus for 2017. If the closing of the merger does not occur until 2018, Park Sterling may pay the covered employees an annual bonus for 2018, prorated based on the portion of the year elapsed prior to the closing of the merger.

If a covered employee becomes eligible to participate in an employee benefit plan maintained by South State or any of its subsidiaries (other than Park Sterling or its subsidiaries), South State will recognize the service of such covered employee with Park Sterling or its subsidiaries for purposes of eligibility, participation and vesting under such employee benefit plan to the same extent that such service was recognized immediately prior to the effective time under a corresponding Park Sterling benefit plan in which such covered employee was eligible to participate immediately prior to the effective time; however, such service will not be recognized (a) to the extent that it would result in duplication of any benefits of a covered employee with respect to the same period of service, (b) for any purpose under any retiree medical plan or (c) for purposes of any defined benefit pension plan or any plan, program or arrangement under which similarly situated employees of South State and its subsidiaries do not receive credit for prior service or that is grandfathered or frozen, either with respect to level of benefits or participation.

With respect to any health care plan of South State or any of its subsidiaries (other than Park Sterling and its subsidiaries) in which any covered employee is eligible to participate, for the plan year in which such covered employee is first eligible to participate, South State will use commercially reasonable efforts to (x) cause any preexisting condition limitations or eligibility waiting periods under such South State or subsidiary plan to be waived with respect to such covered employee to the extent that such limitation would have been waived or satisfied under the Park Sterling benefit plan in which such covered employee participated immediately prior to the effective time and (y) recognize any health care expenses incurred by such covered employee in the year in which the effective time occurs (or, if later, the year in which such covered employee is first eligible to participate) for purposes of any applicable deductible and annual out-of-pocket expense requirements under any such health, dental or vision plan of South State or any of its subsidiaries. If South State does not or cannot take the actions contemplated by the preceding sentence, it will permit the covered employees to continue participating in the corresponding Park Sterling employee benefit plans until the beginning of the first plan year following the closing of the merger.

Director and Officer Indemnification and Insurance

The merger agreement provides that from and after the completion of the merger, the surviving corporation will indemnify and hold harmless all present and former directors and officers of Park Sterling or any of its subsidiaries against all liabilities arising out of the fact that such person is or was

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a director or officer of Park Sterling or any of its subsidiaries if the claim pertains to any matter of fact arising, existing or occurring at or before the effective time of the merger (including the merger and the other transactions contemplated by the merger agreement), regardless of whether such claims are asserted before or after the effective time, to the fullest extent permitted by applicable law.

The merger agreement requires the surviving corporation to use its reasonable best efforts to maintain for a period of six years after completion of the merger the currently existing directors and officers liability insurance policy maintained by Park Sterling, or policies of at least the same coverage and amounts and containing terms and conditions that are substantially no less advantageous than the existing policy (or, with the consent of Park Sterling given prior to the completion of the merger, any other policy), with respect to claims arising from facts, events, acts, errors or omissions that occurred prior to the completion of the merger, and covering such individuals who are currently covered by such insurance. However, the surviving corporation is not required to spend annually an amount more than 300% of the annual premium payment on Park Sterling s current directors and officers liability insurance policy. If the surviving corporation is unable to maintain a policy as described for less than that amount, the surviving corporation will obtain as much comparable insurance as is available for that amount. In lieu of such a policy, (1) South State or the surviving corporation may substitute a six-year tail prepaid policy with terms no less favorable in any material respect to the indemnified parties than Park Sterling s existing policy as of April 26, 2017, or, if the cost of such a policy exceeds 300% of the annual premium payment on Park Sterling s current directors and officers liability insurance policy, South State or the surviving corporation will obtain as much comparable insurance as is available by payment of such amount or (2) South State may request that Park Sterling obtain extended coverage for the six-year period under Park Sterling s existing insurance programs. If South State (or any of its successors or assigns) merges with another person and is not the continuing entity, or if South State transfers or conveys all or substantially all of its properties or assets to another person, then South State will ensure that its successors and assigns expressly assume South State s indemnification and insurance obligations.

Surviving Corporation Board of Directors; Governance Matters

Immediately following the effective time, South State will appoint James C. Cherry and one current non-employee member of the board of directors of Park Sterling to the South State board of directors. In addition, Mr. Cherry will be appointed to the Executive Committee of the South State board of directors. Following the closing, Mr. Robert R. Horger will continue to serve as Chairman of the board of directors of South State.

Surviving Corporation Officers

The officers of South State in office immediately prior to the effective time, together with such additional persons as may thereafter be elected or appointed, shall serve as the officers of the surviving corporation from and after the effective time of the merger in accordance with the bylaws of South State.

Restructuring Efforts

If either South State or Park Sterling fails to receive shareholder approval to approve the merger agreement at their respective shareholder meetings, or any adjournment or postponement thereof, unless the merger agreement has been terminated in accordance with its terms, each party will use its reasonable best efforts in good faith to negotiate a restructuring of the merger and/or resubmit the merger agreement or the restructured transactions to its shareholders for approval. In such circumstances, neither South State nor Park Sterling is obligated to agree to alter or change any material term of the merger agreement, including the amount, kind or timing (in a manner that materially delays) of receipt of the merger consideration provided for in the merger agreement, or

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adversely affect the tax treatment of the merger with respect to South State or Park Sterling shareholders.

Certain Additional Covenants

The merger agreement also contains additional covenants, including covenants relating to the filing of this joint proxy statement/prospectus, obtaining required consents, the listing of the shares of South State common stock to be issued in the merger, dividends of South State and Park Sterling to be declared after the date of the merger agreement, the redemption or assumption of Park Sterling s outstanding debt securities, trust preferred securities or related guarantees, access to information of the other company, notification of certain matters, exemption from takeover laws and public announcements with respect to the transactions contemplated by the merger agreement.

Park Sterling Shareholder Meeting and Recommendation of the Park Sterling Board of Directors

Park Sterling has agreed to hold a meeting of its shareholders for the purpose of voting upon approval of the merger agreement as promptly as practicable. Park Sterling will use its reasonable best efforts to obtain from its shareholders the requisite shareholder approval of the merger agreement, including by having its board of directors recommend that its shareholders approve the merger agreement, subject to the Park Sterling board of directors ability to make a change in company recommendation discussed below in *Agreement Not to Solicit Other Offers*.

South State Shareholder Meeting and Recommendation of the South State Board of Directors

South State has agreed to hold a meeting of its shareholders for the purpose of voting upon approval of the merger agreement as promptly as practicable. South State will use its reasonable best efforts to obtain from its shareholders the requisite shareholder approval of the merger agreement, including by having its board of directors recommend that its shareholders approve the merger agreement, subject to the South State board of directors ability to make a change in South State recommendation discussed below in *Change in South State Recommendation*.

Agreement Not to Solicit Other Offers

For purposes of the merger agreement:

an acquisition proposal means any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, a merger, reorganization, share exchange, consolidation, sale of assets, sale of shares of capital stock (including, by way of a tender offer), business combination, recapitalization, liquidation, dissolution or similar transaction involving Park Sterling or any of its subsidiaries, as applicable, that, if consummated, would constitute an alternative transaction (as described below);

an alternative transaction means any of (1) a transaction pursuant to which any person (or group of persons) other than South State or its affiliates, directly or indirectly, acquires or would acquire more than 20% of the outstanding shares of Park Sterling common stock or outstanding voting power of Park Sterling, whether from Park Sterling or pursuant to a tender offer or exchange offer or otherwise, (2) a merger, reorganization, share exchange, consolidation or other business combination involving Park Sterling and any of its subsidiaries whose assets, individually or in the aggregate, constitute 20% or more of the fair market value of the consolidated assets of Park Sterling (except, in each case, the merger or the bank merger), (3) any transaction pursuant to which any person (or group of persons) other than South State or its affiliates, acquires or would acquire control of assets (including for this purpose, the outstanding equity securities of any Park Sterling subsidiaries, and securities of the entity surviving any merger or business combination involving any Park Sterling subsidiary)

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of Park Sterling or any of its subsidiaries representing more than 20% of the fair market value of all the assets, deposits, net revenues or net income of Park Sterling or any of its subsidiaries, taken as a whole, immediately prior to such transaction or (4) any other consolidation, business combination, recapitalization or similar transaction involving Park Sterling or any of its subsidiaries, other than the transactions contemplated by the merger agreement, as a result of which the holders of shares of Park Sterling common stock, immediately prior to such transaction do not, in the aggregate, own at least 80% of the outstanding shares of Park Sterling common stock, and the outstanding voting power of the surviving or resulting entity in such transaction immediately following the completion of the transaction, in substantially the same proportion as such holders held the shares of Park Sterling common stock, immediately prior to the completion of such transaction; and

a superior proposal for Park Sterling means an unsolicited, bona fide written acquisition proposal made by a third person (or group of persons acting in concert) to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination or acquisition transaction (1) all or substantially all of the assets of Park Sterling or (2) all of the outstanding voting securities of Park Sterling, and which the Park Sterling board of directors has in good faith determined (taking into account the advice of its outside legal counsel and financial advisors and the terms of the acquisition proposal and the merger agreement) to be more favorable, from a financial point of view, to Park Sterling shareholders than the transactions contemplated by the merger agreement (as may be proposed to be amended by South State) and to be reasonably capable of being completed on the terms proposed, taking into account all other legal, financial, timing, regulatory and other aspects of such acquisition proposal and the person making the proposal.

Park Sterling has agreed that it will not, will cause each of its subsidiaries and its and their respective officers, directors and employees not to, and will use reasonable best efforts to cause its and their respective agents and representatives not to, directly or indirectly:

initiate, solicit, knowingly encourage or knowingly facilitate any acquisition proposal;

participate in any discussions with or provide any confidential information to any person relating to an acquisition proposal or alternative transaction, engage in any negotiations concerning an acquisition proposal or alternative transaction, or knowingly facilitate any effort or attempt to make or implement an acquisition proposal or alternative transaction;

approve or execute or enter into any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other contract related to any acquisition proposal or alternative transaction; or

propose or agree to do any of the above.

However, Park Sterling and its representatives may, before the Park Sterling shareholder approval is obtained, subject to compliance with its non-solicitation obligations (as described above) and to first entering into a confidentiality agreement having provisions that are no less favorable to Park Sterling than those contained in the confidentiality agreement between South State and Park Sterling, engage in discussions and negotiations with, or provide any nonpublic information or data to, any person in response to an unsolicited bona fide written acquisition proposal by such person first made after the date of the merger agreement (which did not result from a breach of Park Sterling s non-solicitation obligations in the merger agreement) and which the Park Sterling board of directors concludes in good faith (after consultation with its outside legal counsel and financial advisors) constitutes or is reasonably likely to result in a superior proposal, if and only to the extent that the Park Sterling board of directors concludes in good faith (after consultation with its outside legal counsel) that failure to do so would be reasonably likely to violate the directors fiduciary duties under applicable law. Park Sterling will be

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responsible for any violation of the non-solicitation obligations set forth in the merger agreement by its representatives.

Park Sterling has agreed to provide South State prompt notice (and in no event later than 24 hours) after the receipt of any acquisition proposal, or any request for nonpublic information that may relate to an acquisition proposal, or any inquiry that is reasonably likely to lead to a possible acquisition proposal. The notice will be made orally and in writing, and indicate the identity of the person making the acquisition proposal, inquiry or request and the material terms thereof (including a copy thereof if in writing and any related documentation or correspondence). Park Sterling also agrees to provide South State prompt notice (and in no event later than 24 hours) if it enters into any discussions or negotiations with or provides nonpublic information to a person as required by the directors fiduciary duties and permitted under the preceding paragraph. Park Sterling will keep South State reasonably informed of the status and terms of any such proposals, offers, inquiries, discussions or negotiations on a current basis, including by providing a copy of all material related documentation or correspondence.

Furthermore, none of Park Sterling, the Park Sterling board of directors or any of its committees will (1) withhold, withdraw or modify in any manner adverse to South State (or propose publicly to do so) its recommendation of the transactions contemplated under the merger agreement, (2) approve or recommend to its shareholders (or resolve to or publicly propose or announce its intention to do so) any alternative acquisition proposal or (3) within 10 business days after an alternative acquisition proposal is made public or any request by South State (which request may be made once per acquisition proposal (and any material change thereto)), fail to publicly, finally and without qualification recommend against any alternative acquisition proposal or reaffirm its recommendation for Park Sterling shareholders to approve the merger agreement (each of which we refer to as a change in company recommendation).

Notwithstanding the preceding paragraph, before the Park Sterling shareholder approval is obtained, the Park Sterling board of directors may make a change in company recommendation if and only if (1) an unsolicited bona fide written acquisition proposal (which did not result from a breach of Park Sterling s non-solicitation obligations in the merger agreement) is made by a third party and not withdrawn, (2) the Park Sterling board of directors concludes in good faith (in consultation with its outside legal counsel and financial advisors) that the acquisition proposal constitutes a superior proposal, (3) the Park Sterling board of directors concludes in good faith (after consultation with its outside legal counsel) that failure to make a change in company recommendation would be reasonably likely to violate the directors fiduciary duties under applicable law, (4) prior to effecting the change in company recommendation, Park Sterling has given written notice to South State advising South State that it intends to effect a change in company recommendation, and five business days have elapsed, (5) during the five business day period, Park Sterling has considered any adjustments or modifications to the merger agreement proposed by South State and engaged in good faith discussions with South State regarding such adjustments or modifications and (6) at the end of such period, the Park Sterling board of directors again reasonably determines in good faith (after consultation with its outside legal counsel, and taking into account any proposed adjustments or modifications to the merger agreement proposed by South State) that the acquisition proposal continues to constitute a superior proposal and that failure to make a change in company recommendation would be reasonably likely to violate the directors fiduciary duties under applicable law. In the event there is an amendment to any material term of the acquisition proposal, Park Sterling is also required to notify South State of the amendment and to consider any proposed adjustments or modifications to the merger agreement proposed by South State, but the notification and proposal period will be three business days instead of five business days.

The merger agreement provides that nothing in the non-solicitation provisions of the merger agreement prohibits Park Sterling or its subsidiaries from (1) disclosing to its shareholders a position

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contemplated by Rule 14e-2(a) under the Exchange Act, (2) making a statement contemplated by Item 1012(a) of Regulation M-A or Rule 14d-9 under the Exchange Act or (3) issuing a stop, look and listen statement pending disclosure of its position under such rules. However, compliance with such rules will not eliminate or modify the effect that any action would otherwise have under the merger agreement. Any such disclosure (other than a stop, look and listen statement, which is followed within ten business days by an unqualified public reaffirmation of Park Sterling s recommendation for the merger agreement) constitutes a change in company recommendation, unless the Park Sterling board of directors expressly publicly reaffirms, without qualification, its recommendation for the merger agreement in connection with such communication.

Finally, Park Sterling has agreed to (1) cease immediately and terminate any and all existing activities, discussions or negotiations with any third parties with respect to any acquisition proposal or alternative transaction or similar transaction (and cause its respective subsidiaries and representatives to cease any such discussions) and (2) not release any third party from or waive the provisions of any confidentiality or standstill agreement to which Park Sterling or its subsidiaries is a party with respect to any acquisition proposal or alternative transaction.

Change in South State Recommendation

South State has agreed that none of South State, the South State board of directors or any of its committees will withhold, withdraw or modify in any manner adverse to Park Sterling (or propose publicly to do so) its recommendation of the transactions contemplated under the merger agreement (which we refer to as a change in South State recommendation). However, before the South State shareholder approval is obtained, the South State board of directors may make a change in South State recommendation if and only if (1) the South State board of directors concludes in good faith (in consultation with its outside legal counsel) that failure to make a change in South State recommendation would be reasonably likely to violate the directors fiduciary duties under applicable law, (2) prior to effecting the change in South State recommendation, South State has given written notice to Park Sterling advising Park Sterling that it intends to effect a change in South State recommendation, and five business days have elapsed, (3) during the five-business-day period, South State has considered any adjustments or modifications to the merger agreement proposed by Park Sterling and engaged in good faith discussions with Park Sterling regarding such adjustments or modifications and (4) at the end of such period, the South State board of directors again reasonably determines in good faith (after consultation with its outside legal counsel, and taking into account any proposed adjustments or modifications to the merger agreement proposed by Park Sterling) that failure to make a change in South State recommendation would be reasonably likely to violate the directors fiduciary duties under applicable law.

Conditions to Completion of the Merger

South State s and Park Sterling s respective obligations to complete the merger are subject to the fulfillment or waiver of the following conditions:

- the approval of the merger agreement by South State s and Park Sterling s respective shareholders;
- the receipt of required regulatory approvals without a condition or restriction that would have, or would be reasonably likely to have, individually or in the aggregate, a material adverse effect on South State and its subsidiaries, taken as a whole, or on Park Sterling and its subsidiaries, taken as a whole (measured in each case on a scale relative to Park Sterling and its subsidiaries, taken as a whole), and the expiration or termination of all related statutory waiting periods;

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- the absence of any order, injunction, decree or judgment by any governmental entity of competent jurisdiction or other legal restraint or prohibition preventing the completion of the merger or the other transactions contemplated by the merger agreement, and the absence of any law, order, injunction or decree that prohibits or makes illegal the completion of the merger or the other transactions contemplated by the merger agreement;

- the authorization of the listing of the South State common stock to be issued upon the consummation of the merger on the NASDAQ, without objection to the listing from NASDAQ;

- the effectiveness of the registration statement of which this joint proxy statement/prospectus is a part with respect to the South State common stock to be issued upon the consummation of the merger under the Exchange Act, and the absence of any stop order (or proceedings initiated by the SEC and continuing);

- the accuracy of the representations and warranties of each other party in the merger agreement as of the date of the merger agreement and as of the closing date as though made at and as of the closing date, subject to the materiality standards provided in the merger agreement;

- the performance by the other party in all material respects of all obligations required to be performed by it at or prior to the effective time of the merger under the merger agreement (and the receipt by each party of certificates from the other party to such effect); and

- receipt by each of South State and Park Sterling of an opinion of its respective legal counsel as to certain tax matters.

Neither Park Sterling nor South State can provide assurance as to when or if all of the conditions to the merger can or will be satisfied or waived by the appropriate party. As of the date of this joint proxy statement/prospectus, neither Park Sterling nor South State has reason to believe that any of these conditions will not be satisfied.

Termination of the Merger Agreement

The merger agreement can be terminated at any time prior to completion of the merger by mutual consent, or by either party in the following circumstances:

- the merger has not been completed by the end date, if the failure to complete the merger by the end date is not caused by the terminating party s breach of the merger agreement;

- any required regulatory approval has been denied by the relevant regulatory authority and this denial has become final and non-appealable, or a regulatory authority has issued a final, non-appealable injunction or order permanently enjoining or otherwise prohibiting the completion of the merger or the other transactions contemplated by the merger agreement; or

- there is a breach by the other party that would cause the failure of certain of the closing conditions described above, and the breach, if continuing on the closing date, is not cured prior to the earlier of the end date and 30 business days following written notice of the breach.

In addition, South State may terminate the merger agreement in the following circumstances:

- the Park Sterling board of directors (1) fails to recommend to the Park Sterling shareholders that they approve the merger agreement or (2) effects a change in company recommendation with respect to the merger agreement or the transactions contemplated thereby;

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the Park Sterling board of directors fails to comply in any material respect with its non-solicitation obligations described in *Agreement Not to Solicit Other Offers* or its obligations with respect to calling a shareholder meeting described in *Park Sterling Shareholder Meeting and Recommendation of the Park Sterling Board of Directors* ; or

the Park Sterling shareholders do not approve the merger agreement and the transactions contemplated thereby at the Park Sterling special meeting called for such purpose, or any adjournment thereof.

In addition, Park Sterling may terminate the merger agreement in the following circumstances:

the South State board of directors (1) fails to recommend to the South State shareholders that they approve the merger agreement or (2) effects a change in South State recommendation with respect to the merger agreement or the transactions contemplated thereby;

the South State board of directors fails to comply in any material respect with its obligations described in the section titled *Change in South State Recommendation* or its obligations with respect to calling a shareholder meeting described in *South State Shareholder Meeting and Recommendation of the South State Board of Directors* ;

(1) if the Park Sterling shareholder meeting has been held, (2) the Park Sterling shareholders do not approve the merger agreement at such meeting, or any adjournment thereof, (3) prior to the Park Sterling shareholder meeting, Park Sterling has received a superior proposal which did not result from a breach of Park Sterling s non-solicitation obligations described in *Agreement Not to Solicit Other Offers*, and (4) the Park Sterling board of directors has determined to enter into a definitive agreement providing for such superior proposal upon termination of the merger agreement, and enters into such agreement concurrently with such termination; provided, that Park Sterling shall pay South State the termination fee described in *Termination Fee* concurrently with and as a condition to the effectiveness of such termination; or

the South State shareholders do not approve the merger agreement and the transactions contemplated thereby at the South State special meeting called for such purpose, or any adjournment thereof.

Effect of Termination

If the merger agreement is terminated, it will become void, except that (1) both South State and Park Sterling will remain liable for any fraud or willful and material breach of the merger agreement and (2) designated provisions of the merger agreement will survive the termination, including those relating to payment of fees and expenses and the confidential treatment of information.

Termination Fee

Park Sterling will pay South State a $25 million termination fee if the merger agreement is terminated in the following circumstances:

the Park Sterling board of directors (1) fails to recommend to the Park Sterling shareholders that they approve the merger agreement or (2) effects a change in company recommendation, and South State terminates the merger agreement;

the Park Sterling board of directors fails to comply in any material respect with its non-solicitation obligations described above in the section titled *Agreement Not to Solicit Other Offers* or its obligations with respect to calling a shareholder meeting described above in the section titled *Park Sterling Shareholder Meeting and Recommendation of the Park Sterling Board of Directors*, and South State terminates the merger agreement;

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(1) before the termination of the merger agreement, an acquisition proposal with respect to Park Sterling is made known to Park Sterling s shareholders, senior management or board of directors, or any person has publicly announced an intent (whether or not conditional) to make an acquisition proposal with respect to Park Sterling, after the date of the merger agreement; (2) thereafter, the merger agreement is terminated (a) by South State or Park Sterling, because the merger has not been completed by the end date (if the Park Sterling shareholder approval has not been obtained), (b) by South State, following a breach by Park Sterling, or (c) by South State, because Park Sterling shareholders fail to approve the merger agreement at the Park Sterling shareholder meeting; and (3) Park Sterling consummates an alternative transaction or enters into any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other contract related to such acquisition proposal or alternative transaction, prior to the date that is 12 months after the date the merger agreement is terminated (with references to 20% in the definition of acquisition proposal being deemed to refer to 50% for purposes of this paragraph); or

(1) if the Park Sterling shareholder meeting has been held, (2) the Park Sterling shareholders do not approve the merger agreement at such meeting, or any adjournment thereof, (3) prior to the Park Sterling shareholder meeting, Park Sterling has received a superior proposal which did not result from a breach of Park Sterling s non-solicitation obligations described in *Agreement Not to Solicit Other Offers*, and (4) the Park Sterling board of directors has determined to enter into a definitive agreement providing for such superior proposal upon termination of the merger agreement, and enters into such agreement concurrently with such termination.

South State will pay Park Sterling a $25 million termination fee if the merger agreement is terminated in the following circumstances:

the South State board of directors (1) fails to recommend to the South State shareholders that they approve the merger agreement or (2) effects a change in South State recommendation, and Park Sterling terminates the merger agreement; or

the South State board of directors fails to comply in any material respect with its obligations described above in the section titled *Change in South State Recommendation* or its obligations with respect to calling a shareholder meeting described above in the section titled *South State Shareholder Meeting and Recommendation of the South State Board of Directors*, and Park Sterling terminates the merger agreement.

Expenses and Fees

Except as set forth above, each of South State and Park Sterling will be responsible for all costs and expenses incurred by it in connection with the negotiation and completion of the transactions contemplated by the merger agreement.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, South State and Park Sterling may amend the merger agreement by written agreement. However, after any approval of the merger agreement by Park Sterling shareholders or South State shareholders, as applicable, there may not be, without further approval of Park Sterling shareholders or South State shareholders, as applicable, any amendment of the merger agreement that requires further approval under applicable law.

At any time prior to the effective time of the merger, each party, to the extent legally allowed, may extend the time for the performance of any of the obligations or other acts of the other party; waive

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any inaccuracies in the representations and warranties of the other party; and waive compliance by the other party with any of the agreements and conditions for its benefit contained in the merger agreement.

Voting Agreements

Each of the directors and current named executive officers of Park Sterling have entered into a voting agreement with South State, solely in their capacities as shareholders of Park Sterling, pursuant to which they have agreed, among other things, to vote in favor of the Park Sterling merger proposal and the other proposals presented at the Park Sterling special meeting and against any alternative acquisition proposal, as well as certain other customary restrictions with respect to the voting and transfer of his or her shares of Park Sterling common stock.

The preceding discussion is a summary of the voting agreements and is qualified in its entirety by reference to the form of voting agreement, which is provided in its entirety as **Annex D** to this joint proxy statement/prospectus.

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ACCOUNTING TREATMENT

The merger will be accounted for as an acquisition by South State using the acquisition method of accounting. Accordingly, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of Park Sterling as of the effective time of the merger will be recorded at their respective fair values and added to those of South State. Any excess of the purchase price over the fair values is recorded as goodwill. The consolidated financial statements of South State will reflect these fair values and the results of operations of Park Sterling only after the merger closes and will not be restated retroactively to reflect the historical financial position or results of operations of Park Sterling. The purchase price will be determined by adding (1) the product obtained by multiplying (a) the number of shares of Park Sterling common stock to be cancelled in the merger by (b) 0.14, the exchange ratio, and (c) the closing price of South State s common shares on the last trading day prior to the date of acquisition and (2) the amount of cash paid by South State for Park Sterling s outstanding stock options.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

This section describes the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of Park Sterling common stock that exchange their shares of Park Sterling common stock for shares of South State common stock in the merger. The following discussion is based upon the Code, the U.S. Treasury regulations promulgated thereunder and judicial and administrative authorities, rulings and decisions, all as in effect as of the date of this joint proxy statement/prospectus. These authorities may change, possibly with retroactive effect, and any such change could affect the accuracy of the statements and conclusions set forth in this discussion. This discussion does not address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010, nor does it address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any U.S. federal laws other than those pertaining to the income tax.

The following discussion applies only to U.S. holders of shares of Park Sterling common stock who hold such shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, this discussion does not purport to consider all aspects of U.S. federal income taxation that might be relevant to U.S. holders in light of their particular circumstances and does not apply to U.S. holders subject to special treatment under the U.S. federal income tax laws (such as, for example, dealers or brokers in securities, commodities or foreign currencies, traders in securities that elect to apply a mark-to-market method of accounting, banks and certain other financial institutions, insurance companies, mutual funds, tax-exempt organizations, holders subject to the alternative minimum tax provisions of the Code, partnerships, S corporations or other pass-through entities or investors therein, regulated investment companies, real estate investment trusts, controlled foreign corporations, passive foreign investment companies, former citizens or residents of the United States, U.S. expatriates, holders whose functional currency is not the U.S. dollar, holders who hold shares of Park Sterling common stock as part of a hedge, straddle, constructive sale or conversion transaction or other integrated investment, retirement plans, individual retirement accounts, or other tax-deferred accounts, holders who acquired Park Sterling common stock pursuant to the exercise of employee stock options, through a tax qualified retirement plan or otherwise as compensation or holders who actually or constructively own more than 5% of Park Sterling common stock).

For purposes of this discussion, the term U.S. holder means a beneficial owner of Park Sterling common stock that is for U.S. federal income tax purposes (1) an individual citizen or resident of the United States, (2) a corporation, or entity treated as a corporation for U.S. federal income tax purposes, organized in or under the laws of the United States or any state thereof or the District of Columbia, (3) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) such trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes or (4) an estate, the income of which is subject to U.S. federal income tax, regardless of its source.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Park Sterling common stock, the tax treatment of a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Any entity treated as a partnership for U.S. federal income tax purposes that holds Park Sterling common stock, and any partners in such partnership, should consult their own independent tax advisors regarding the tax consequences of the merger to their specific circumstances.

Determining the actual tax consequences of the merger to you may be complex and will depend on your specific situation and on factors that are not within our control. You should consult your own independent tax advisor as to the specific tax consequences of the merger in your particular

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circumstances, including the applicability and effect of the alternative minimum tax and any state, local, foreign and other tax laws and of changes in those laws.

Tax Consequences of the Merger Generally

It is a condition to the obligation of South State to complete the merger that South State receive an opinion from Wachtell, Lipton, Rosen & Katz, dated the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to the obligation of Park Sterling to complete the merger that Park Sterling receive an opinion from McGuireWoods LLP dated the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based on facts and representations contained in representation letters provided by South State and Park Sterling and on customary factual assumptions. Neither of the opinions described above will be binding on the Internal Revenue Service (which we refer to as the IRS) or any court. South State and Park Sterling have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below. In addition, if any of the representations or assumptions upon which those opinions are based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected.

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. Accordingly, upon exchanging your Park Sterling common stock for South State common stock, you generally will not recognize gain or loss, except with respect to cash received instead of fractional shares of South State common stock (as discussed below). The aggregate tax basis of the South State common stock that you receive in the merger (including any fractional shares deemed received and redeemed for cash as described below) will equal your aggregate adjusted tax basis in the shares of Park Sterling common stock you surrender in the merger. Your holding period for the shares of South State common stock that you receive in the merger (including any fractional share deemed received and redeemed for cash as described below) will include your holding period of the shares of Park Sterling common stock that you surrender in the merger. If you acquired different blocks of Park Sterling common stock at different times or at different prices, the South State common stock you receive will be allocated pro rata to each block of Park Sterling common stock, and the basis and holding period of each block of South State common stock you receive will be determined on a block-for-block basis depending on the basis and holding period of the blocks of Park Sterling common stock exchanged for such block of South State common stock.

Cash Instead of Fractional Shares

If you receive cash instead of a fractional share of South State common stock, you will be treated as having received such fractional share of South State common stock pursuant to the merger and then as having sold such fractional share of South State common stock for cash. As a result, you generally will recognize gain or loss equal to the difference between the amount of cash received and the basis in your fractional share of South State common stock as set forth above. Such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for such fractional share (including the holding period of shares of Park Sterling common stock surrendered therefor) exceeds one year. Long-term capital gains of individuals are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

If you are a non-corporate holder of Park Sterling common stock, you may be subject, under certain circumstances, to information reporting and backup withholding (currently at a rate of 28%) on any cash payments you receive. You generally will not be subject to backup withholding, however, if you (1) furnish a correct taxpayer identification number, certify that you are not subject to backup withholding and otherwise comply with all the applicable requirements of the backup withholding rules; or (2) provide proof that you are otherwise exempt from backup withholding. Any amounts withheld under the backup withholding rules are not an additional tax and will generally be allowed as a refund or credit against your U.S. federal income tax liability, provided you timely furnish the required information to the IRS.

This discussion of certain material U.S. federal income tax consequences is not intended to be, and should not be construed as, tax advice. Holders of Park Sterling common stock are urged to consult their independent tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are based on the separate historical financial statements of South State and Park Sterling after giving effect to the merger and the issuance of South State common stock in connection therewith, and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined balance sheet as of March 31, 2017 is presented as if the merger with Park Sterling had occurred on March 31, 2017. The unaudited pro forma condensed combined income statement for the year ended December 31, 2016 and the three months ended March 31, 2017 is presented as if the merger and South State s acquisition of Southeastern Bank Financial Corporation had occurred on January 1, 2016. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the merger and, with respect to the income statements only, expected to have a continuing impact on consolidated results of operations.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States. South State is the acquirer for accounting purposes. South State has not had sufficient time to completely evaluate the significant identifiable long-lived tangible and identifiable intangible assets of Park Sterling. Accordingly, the unaudited pro forma adjustments, including the allocations of the purchase price, are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information. Certain reclassifications have been made to the historical financial statements of Park Sterling to conform to the presentation in South State s financial statements.

A final determination of the acquisition consideration and fair values of Park Sterling s assets and liabilities, which cannot be made prior to the completion of the merger, will be based on the actual net tangible and intangible assets of Park Sterling that exist as of the date of completion of the transaction. Consequently, amounts preliminarily allocated to goodwill and identifiable intangibles could change significantly from those allocations used in the unaudited pro forma condensed combined financial statements presented below and could result in a material change in amortization of acquired intangible assets.

In connection with the plan to integrate the operations of South State and Park Sterling following the completion of the merger, South State anticipates that nonrecurring charges, such as costs associated with systems implementation, severance, and other costs related to exit or disposal activities, could be incurred. South State is not able to determine the timing, nature and amount of these charges as of the date of this joint proxy statement/prospectus. However, these charges could affect the results of operations of South State and Park Sterling, as well as those of the combined company following the completion of the merger, in the period in which they are recorded. The unaudited pro forma condensed combined financial statements do not include the effects of the costs associated with any restructuring or integration activities resulting from the transaction, as they are nonrecurring in nature and not factually supportable at the time that the unaudited pro forma condensed combined financial statements were prepared. Additionally, the unaudited pro forma adjustments do not give effect to any nonrecurring or unusual restructuring charges that may be incurred as a result of the integration of the two companies or any anticipated disposition of assets that may result from such integration. Direct transaction-related expenses estimated at $4.75 million for South State, and $6.85 million for Park Sterling are not included in the unaudited pro forma condensed combined income statements.

The actual amounts recorded as of the completion of the merger may differ materially from the information presented in these unaudited pro forma condensed combined financial statements as a result of:

- changes in the trading price for South State s common stock;

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- net cash used or generated in Park Sterling s operations between the signing of the merger agreement and the completion of the merger;

- the timing of the completion of the merger;

- other changes in Park Sterling s net assets that occur prior to the completion of the merger, which could cause material differences in the information presented below; and

- changes in the financial results of the combined company.

The unaudited pro forma condensed combined financial statements are provided for informational purposes only. The unaudited pro forma condensed combined financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma condensed combined financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma condensed combined financial statements should be read together with:

- the accompanying notes to the unaudited pro forma condensed combined financial statements;

- South State s separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2016, included in South State s Annual Report on Form 10-K for the year ended December 31, 2016;

- South State s separate unaudited historical condensed consolidated financial statements and accompanying notes as of and for the three months ended March 31, 2017, included in South State s Quarterly Report on Form 10-Q for the three months ended March 31, 2017;

- Park Sterling s separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2016, included in Park Sterling s Annual Report on Form 10-K for the year ended December 31, 2016;

- Park Sterling s separate unaudited historical condensed consolidated financial statements and accompanying notes as of and for the three months ended March 31, 2017, included in Park Sterling s Quarterly Report on Form 10-Q for the three months ended March 31, 2017;

- Southeastern Bank Financial Corporation s separate audited historical consolidated financial statements as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, incorporated by reference in this joint proxy statement/prospectus; and

- other information pertaining to South State and Park Sterling contained in or, with respect to South State and Park Sterling, incorporated by reference into this joint proxy statement/prospectus. See *Selected Consolidated Historical Financial Data of South State* and *Selected Consolidated Historical Financial Data of Park Sterling* included elsewhere in this joint proxy statement/prospectus.

The unaudited pro forma condensed combined balance sheet as of March 31, 2017 presents the consolidated financial position giving pro forma effect to the following transactions as if they had occurred as of March 31, 2017:

the completion of South State s acquisition of Park Sterling, including the issuance of 53,200,509 shares of South State common stock (based upon the number of shares outstanding of Park Sterling common stock as of May 8, 2017 and an exchange ratio of 0.14); and

$6.85 million in transaction related cost that was accrued for on the Park Sterling closing balance sheet, including professional fees.

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The unaudited pro forma condensed combined income statement for the year ended December 31, 2016 and for the three months ended March 31, 2017 presents the consolidated results of operations giving pro forma effect to the following transactions as if they had occurred as of January 1, 2016:

- the full-year impact of Park Sterling s income statement, including pro forma amortization and accretion of purchase accounting adjustments on securities, loans, fixed assets, deposits, other borrowings and intangible assets;
- the issuance of additional South State common stock, applying the 0.14 exchange ratio to the weighted-average shares outstanding of Park Sterling shares in determining EPS;
- the full-year impact of Southeastern Bank Financial Corporation s income statement, including pro forma amortization and accretion of purchase accounting adjustments on securities, loans, fixed assets, deposits, other borrowings and intangible assets; and
- the issuance of additional South State common stock in connection with the merger of Southeastern Bank Financial Corporation with and into South State, applying the 0.7307 exchange ratio in that merger to the weighted-average shares outstanding of Southeastern Bank Financial Corporation in determining EPS.

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SOUTH STATE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2017
(Dollars in thousands, except par value)

	South State Corporation 3/31/2017 (as reported)	Park Sterling Corporation 3/31/2017 (as reported)	Purchase Accounting & Pro Forma Adjustments		Pro Forma 3/31/2017 Combined
ASSETS					
Cash and cash equivalents:					
Cash and due from banks	$ 212,042	$ 40,081	$ (7,440)	**(z)**	$ 244,683
Interest-bearing deposits with banks	348,602	32,997			381,599
Federal funds sold and securities purchased under agreements to resell	102,482	765			103,247
Total cash and cash equivalents	663,126	73,843	(7,440)		729,529
Investment securities:					
Securities held to maturity	6,095	89,579	(349)	**(a)**	95,325
Securities available for sale, at fair value	1,381,013	423,345	(1,651)	**(a)**	1,802,707
Other investments	13,501	19,967			33,468
Total investment securities	1,400,609	532,891	(2,000)		1,931,500
Loans held for sale	46,988	6,181			53,169
Loans:					
Acquired	2,347,538	2,460,595	(40,389)	**(b)**	4,767,744
Less allowance for acquired loan losses	(4,556)	(12,833)	12,833	**(b)**	(4,556)
Non-acquired	5,564,307				5,564,307
Less allowance for non-acquired loan losses	(38,449)				(38,449)
Loans, net	7,868,840	2,447,762	(27,556)		10,289,046
Other real estate owned (OREO)	20,007	3,167	(610)	**(c)**	22,564
Premises and equipment, net	203,505	62,392	(10,000)	**(d)**	255,897
Goodwill	595,711	63,317	355,712	**(e)**	1,014,740
Bank-owned life insurance	149,562	71,337			220,899
Mortgage servicing rights (MSRs)	30,063				30,063
Other intangible assets	55,461	10,984	14,671	**(f)**	81,116
Deferred tax asset	43,075	21,250	10,917	**(g)**	75,242
Other assets	73,123	15,632			88,755
Total assets	$ 11,150,070	$ 3,308,756	$ 333,694		$ 14,792,520
LIABILITIES AND SHAREHOLDERS EQUITY					
Deposits:					
Noninterest-bearing	$ 2,599,111	$ 524,380	$		$ 3,123,491
Interest-bearing	6,434,327	1,984,815			8,419,142
Total deposits	9,033,438	2,509,195			11,542,633
Federal funds purchased and securities sold under agreements to repurchase	352,431				352,431
Other borrowings	107,988	403,418	5,000	**(h)**	516,406
Other liabilities	76,313	34,423	11,600	**(i), (k)**	122,336
Total liabilities	9,570,170	2,947,036	16,600		12,533,806

Shareholders equity:					
Preferred stock $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding					
Common stock	73,077	53,113	(34,524)	**(j), (l)**	91,666
Surplus (APIC)	1,132,173	273,291	391,684	**(j), (l)**	1,797,148
Retained earnings	379,534	37,977	(42,727)	**(j)**	374,784
Accumulated other comprehensive (loss)	(4,884)	(2,661)	2,661	**(j)**	(4,884)
Total shareholders equity	1,579,900	361,720	317,094		2,258,714
Total liabilities and shareholders equity	$ 11,150,070	$ 3,308,756	$ 333,694		$ 14,792,520

Purchase Accounting Adjustments:

(z) Adjustment reflects payment for in the money stock options paid at closing.

(a) Adjustment reflects marking the investment portfolio to fair value as of the acquisition date determined by using bid pricing.

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(b) Adjustment reflects the fair value adjustments based on South State s evaluation of the acquired loan portfolio, and the reversal of Park Sterling s allowance for loan loss reserves (which we refer to as ALLL).

(c) Adjustment reflects the fair value adjustments to OREO based on South State s evaluation of the acquired OREO portfolio.

(d) Adjustment reflects the estimated fair value adjustments to acquired premises (building and land) based on South State s evaluation as of the acquisition date.

(e) Adjustment reflects the goodwill generated as a result of the consideration paid being greater than the net assets acquired.

(f) Adjustment reflects the recording of the incremental core deposit intangible of $14.671 million on the acquired core deposit accounts.

(g) Adjustment reflects the recording of the deferred tax asset generated by the net fair value adjustments (at a rate equal to 35.8%).

(h) Adjustment reflects the fair value adjustment, a premium, to the trust preferred securities totaling $5.0 million.

(i) Adjustment reflects $6.85 million in accrued transaction costs related to Park Sterling.

(j) Adjustment reflects the reversal of Park Sterling s March 31, 2017 retained earnings, common stock, surplus, and accumulated other comprehensive income.

Pro Forma Adjustments:

(k) Adjustment reflects the accrual of South State s direct transaction costs of $4.75 million.

(l) Adjustment reflects the difference in par value of common stock from $1.00 of Park Sterling common stock to $2.50 of South State common stock, and the exchange ratio of 0.14.

The following table summarizes the preliminary purchase price allocation to the estimated fair value of assets and liabilities of (in thousands, except per share data):

Park Sterling common shares outstanding at March 31, 2017		53,113
Price per share, based upon South State price of $91.90 as of April 26, 2017		$ 12.87
Total pro forma purchase price from common stock		$ 683,564
Stock based compensation (in the money stock options)		7,440
Total pro forma purchase price		**$ 691,004**
Fair value of assets acquired:		
Cash and cash equivalents	$ 73,843	
Investment securities	510,924	
Loans, net	2,426,387	
Other real estate owned	2,557	
Premises & equipment	52,392	
Other intangible assets, including CDI, non-compete, and client list	25,655	
Bank owned life insurance	71,337	
Deferred tax asset, net	32,167	
Other assets	35,599	
Total assets	3,230,861	

Fair value of liabilities assumed:			
Deposits	2,509,195		
Advances from FHLB	340,000		
Other borrowings	68,418		
Other liabilities	41,273		
Total liabilities	2,958,886		
Net assets acquired			**271,975**
Preliminary Pro Forma Goodwill		**$**	**419,029**

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SOUTH STATE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(Dollars in thousands, except per share data)

	South State Corporation 3/31/2017 (as reported)	Southeastern Bank Financial Corporation Period from 1/1/2017 to 1/3/2017		Park Sterling Corporation 3/31/2017 (as reported)	Park Sterling Corporation Pro Forma Adjustments		Park Sterling Corporation Park Sterling Pro Forma	Pro Forma 3/31/2017 Combined
Interest income:								
Loans, including fees	$ 91,752	$ 315		$ 27,462	$ 3,998	**(2)**	$ 31,460	$ 123,527
Investment securities:								
Taxable	7,231	83		3,222	(120)	**(3)**	3,102	10,416
Tax-exempt	1,430	21		135	(5)	**(3)**	130	1,581
Federal funds sold and securities purchased under agreements to resell	573			2			2	575
Total interest income	100,986	419		30,821	3,873		34,694	136,099
Interest expense:								
Deposits	2,497	40		2,392			2,392	4,929
Federal funds purchased and securities sold under agreements to repurchase	240							240
Other borrowings	887	15		1,371	(250)	**(4)**	1,121	2,023
Total interest expense	3,624	55		3,763	(250)		3,513	7,192
Net interest income	97,362	364		27,058	4,123		31,181	128,907
Provision for loan losses	3,707			678		**(5)**	678	4,385
Net interest income after provision for loan losses	93,655	364		26,380	4,123		30,503	124,522
Noninterest income:								
Service charges on deposit accounts	10,920	83		1,682			1,682	12,685
Bankcard services income	10,799			714			714	11,513
Trust and investment services income	5,941			1,258			1,258	7,199
Mortgage banking income	5,569			961			961	6,530
Recoveries on acquired loans	1,532							1,532
Securities gains, net				58			58	58
Other	1,674	10		795			795	2,479
Total noninterest income	36,435	93		5,468			5,468	41,996
Noninterest expense:								
Salaries and employee benefits	48,886	91		11,483			11,483	60,460
Net occupancy expense	6,388	8		2,907	(125)	**(6)**	2,782	9,178
OREO expense and loan related	2,142			175		**(7)**	175	2,317
Information services expense	6,360			1,925			1,925	8,285
Furniture and equipment expense	3,794							3,794
Bankcard expense	2,770							2,770
FDIC assessment and other regulatory charges	1,122			485			485	1,607
Advertising and marketing	559			146			146	705
Amortization of intangibles	2,507			454	667	**(8)**	1,121	3,628
Professional fees	1,773			783			783	2,556
Merger-related expense	21,024	5,450	**(1)**			**(9)**		26,474
Other	7,398	220		2,284			2,284	9,902

Total noninterest expense	104,723	5,769	20,642	542		21,184	131,676
Earnings:							
Income before provision for income taxes	25,367	(5,312)	11,206	3,582		14,788	34,843
Provision for income taxes	7,103	(1,393)	3,717	1,282	**(10)**	4,999	10,709
Net income	$ 18,264	$ (3,919)	$ 7,489	$ 2,299		$ 9,788	$ 24,133
Earnings per common share:							
Basic	$ 0.63		$ 0.14				$ 0.67
Diluted	0.63		0.14				0.66
Dividends per common share	$ 0.33		$ 0.04				$ 0.33
Weighted-average common shares outstanding:							
Basic	28,892		52,703	7,378	**(11)**		36,270
Diluted	29,159		53,463	7,485	**(11)**		36,644

Southeastern Bank Financial Corporation Adjustments:

(1) Reflects primarily cost paid to investment banker for closing of merger with South State.

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Park Sterling Adjustments:

(2) Adjusted loan interest income for purchased loans using level yield methodology over the estimated lives of the acquired loan portfolios.

(3) Adjustment reflects the amortization of the securities discount recorded in acquisition accounting.

(4) Adjustment reflects the reduction in interest expense for the purchase adjustment related to Park Sterling trust preferred securities.

(5) With acquired loans recorded at fair value, South State would expect to reduce the provision for loan losses from Park Sterling. However, no adjustment to the historic amount of Park Sterling provision for loan losses is reflected in these pro formas.

(6) Adjustment reflects incremental depreciation expense of assets acquired and marked up to fair value.

(7) OREO and other foreclosed assets written down and the related carrying cost are included, and due to the recording of these assets at fair value, South State would forecast lower expense for this line item, however, no adjustment has been made for the historic amounts of Park Sterling.

(8) Adjustment reflects the annual amortization of intangibles sum of years digits (SYD) over 10 years for CDI.

(9) South State expects to incur additional merger charges related to contract cancellations, severance, and other merger-related charges. However, these are not reflected in these pro forma income statements.

(10) Adjustment reflects 35.8% tax rate on additional net income.

(11) Adjustment reflects exchange ratio of 0.14 times the weighted average shares outstanding of Park Sterling for the first quarter of 2017.

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SOUTH STATE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Dollars in thousands, except per share data)

	South State Corporation 12/31/2016 (as reported)	Southeastern Bank Financial Corporation 12/31/2016 (as reported)	Adjustments		South State Corporation Pro Forma Totals 2016	Park Sterling Corporation 12/31/2016 (as reported)	Pro Forma Adjustments		Pro Forma 12/31/2016 Combined
Interest income:									
Loans, including fees	$ 308,461	$ 47,792	$ 8,915	**(a)**	$ 365,168	$ 107,440	$ 15,994	**(1)**	$ 488,602
Investment securities:									
Taxable	18,025	11,929	(359)		29,595	11,505	(423)	**(2)**	40,677
Tax-exempt	3,884	3,095	(84)		6,895	556	(77)	**(2)**	7,375
Federal funds sold and securities purchased under agreements to resell	2,793	205			2,998	15			3,013
Total interest income	333,163	63,021	8,472		404,656	119,516	15,494		539,666
Interest expense:									
Deposits	5,803	5,384			11,187	9,688			20,875
Federal funds purchased and securities sold under agreements to repurchase	574	12			586				586
Other borrowings	1,940	2,545	430		4,915	4,787	(1,000)	**(3)**	8,702
Total interest expense	8,317	7,941	430		16,688	14,475	(1,000)		30,163
Net interest income	324,846	55,080	8,043		387,969	105,041	16,494		509,503
Provision for loan losses	6,819	867		**(b)**	7,686	2,630		**(4)**	10,316
Net interest income after provision for loan losses	318,027	54,213	8,043		380,283	102,411	16,494		499,187
Noninterest income:									
Service charges on deposit accounts	82,897	7,257			90,154	6,449			96,603
Bankcard services income						2,792			2,792
Trust and investment services income	19,764	3,833			23,597	5,672			29,269
Mortgage banking income	20,547	7,657			28,204	3,428			31,632
Securities gains, net	122	433			555	(87)			468
Recoveries on acquired loans	6,465				6,465				6,465
Amortization of FDIC indemnification asset	(5,902)				(5,902)				(5,902)
Other	6,437	2,510			8,947	3,140			12,087
Total noninterest income	130,330	21,690			152,020	21,394			173,414
Noninterest expense:									
Salaries and employee benefits	164,663	26,863			191,526	40,841			232,367
Net occupancy expense	21,712	4,346	(111)	**(c)**	25,947	10,931	(500)	**(5)**	36,378
OREO expense and loan related	6,307	108		**(d)**	6,415	255		**(6)**	6,670
Information services expense	20,549	5,734			26,283	10,360			36,643
Furniture and equipment expense	12,403				12,403				12,403
FHLB prepayment termination charge			1,029		1,029				1,029
Bankcard expense	11,723				11,723				11,723
FDIC assessment and other regulatory charges	3,896	779			4,675	1,706			6,381
Advertising and marketing	3,092	2,065			5,157	1,086			6,243
Amortization of intangibles	7,577		2,788	**(e)**	10,365	1,832	2,582	**(7)**	14,779

Professional fees	6,702	1,588			8,290	3,522			11,812
Merger-related expense	5,002	2,138			7,140	10,932		**(8)**	18,072
Other	30,689	4,456			35,145	12,771			47,916
Total noninterest expense	294,315	48,077	3,706		346,098	94,236	2,082		442,416
Earnings:									
Income before provision for income taxes	154,042	27,826	4,337		186,205	29,569	14,412		230,186
Provision for income taxes	52,760	9,153	1,552	**(f)**	63,465	9,621	5,160	**(9)**	78,246
Net income	$ 101,282	$ 18,673	$ 2,784		$ 122,739	$ 19,948	$ 9,253		$ 151,940
Earnings per common share:									
Basic	$ 4.22				$ 4.24	$ 0.38			$ 4.19
Diluted	4.18				4.21	0.38			4.16
Dividends per common share	$ 1.21				$ 1.21	$ 0.14			$ 1.21
Weighted-average common shares outstanding:									
Basic	23,998		4,932	**(g)**	28,930	52,451	7,343	**(10)**	36,273
Diluted	24,219		4,947	**(g)**	29,166	52,851	7,399	**(10)**	36,565

Southeastern Bank Financial Corporation Adjustments:

(a) Adjusted loan interest income for purchased loans using level yield methodology over the estimated lives of the acquired loan portfolios.

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(b) With acquired loans recorded at fair value, South State would expect to reduce the provision for loan losses from Southeastern Bank Financial Corporation. However, no adjustment to the historic amount of Southeastern Bank Financial Corporation provision for loan losses is reflected in these pro formas.

(c) Adjustment reflects incremental depreciation expense of assets acquired and marked to fair value.

(d) OREO and other foreclosed assets written down and the related carrying cost are included, and due to the recording of these assets at fair value, South State would forecast lower expense for this line item, however, no adjustment has been made for the historic amounts of Southeastern Bank Financial Corporation.

(e) Adjustment reflects the annual amortization of intangibles SYD over 12 years for CDI.

(f) Adjustment reflects effective income tax rate of 35.8%.

(g) Adjustment reflects exchange ratio of 0.7307 multiplied times the weighted average shares outstanding of Southeastern Bank Financial Corporation (6.750 million shares).

Park Sterling Adjustments:

(1) Adjusted loan interest income for purchased loans using level yield methodology over the estimated lives of the acquired loan portfolios.

(2) Adjustment reflects the amortization of the securities discount recorded in acquisition accounting.

(3) Adjustment reflects the decrease in interest expense for the amortization of the premium related to Park Sterling trust preferred securities assumed at January 1, 2016.

(4) With acquired loans recorded at fair value, South State would expect to reduce the provision for loan losses from Park Sterling. However, no adjustment to the historic amount of Park Sterling provision for loan losses is reflected in these pro formas.

(5) Adjustment reflects incremental depreciation expense of assets acquired and marked up to fair value.

(6) OREO and other foreclosed assets written down and the related carrying cost are included, and due to the recording of these assets at fair value, South State would forecast significantly lower expense for this line item. However, no adjustment has been made for the historic amounts of Park Sterling.

(7) Adjustment reflects the annual amortization of intangibles SYD over 10 years for CDI.

(8) South State expects to incur significant merger charges related to contract cancellations, severance, change in control and other merger-related charges, however, these are not reflected in these pro forma income statements.

(9) Adjustment reflects 35.8% tax rate on additional net income.

(10) Adjustment in weighted average shares outstanding based upon exchange ratio of 0.14.

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DESCRIPTION OF CAPITAL STOCK OF SOUTH STATE

As a result of the merger, Park Sterling shareholders who receive shares of South State common stock in the merger will become shareholders of South State. Your rights as shareholders of South State will be governed by South Carolina law and the articles of incorporation and the bylaws of South State, each as amended to date. The following briefly summarizes the material terms of South State common stock. We urge you to read the applicable provisions of the SCBCA, South State s articles of incorporation and bylaws and federal laws governing bank holding companies carefully and in their entirety. Copies of South State s and Park Sterling s governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, see *Where You Can Find More Information*.

Authorized Capital Stock

South State s authorized capital stock consists of 40 million shares of common stock, par value $2.50 per share, and 10 million shares of preferred stock, par value $0.01 per share. As of the record date, there were [ ] shares of South State common stock outstanding and [ ] shares of South State preferred stock outstanding.

At the South State special meeting, South State is asking its shareholders to approve an amendment to the South State articles to increase the number of authorized shares of its common stock from 40 million shares to 80 million shares. See *South State Proposals Proposal No. 2: South State Amendment Proposal* for more information.

Common Stock

Dividend Rights

South State can pay dividends if, as and when declared by the South State board of directors, subject to compliance with limitations imposed by law. The holders of South State common stock will be entitled to receive and share equally in these dividends as they may be declared by the South State board of directors out of funds legally available for such purpose. If South State issues preferred stock, the holders of such preferred stock may have a priority over the holders of the common stock with respect to dividends.

Voting Rights

Each holder of South State common stock will be entitled to one vote per share and will not have any right to cumulate votes in the election of directors. Directors will be elected by a majority of the shares actually voting on the matter at each annual meeting or special meeting called for the purpose of electing such directors. If South State issues preferred stock, holders of the preferred stock may also possess voting rights.

Liquidation Rights

In the event of liquidation, dissolution or winding-up of South State, whether voluntary or involuntary, the holders of South State common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of South State available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights

Holders of the common stock of South State will not be entitled to preemptive rights with respect to any shares which may be issued. Preemptive rights are the priority right to buy additional shares if

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South State issues more shares in the future. Therefore, if additional shares are issued by South State without the opportunity for existing shareholders to purchase more shares, a shareholder s ownership interest in South State may be subject to dilution.

For more information regarding the rights of holders of South State common stock, see *Comparison of Shareholders Rights*.

Preferred Stock

South State s articles of incorporation, as amended to date, permit the South State board of directors to issue up to 10 million shares of preferred stock in one or more series, with such designations, titles, voting powers, preferences and rights and such qualifications, limitations and restrictions as may be fixed by the South State board of directors without any further action by South State shareholders. The issuance of preferred stock could adversely affect the rights of holders of common stock.

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COMPARISON OF SHAREHOLDERS RIGHTS

South State is incorporated under the laws of the State of South Carolina, and, accordingly, the rights of South State shareholders are governed by South Carolina law. Park Sterling is incorporated under the laws of the State of North Carolina, and, accordingly, the rights of Park Sterling shareholders are governed by North Carolina law. Consequently, after the effective time of the merger, the rights of former Park Sterling shareholders who receive South State common stock as merger consideration will be governed by South Carolina law and determined by reference to South State s organizational documents.

The following is a summary of certain material differences between (i) the current rights of Park Sterling shareholders under Park Sterling s articles of incorporation and bylaws, each as amended to date, and North Carolina law, including the NCBCA, and (ii) the current rights of South State shareholders under South State s articles of incorporation and bylaws, each as amended to date, and South Carolina law, including the SCBCA, which will govern the rights of Park Sterling shareholders who become South State shareholders following the merger.

The following summary is not a complete statement of the rights of shareholders of the two companies or a complete description of the specific provisions referred to below. This summary is qualified in its entirety by reference to South State and Park Sterling s respective governing documents and the provisions of the SCBCA and the NCBCA, which we urge you to read carefully and in their entirety. Copies of the respective companies governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, see *Where You Can Find More Information*.

Authorized Capital Stock

South State

South State s articles of incorporation, as amended to date, authorize it to issue up to 50 million shares, consisting of 40 million shares of common stock, par value $2.50 per share, and 10 million shares of preferred stock, par value $0.01 per share. As of the record date, there were [ ] shares of South State common stock outstanding and no shares of South State preferred stock outstanding. The South State board of directors is authorized to issue the preferred stock in one or more series.

At the South State special meeting, South State is asking its shareholders to approve an amendment to the South State articles to increase the number of authorized shares of its common stock from 40 million shares to 80 million shares. See *South State Proposals Proposal No. 2: South State Amendment Proposal* and *The Merger Amendment to South State s Articles of Incorporation* for more information.

Park Sterling

Park Sterling s articles of incorporation, as amended to date, authorize it to issue up to 205 million shares, consisting of 200 million shares of common stock, par value $1.00 per share, and 5 million shares of preferred stock, no par value. As of the record date, there were [ ] shares of Park Sterling common stock outstanding and no shares of Park Sterling preferred stock outstanding. The Park Sterling board of directors is authorized to issue the preferred stock in one or more series.

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Voting Limitations

South State

Section 35-2-101 *et seq.* of the SCBCA contains a control share acquisition statute that, in general terms, provides that where a shareholder acquires issued and outstanding shares of a corporation s voting stock (which we refer to as control shares) within one of several specified ranges (one-fifth or more but less than one-third, one-third or more but less than a majority, or a majority or more), approval of the control share acquisition by the corporation s shareholders must be obtained before the acquiring shareholder may vote the control shares. The required shareholder vote is a majority of all votes entitled to be cast, excluding interested shares, defined as shares held by the acquiring person, officers of the corporation and employees who are also directors of the corporation. A corporation may, however, opt out of the control share acquisition statute through a provision of the articles of incorporation or bylaws, which South State has done pursuant to its bylaws. Accordingly, the South Carolina control share acquisition statute does not apply to acquisitions of shares of South State common stock. Although not anticipated, South State could seek shareholder approval of an amendment to its bylaws to eliminate the opt-out provision. See *Amendments to Articles of Incorporation and Bylaws*.

Park Sterling

Section 55-9A-01 *et seq.* of the NCBCA contains a control share acquisition statute that, in general terms, provides that where a shareholder acquires issued and outstanding shares, or the power to vote or to direct the exercise of voting power, of a corporation s voting stock (referred to as control shares) within one of several specified ranges (one-fifth of all voting power, one-third of all voting power, or a majority of all voting power), approval of the control share acquisition by the corporation s shareholders must be obtained before the acquiring shareholder may vote the control shares. The required shareholder vote is a majority of all votes entitled to be cast, excluding interested shares, defined as shares held by the acquiring person, officers of the corporation and employees of the corporation who are also directors of the corporation. A corporation may opt out of the control share acquisition statute through a provision of its articles of incorporation or bylaws, which Park Sterling has done pursuant to its articles of incorporation. Accordingly, the North Carolina control share acquisition statute does not apply to acquisitions of shares of Park Sterling common stock. Although not anticipated, Park Sterling could seek shareholder approval of an amendment to its articles of incorporation to eliminate the opt-out provision. See *Amendments to Articles of Incorporation and Bylaws*.

Size of Board of Directors

South State

South State s articles of incorporation, as amended to date, currently provide that the South State board of directors shall consist of a maximum of 20 directors, and that the size of the board may be determined from time to time by resolution of the board. The provisions of South State s articles of incorporation, as amended to date, concerning the size of the South State board of directors may only be amended or repealed by a vote of not less than eighty percent (80%) of the outstanding voting stock of South State. The South State board of directors currently has 13 directors.

Immediately following the effective time of the merger, South State will appoint James C. Cherry, Park Sterling s Chief Executive Officer, and one current non-employee member of the board of directors of Park Sterling to the South State board of directors.

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Park Sterling

Park Sterling s articles of incorporation currently provide that the Park Sterling board of directors shall consist of not less than six nor more than 19 directors, and that the size of the board may be determined from time to time by resolution of the board. No decrease in the number of directors can shorten the term of any director then in office. The provisions of Park Sterling s articles of incorporation, as amended to date, concerning the size of the Park Sterling board of directors may only be amended or repealed by a vote of not less than eighty percent (80%) of the outstanding voting stock of Park Sterling, voting together as a single class. The Park Sterling board of directors currently has 12 directors.

Cumulative Voting and Election of Directors

South State

South State shareholders do not have the right to cumulate their votes with respect to the election of directors. In order to be elected, each director nominee must receive a majority of votes cast by South State common shareholders at each annual meeting of the shareholders, or a similar vote at any special meeting called for the purpose of electing directors.

Park Sterling

Park Sterling shareholders do not have the right to cumulate their votes with respect to the election of directors. In order to be elected, the votes cast for a director nominee s election must exceed the votes cast against such nominee s election (with abstentions and broker non-votes not counted as a vote cast either for or against that nominee s election) by the shares entitled to vote in the election of directors at a meeting of the shareholders at which a quorum is present. However, if the number of nominees exceeds the number of directors to be elected at the meeting, the directors will be elected by a plurality of the votes cast by the shares entitled to vote in the election at such meeting.

Classes of Directors

South State

The South State board of directors is divided into three classes, as nearly equal in number as reasonably possible, with each class of directors serving for successive three-year terms so that each year the term of only one class of directors expires.

Park Sterling

The Park Sterling board of directors is divided into three classes, as nearly equal in number as reasonably possible, with each class of directors serving for successive three-year terms so that each year the term of only one class of directors expires.

Removal of Directors

South State

Directors may be removed, with or without cause, only by the affirmative vote of holders of eighty percent (80%) of South State s common shares. Cause means fraudulent or dishonest acts or gross abuse of authority in the discharge of duties to South State and shall be established after written notice of specific charges and the opportunity to meet and refute such charges.

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Park Sterling

Under Park Sterling s articles of incorporation, any director or directors may be removed, only for cause, by the affirmative vote of a majority of the outstanding shares of capital stock of Park Sterling entitled to vote in the election of directors, voting together as a single class. A director may not be removed by shareholders at a meeting unless the notice of the meeting states that the purpose, or one of the purposes, of the meeting is the removal of such director. Cause for removal shall be deemed to exist only if the director whose removal is proposed has been convicted of a felony or has been adjudged to be liable for fraudulent or dishonest conduct, or gross abuse of authority or discretion, with respect to the corporation, and such conviction or adjudication has become final and nonappealable. Any change to this provision of the articles of incorporation must be approved by eighty percent (80%) of the shareholder votes entitled to be cast on the amendment of the articles, voting together as a single class.

Filling Vacancies on the Board of Directors

South State

Except in the event a director is serving at the election of the preferred shareholders, newly created directorships resulting from an increase in the number of directors and vacancies occurring in any office or directorship for any reason, including the removal of an officer or director with or without cause, may be filled by the vote of a majority of the directors then in office, even if less than a quorum exists. The term of any director elected to fill a vacancy shall expire at the next meeting of shareholders at which directors are elected.

Park Sterling

Vacancies in the board of directors that occur between annual meetings of shareholders at which directors are elected, including vacancies resulting from an enlargement of the board of directors, may be filled by the affirmative vote of a majority of the remaining directors, even where the remaining directors represent less than a quorum, or by a sole remaining director. The directors elected to fill such vacancies hold office for a term expiring at the next annual meeting of shareholders at which directors are elected and until their successors have been duly elected and qualified.

Special Meetings of Shareholders

South State

Under South State s bylaws, special meetings of shareholders may be called by the president, the chairman of the board of directors, a majority of the South State board of directors or by the holders of not less than ten percent (10%) of all South State common shares entitled to vote at such meeting. The matters to be considered and brought before any special meeting of shareholders are limited only to such matters as have been properly brought before such meeting in compliance with the terms of the South State bylaws.

Park Sterling

Under Park Sterling s bylaws, special meetings of shareholders may be called by the board of directors, the chairman of the board of directors or the chief executive officer. The matters to be considered and brought before any special meeting of shareholders are limited only to such matters as have been properly brought before such meeting in compliance with the terms of the Park Sterling bylaws.

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Quorum

South State

Under South State s bylaws, a majority of shares of South State common stock entitled to vote shall constitute a quorum for the transaction of business at any meeting of South State shareholders, except that with respect to a special meeting called to consider a merger, consolidation or sale of substantially all of the assets of South State that has not been recommended by the South State board of directors, eighty percent (80%) of South State common shares entitled to vote shall be necessary to constitute a quorum. If a quorum is not present or represented at a meeting of shareholders, a meeting may be adjourned despite the absence of a quorum.

Park Sterling

Under Park Sterling s bylaws, a majority of Park Sterling s outstanding shares entitled to vote on a matter constitutes a quorum of that voting group for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. If a quorum is not present or represented at a meeting of shareholders, a meeting may be adjourned by the vote of a majority of the votes cast on the motion to adjourn.

Dividends

South State

Under South Carolina law, which is the law of the state where South State is incorporated, South State may not declare a dividend if, after giving effect to such dividend, it would not be able to pay its debts as they become due in the ordinary course of business or if its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time the dividend was declared, to satisfy the preferential rights of any holders of South State preferred shares. In addition, the Federal Reserve Board has the authority to restrict dividends issued by bank holding companies, including South State.

Park Sterling

Under North Carolina law, which is the law of the state where Park Sterling is incorporated, Park Sterling may not authorize a distribution if, after giving effect to such distribution, it would not be able to pay its debts as they become due in the usual course of business or the corporation s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if Park Sterling were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. In addition, the Federal Reserve Board has the authority to restrict distribution issued by bank holding companies, including Park Sterling.

Notice of Shareholder Meetings

South State

South State s bylaws provide that South State must give written notice between 10 and 60 days before any shareholder meeting to each shareholder entitled to vote at such meeting and to each other shareholder entitled to notice of the meeting. The notice must state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes of the meeting. Additionally, if at any meeting South State s bylaws are to be altered, repealed, amended, or adopted, notice of such meeting must make this clear.

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Park Sterling

Park Sterling s bylaws provide that Park Sterling must give written notice stating the date, time, and place between 10 and 60 days before any shareholder meeting to each shareholder entitled to vote as of the record date at such meeting. In the case of a special meeting, the purpose or purposes of the meeting must be included.

Director Nominations and Business Proposals by Shareholders

South State

Under South State s bylaws, director nominations and business proposals by shareholders must be received no earlier than 120 days and no later than 90 days prior to the first anniversary of the prior year s annual meeting of shareholders, provided that if the date of the annual meeting is more than 30 days before or more than 60 days after the first anniversary date, the shareholder s notice must be delivered not earlier than the 120th day prior to the date of such annual meeting and not later than the close of business on the later of (x) the 90th day prior to such annual meeting or (y) if the first public announcement of such date is less than 100 days prior to the date of such annual meeting, the tenth day following the day the date of the annual meeting of shareholders is first publicly announced or disclosed. A shareholder s notice must comply with the procedural, informational and other requirements outlined in South State s bylaws.

Specifically, South State s bylaws provide that, to be in proper form, a shareholders notice must include, among other things, with respect to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made: (1) the shareholder or beneficial owner s name and address, (2) the class and number of shares held by such shareholder or beneficial owner, (3) any derivative securities and equity interests held by such shareholder or beneficial owner, (4) any proxy, contract, arrangement, understanding or relationship pursuant to which such shareholder or such beneficial owner has a right to vote any shares of South State s securities, (5) any performance-related fees (other than an asset-based fee) that such shareholder or beneficial owner is entitled to based on any increase or decrease in the value of the shares of South State or any derivative instruments, (6) any pending or threatened legal proceeding in which such shareholder or beneficial owner is a party or participant involving South State or any of its officers or directors, or any affiliate of South State, and (7) a representation that the shareholder intends to appear in person or by proxy at the meeting to propose the business or nomination.

As to any director nominee, a shareholder s notice must include all information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required pursuant to Regulation 14A under the Exchange Act. As to any other business, a shareholder s notice must include a brief description of the business to be brought, the reasons for conducting such business at the meeting and any material interest in such business of each proposing person.

Park Sterling

Under Park Sterling s bylaws, director nominations and business proposals by shareholders must be received no earlier than 120 days and no later than 90 days prior to the first anniversary of the prior year s annual meeting of shareholders, provided that if the annual meeting of shareholders is advanced by more than 30 days or delayed by more than 60 days from the first anniversary date, the shareholder s notice must be given not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (x) the 90th day prior to the annual meeting of shareholders or (y) the tenth day following the day the date of the annual meeting of shareholders is first publicly announced or disclosed. A shareholder s notice must comply with the procedural, informational and other requirements outlined in Park Sterling s bylaws.

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Specifically, Park Sterling s bylaws provide that as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made or the business is proposed, and their respective affiliates and associates, the shareholder notice must include, among other things, (1) the name and address, as they appear in Park Sterling s books, (2) the class or series and number of shares of Park Sterling which are, directly or indirectly, owned of record or beneficially owned, (3) any derivative positions held of record or beneficially related to the value of Park Sterling s shares, (4) a description of all agreements, arrangements or understandings with respect to the nomination or other proposal, (5) any other information that would be required to be disclosed in a proxy statement or other filings required to be made in connection with a solicitation of proxies for the proposal and/or the election of directors in a contested election, (6) a representation that the shareholder is a holder of record that would be entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to make such nomination or propose the business set forth in the shareholder s notice and (7) with respect to any proposal other than a nomination for election of directors, a statement whether such shareholder, such beneficial owner or any of their respective affiliates or associates intends or is part of a group that intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the outstanding shares required to approve or adopt the proposal and/or otherwise solicit proxies from shareholders of Park Sterling in support of such proposal.

As to any director nominee, a shareholder notice must include, among other things, (1) the name and address of the nominee, (2) the class or series and number of shares of Park Sterling which are, directly or indirectly, owned of record or beneficially owned by the nominee, (3) any derivative positions held of record or beneficially by the nominee related to the value of Park Sterling s shares and (4) all other information relating to the nominee that would be required to be disclosed in a proxy statement or other filings required to be made in connection with a solicitation of proxies for the election of directors in a contested election. Park Sterling may also require any proposed nominee to furnish such other information, including completion of Park Sterling s directors questionnaire, as it may reasonably require to determine the eligibility of the proposed nominee to serve as an independent director under the applicable rules and standards or that could be material to a reasonable shareholder s understanding of the independence, or lack thereof, of such nominee.

As to any other business, a shareholder s notice must include (1) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (2) the text of the proposal or business (including the text of any resolutions to be proposed for consideration by the shareholders) and (3) a description of any material interest of such shareholder, the beneficial owner, if any, on whose behalf the proposal is being made, and their respective affiliates and associates in such business.

Anti-Takeover Provisions and Other Shareholder Protections

South State

Under South State s articles of incorporation, as amended to date, certain business combinations (for example, mergers, share exchanges, consolidations or a sale of all or substantially all of South State s assets) that are not recommended by the South State board of directors require, in addition to any vote required by law, the approval of the holders of at least eighty percent (80%) of the outstanding South State shares entitled to vote on such business combinations. In addition, if such business combination involves any South State shareholder owning or controlling twenty percent (20%) or more of the South State s voting stock at the time of the proposed transaction (which we refer to as a controlling party), and (1) certain fair price requirements are not satisfied or (2) the business combination is not recommended by a majority of the entire South State board of directors, then such business combination must be approved by at least eighty percent (80%) of the outstanding South State shares entitled to vote on such business combination and at least sixty-seven percent (67%) of the

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outstanding South State shares entitled to vote on such business combination that are not held by the controlling party.

Park Sterling

Park Sterling s articles of incorporation and bylaws do not restrict the voting power of shareholders who own large percentages of Park Sterling s outstanding common stock. As a result, a shareholder who acquires a certain portion of Park Sterling s common stock may exercise a significant level of control over Park Sterling through the voting power represented by such ownership of common stock.

Section 55-9-01 et seq. of the NCBCA contains a shareholder protection statute that generally requires that, unless certain fair price and procedural requirements are satisfied, the affirmative vote of the holders of ninety-five percent (95%) of the outstanding shares of a corporation s common stock (excluding shares owned by an interested shareholder) is required to approve certain business combination transactions with another entity that is the beneficial owner of more than twenty percent (20%) of the corporation s voting shares or that is an affiliate of the corporation and previously has been a twenty percent (20%) beneficial holder of such shares. A corporation may, however, opt out of the shareholder protection statute through a provision of its articles of incorporation or bylaws, which Park Sterling has done pursuant to its articles of incorporation. Accordingly, the North Carolina shareholder protection statute does not apply to acquisitions of shares of Park Sterling common stock.

In lieu of the North Carolina shareholder protection statute, Park Sterling s articles of incorporation provide that certain business combinations (for example, a merger or consolidation of Park Sterling or any of its subsidiaries) with another entity that is the beneficial owner of more than five percent (5%) of the corporation s voting shares (which we refer to as an interested shareholder) must be approved by at least eighty percent (80%) of the outstanding Park Sterling voting shares, voting together as a single class, and at least 66-2/3% of the outstanding Park Sterling voting shares that are not held by the interested shareholder, voting together as a single class, unless the business combination is approved by a majority of the directors on the Board that are not affiliated or associated with the interested shareholder.

In addition, as described above in *Voting Limitations*, Section 55-9A-01 et seq. of the NCBCA contains a control share acquisition statute that, in general terms, provides that where a shareholder acquires issued and outstanding shares, or the power to vote or to direct the exercise of voting power, of a corporation s voting stock within one of several specified ranges, approval of the control share acquisition by the corporation s shareholders must be obtained before the acquiring shareholder may vote the control shares. A corporation may opt-out of the control share acquisition statute through a provision of its articles of incorporation or bylaws, which Park Sterling has done pursuant to its articles of incorporation. Accordingly, the North Carolina control share acquisition statute does not apply to acquisitions of shares of Park Sterling common stock.

Although not anticipated, Park Sterling could seek shareholder approval of an amendment to its articles of incorporation to eliminate the opt-out provision with regards to either the shareholder protection statute or the control share acquisition statute. See *Amendments to Articles of Incorporation and Bylaws*.

Limitation of Personal Liability of Officers and Directors

South State

South State s articles of incorporation, as amended to date, provide for the elimination or limitation of director liability for monetary damages to the maximum extent allowed by South Carolina law.

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Park Sterling

Park Sterling s articles of incorporation, as amended to date, provide the personal liability of any director of the corporation is eliminated to the fullest extent permitted by the provisions of the NCBCA.

Indemnification of Directors and Officers and Insurance

South State

South State s bylaws, as amended to date, provide for the indemnification of any current and former directors and officers to the fullest extent authorized by law. South State may advance reasonable expenses to directors and officers, provided that if required by law, such advancement of expenses shall only be made if the director or officer seeking such advancement provides South State with a written affirmation of his or her good faith belief that he or she met the standard of conduct required by law and a written undertaking to repay the advance if it is ultimately determined that he or she did not meet that standard of conduct. South State s bylaws further provide that South State may, to the extent authorized from time to time by the South State board of directors, grant rights of indemnification and to the advancement of expenses to any employee or agent of the South State consistent with the other provisions of South State s bylaws concerning the indemnification and advancement of expenses to South State directors and officers.

South State s bylaws, as amended to date, provide that South State may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of South State or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not South State would have the power to indemnify such person against such expense, liability or loss under applicable law.

Park Sterling

Park Sterling s articles of incorporation provide for the indemnification, to the fullest extent permitted by the provisions of the NCBCA, of any and all persons whom the corporation has the power to indemnify under the NCBCA from and against any and all of the expenses, liabilities or other matters referred to in or covered by the NCBCA.

Park Sterling s bylaws, as amended to date, provide for the indemnification of current and former directors, officers, employees and agents for reasonable expenses, judgments, fines, penalties and amounts paid in settlement (including attorneys fees), incurred in connection with a proceeding, if the individual successfully defends the proceeding on the merits or otherwise or if the individual acted in manner he or she believed in good faith to be in, or not opposed to, the best interests of the corporation and, in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. Indemnification permitted under the bylaws is limited to reasonable expenses incurred in connection with a proceeding. Park Sterling will advance reasonable expenses incurred by a director, officer, employee or agent if (1) he or she furnishes Park Sterling with written affirmation of his or her good faith belief that he or she acted in manner that he or she believed in good faith to be in, or not opposed to, the best interests of the corporation and, in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful, and (2) he or she furnishes Park Sterling a written undertaking to repay any advances if it is ultimately determined that he or she is not entitled to indemnification.

Park Sterling s bylaws, as amended to date, provide that Park Sterling may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee or agent against liability asserted against or incurred by him or her in that capacity, whether or not the corporation would have power to indemnify him or her against the same liability.

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Amendments to Articles of Incorporation and Bylaws

South State

The SCBCA provides that South State s articles of incorporation, as amended to date, generally may be amended upon approval by the South State board of directors and the holders of two-thirds of South State s outstanding shares entitled to vote. Pursuant to South State s articles of incorporation, as amended to date, however, the amendment of certain provisions of the articles of incorporation requires the vote of the holders of at least eighty percent (80%) of the South State s outstanding shares. These include provisions relating to issuing South State s capital stock; the approval of certain business combinations not approved by the South State board of directors; the number, classification, election and removal of directors and amendments to South State s bylaws.

South State s bylaws, as amended to date, may be amended either by a majority of the entire South State board of directors or by a vote of the holders of at least eighty percent (80%) of South State s outstanding shares entitled to vote.

Park Sterling

The NCBCA provides that a North Carolina corporation s articles of incorporation may be amended only upon approval by a majority of the votes cast within each voting group entitled to vote. Park Sterling s articles of incorporation further require the affirmative vote of eighty percent (80%) of the outstanding shares entitled to vote in the election of Park Sterling s directors, voting together as a single class, in order to amend, repeal or adopt any provision or take any action inconsistent with Article 6 of the articles of incorporation, which, among other things, sets the range for the number of directors, prescribes three classes of directors and governs the removal of directors and the filling of vacancies on the Park Sterling board of directors.

Park Sterling s bylaws provide that, generally, the Park Sterling board of directors may amend or repeal and replace the Park Sterling bylaws by the affirmative vote of a majority of the number of directors then in office at any regular or special board meeting. The Park Sterling board of directors cannot amend, repeal or adopt a bylaw: (1) requiring more than a majority of the voting shares for a quorum at a meeting of shareholders or more than a majority of the votes cast to constitute action by the shareholders, except where required by law; (2) providing for the management of Park Sterling other than by the Park Sterling board of directors or its executive committee; (3) increasing or decreasing the authorized number of directors beyond the maximum or minimum number set forth in Park Sterling s articles of incorporation; or (4) that is inconsistent with Article 6 of Park Sterling s articles of incorporation (which, among other things, sets the range for the number of directors, prescribes three classes of directors and governs the removal of directors and the filling of vacancies on the Park Sterling board of directors). The Park Sterling board of directors also cannot alter or repeal any bylaw adopted or amended by Park Sterling s shareholders, except when Park Sterling s articles of incorporation or a bylaw adopted by the shareholders authorizes the Park Sterling board of directors to adopt or repeal any such bylaw.

Park Sterling s bylaws also provide that its shareholders may amend or repeal and replace the bylaws at any annual meeting or at a special meeting called for such purpose. However, no bylaw may be amended, repealed or adopted that is inconsistent with Article 6 of the Park Sterling articles of incorporation without the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of capital stock entitled to vote in the election of directors, voting together as a single class.

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Action by Written Consent of the Shareholders

South State

Under South State s bylaws, South State shareholders may act without a shareholder meeting by written consent. Such written consent must set forth the action so taken and be signed by the holders of all South State s outstanding shares entitled to vote upon such action or their attorneys-in-fact or proxy holders. Such consent will be filed with the secretary of South State for inclusion in the minutes or filing with the corporate records.

Park Sterling

Under Park Sterling s bylaws, Park Sterling shareholders may act without a shareholder meeting by written consent. Such written consent must describe the action so taken, be signed by all shareholders entitled to vote upon such action at a meeting of shareholders, and be delivered to Park Sterling for inclusion in the minutes or filing with the corporate records.

Shareholder Rights Plan

Neither South State nor Park Sterling currently has a shareholder rights plan in effect.

Rights of Dissenting Shareholders

South State

The dissenters rights of South State shareholders are governed by the SCBCA. Under South Carolina law, a dissenting or objecting shareholder has the right to demand and receive payment of the fair value of the shareholder s shares in the event of (1) the consummation of a plan of merger if shareholder approval is required and the shareholder is entitled to vote on the plan, or if the corporation to be merged is a subsidiary that is merged with its parent; (2) the consummation of a plan of share exchange if the shareholder is entitled to vote on the plan; (3) the consummation of a sale or exchange of all or substantially all of the property of the corporation other than in the ordinary course of business if the shareholder is entitled to vote on the sale or exchange; (4) an amendment to the corporation s articles of incorporation in a way that materially and adversely affects the shareholder s rights; (5) in certain circumstances, the conversion of a corporation into a limited liability company or a partnership; or (6) a transaction, to the extent the corporation s articles of incorporation, bylaws or a resolution of the corporation s board of directors provides for dissenters rights relating to such a transaction.

The SCBCA provides that a shareholder may not demand the fair value of the shareholder s shares and is bound by the terms of the transaction if, among other things, the shares are listed on a national securities exchange on the record date for determining shareholders entitled to vote on the matter. Shares of South State common stock are currently listed on the NASDAQ Global Select Market, a national securities exchange.

Park Sterling

The NCBCA provides that a shareholder of a corporation is generally entitled to appraisal rights and to obtain payment of the fair value of his or her shares if the shareholder dissents from certain transactions, including a proposed merger, share exchange or a sale of substantially all of the assets of the corporation. Under the NCBCA, however, dissenters rights are not available to holders of shares of any class or series of shares that are traded in an organized market and have at least 2,000 shareholders and a market value of at least $20,000,000. Because Park Sterling common stock is traded on the NASDAQ, an organized market, and has at least 2,000 shareholders and a market value of at

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least $20,000,000, Park Sterling shareholders do not have the right to dissent from the merger agreement and seek an appraisal in connection with the merger.

Exclusive Forum

South State

South State s bylaws provide that, unless South State consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of South State, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of South State to South State or South State s shareholders, (iii) any action arising pursuant to any provision of the SCBCA, South State s articles of incorporation or South State s bylaws (as either may be amended from time to time) or (iv) any action asserting a claim governed by the internal affairs doctrine will be a state court located in South Carolina (or if such state courts lack jurisdiction, the U.S. District Court for the District of South Carolina).

Park Sterling

In connection with the proposed merger, the Park Sterling board of directors amended Park Sterling s bylaws to include an exclusive forum provision. Park Sterling s bylaws provide that, unless Park Sterling consents in writing to the selection of an alternative forum, and to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of Park Sterling, (ii) any action asserting a claim of breach of fiduciary duty owed by any current or former director, officer or other employee or agent of Park Sterling to Park Sterling or Park Sterling s shareholders, (iii) any action asserting a claim arising pursuant to any provision of the NCBCA, Park Sterling s articles of incorporation or Park Sterling s bylaws (as each may be amended from time to time), (iv) any action asserting a claim governed by the internal affairs doctrine or (v) any action asserting a claim that relates to the internal affairs of Park Sterling pursuant to the NCBCA will be the state courts of North Carolina in Mecklenburg County, North Carolina, and will be designated as a mandatory complex business case under the North Carolina General Statutes (or, if such state courts lack jurisdiction, the U.S. District Court for the Western District of North Carolina).

If any action that falls within the categories above is filed in a court other than a North Carolina state court in Mecklenburg County, North Carolina (or, if such state court lacks jurisdiction, the U.S. District Court for the Western District of North Carolina) in the name of any Park Sterling shareholder, such shareholder will be deemed to have consented to (1) the personal jurisdiction of the state and federal courts located in North Carolina in connection with any action to enforce the exclusive forum provision of Park Sterling s bylaws and (2) having service of process made upon such shareholder in any such action by service upon such Park Sterling shareholder s counsel in the foreign action as agent for such Park Sterling shareholder.

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LEGAL MATTERS

The validity of the South State common stock to be issued in connection with the merger will be passed upon for South State by Nelson Mullins Riley & Scarborough, LLP (Greenville, South Carolina). Certain U.S. federal income tax consequences relating to the merger will be passed upon for South State by Wachtell, Lipton, Rosen & Katz (New York, New York) and for Park Sterling by McGuireWoods LLP (Charlotte, North Carolina).

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EXPERTS

South State

The consolidated financial statements of South State Corporation as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and the effectiveness of South State Corporation s internal control over financial reporting as of December 31, 2016 have been audited by Dixon Hughes Goodman LLP, an independent registered public accounting firm, as set forth in its report appearing in South State Corporation s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated in this joint proxy statement/prospectus by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

The consolidated financial statements of Southeastern Bank Financial Corporation as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 incorporated in this joint proxy statement/prospectus by reference have been so incorporated in reliance on the report of Crowe Horwath LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Park Sterling

The consolidated financial statements of Park Sterling Corporation as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and the effectiveness of Park Sterling Corporation s internal control over financial reporting as of December 31, 2016 have been audited by Dixon Hughes Goodman LLP, an independent registered public accounting firm, as set forth in its report appearing in Park Sterling Corporation s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated in this joint proxy statement/prospectus by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon its authority as experts in accounting and auditing.

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OTHER MATTERS

No matters other than the matters described in this joint proxy statement/prospectus are anticipated to be presented for action at the special meetings of South State or Park Sterling or at any adjournment or postponement of the special meetings.

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HOUSEHOLDING OF PROXY MATERIALS

SEC rules permit companies and intermediaries (such as brokers, banks and other nominees that hold shares in street name) to satisfy the delivery requirements for proxy statements, prospectuses and certain other materials by delivering a single copy of these materials to an address shared by two or more of South State s or Park Sterling s shareholders. This delivery method is referred to as householding and can result in significant cost savings for South State and Park Sterling and, in turn, their respective shareholders.

If your shares of South State or Park Sterling common stock are held in street name, your bank, broker or other nominee may have delivered only one proxy statement/prospectus to multiple shareholders who share one address. However, you can request separate copies of these documents by contacting the broker, bank or other nominee. Conversely, if your South State or Park Sterling shares are held in street name and you wish to receive separate copies of a South State or Park Sterling proxy statement, as applicable, in the future, you can request householding by contacting the broker, bank or other nominee.

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DEADLINES FOR SUBMITTING SHAREHOLDER PROPOSALS

South State

Under SEC rules, holders of South State common shares who wish to make a proposal to be included in South State s proxy statement and proxy for South State s 2018 annual meeting of shareholders must deliver the proposal to the executive offices of South State no later than November 9, 2017, unless the date of the 2018 annual meeting is more than 30 days before or after April 21, 2018, in which case the proposal must be received a reasonable time before South State begins to print and send its proxy materials for the 2018 annual meeting. Such proposals will be subject to the requirements of the proxy rules adopted under the Exchange Act, South State s articles of incorporation and bylaws, each as amended to date, and South Carolina law. Only proper proposals that are timely received and in compliance with Rule 14a-8 will be included in South State s 2018 proxy statement.

Under South State s bylaws, as amended to date, shareholder proposals not intended for inclusion in South State s 2018 proxy statement pursuant to Rule 14a-8 but intended to be raised at the 2018 annual meeting of shareholders, including nominations for election of director(s) other than the nominees of the South State board of directors, must be received no earlier than 120 days and no later than 90 days prior to the first anniversary of the 2017 annual meeting of shareholders and must comply with the procedural, informational and other requirements outlined in South State s bylaws. To be timely for the 2018 annual meeting of shareholders, a shareholder proposal must be delivered to the Secretary of South State at P.O. Box 1030, Columbia, South Carolina 29202, no earlier than December 21, 2017 and no later than January 20, 2018.

South State does not have a formal process by which shareholders may communicate with the South State board of directors. Historically, however, the chairman of the South State board of directors or the Governance Committee has undertaken responsibility for responding to questions and concerns expressed by shareholders. In the view of the South State board of directors, this approach has been sufficient to ensure that questions and concerns raised by shareholders are adequately addressed. Any shareholder desiring to communicate with the South State board of directors may do so by writing to the Secretary of South State at P.O. Box 1030, Columbia, South Carolina 29202.

Park Sterling

If the merger is completed as currently anticipated, Park Sterling does not expect to hold an annual meeting of shareholders in 2018. However, if the merger is not completed as anticipated, Park Sterling may hold a 2018 annual meeting of shareholders.

The deadline for submission of shareholder proposals pursuant to Rule 14a-8 under the Exchange Act for inclusion in Park Sterling s proxy statement for its 2018 annual meeting of shareholders is December 14, 2017, unless the date of the 2018 annual meeting is more than 30 days before or after May 25, 2018, in which case the proposal must be received a reasonable time before Park Sterling begins to print and send its proxy materials for the 2018 annual meeting.

A shareholder proposal to be submitted at the 2018 annual meeting of shareholders but not required to be included in the proxy statement, including nominations for election to the board of directors, must comply with Article II, Section 13 of Park Sterling s bylaws. These provisions require that a shareholder give written notice to the corporate secretary at least 90 but not more than 120 days prior to the first anniversary of the preceding year s annual meeting. Consequently, any shareholder proposal to be submitted at the 2018 annual meeting of shareholders but not required to be included in the proxy statement will not be considered timely unless the notice required by Park Sterling s bylaws is delivered to Park Sterling s corporate secretary not later than February 24, 2018 and not earlier than January 25, 2018.

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If the date of the 2018 annual meeting of shareholders is moved more than 30 days before or more than 60 days after May 25, 2018, then the shareholder must deliver notice not earlier than the 120th day prior to the date of such annual meeting and not later than the later of the 90th day prior to such annual meeting or the tenth day following the day the date of such meeting is first publicly announced or disclosed. Shareholder proposals must include the information required by Park Sterling s bylaws.

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WHERE YOU CAN FIND MORE INFORMATION

South State has filed with the SEC a registration statement under the Securities Act that registers the issuance to Park Sterling shareholders of the shares of South State common stock to be issued in connection with the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes the prospectus of South State in addition to being a proxy statement for South State and Park Sterling shareholders for the South State special meeting and Park Sterling special meeting, respectively. The registration statement, including this joint proxy statement/prospectus and the attached exhibits and schedules, contains additional relevant information about South State and Park Sterling common stock.

South State (File No. 001-12669) and Park Sterling (File No. 001-35032) also file reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like South State and Park Sterling, who file electronically with the SEC. The address of the site is http://www.sec.gov. The reports and other information filed by South State with the SEC are also available at South State s website at http://www.southstatebank.com. The reports and other information filed by Park Sterling with the SEC are available at Park Sterling s website at http://www.parksterlingbank.com. The web addresses of the SEC, South State and Park Sterling are included as inactive textual references only. Except as specifically incorporated by reference into this joint proxy statement/prospectus, information on those web sites is not part of this joint proxy statement/prospectus.

The SEC allows South State and Park Sterling to incorporate by reference information in this joint proxy statement/prospectus. This means that South State and Park Sterling can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this joint proxy statement/prospectus, except for any information that is superseded by information that is included directly in this joint proxy statement/prospectus.

This joint proxy statement/prospectus incorporates by reference the documents listed below that South State and Park Sterling previously filed with the SEC. They contain important information about the companies and their financial condition.

South State SEC Filings

South State s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 24, 2017;

the information in South State s Definitive Proxy Statement on Schedule 14A for South State s 2017 annual meeting of shareholders, filed with the SEC on March 6, 2017;

South State s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017;

Current Reports on Form 8-K filed with the SEC on January 4, 2017 (as amended January 6, 2017), February 8, 2017, March 21, 2017, April 24, 2017, April 27, 2017, May 1, 2017, May 22, 2017 and July 14, 2017 (other than those portions of the documents deemed to be furnished and not filed); and

the description of South State common stock, par value $2.50 per share, contained in the Registration Statement on Form 8-A filed on March 8, 2004, as amended by Current Reports on Form 8-K filed on December 23, 2008, December 31, 2008, January 16, 2009 and October 28, 2014.

Park Sterling SEC Filings

Park Sterling s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 10, 2017;

the information in Park Sterling s Definitive Proxy Statement on Schedule 14A for Park Sterling s 2017 annual meeting of shareholders, filed with the SEC on April 13, 2017;

Park Sterling s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017; and

Current Reports on Form 8-K filed with the SEC on January 26, 2017, April 27, 2017 (two filings), May 1, 2017 and May 26, 2017 (other than those portions of the documents deemed to be furnished and not filed).

In addition, South State and Park Sterling also incorporate by reference additional documents filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act between the date of this joint proxy statement/prospectus and the later of the date of the South State special meeting and the date of the Park Sterling special meeting. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

South State has supplied all information contained or incorporated by reference in this joint proxy statement/prospectus relating to South State, as well as all pro forma financial information, and Park Sterling has supplied all information contained or incorporated by reference in this joint proxy statement/prospectus relating to Park Sterling.

Documents incorporated by reference are available from South State and Park Sterling without charge. You can obtain documents incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone from the appropriate company at the following address and phone number:

South State Corporation	**Park Sterling Corporation**
520 Gervais Street	1043 East Morehead Street, Suite 201
Columbia, South Carolina 29201	Charlotte, North Carolina 28204
Attention: Corporate Secretary	Attention: Secretary
Telephone: (800) 277-2175	Telephone: (704) 716-2134

South State shareholders and Park Sterling shareholders requesting documents must do so by [ ] to receive them before their respective special meetings. You will not be charged for any of these documents that you request. If you request any incorporated documents from South State or Park Sterling, South State and Park Sterling, respectively, will mail them to you by first-class mail, or another equally prompt means, within one business day after receiving your request.

Neither South State nor Park Sterling has authorized anyone to give any information or make any representation about the merger or the companies that is different from, or in addition to, that contained in this joint proxy statement/prospectus or in any of the materials that have been incorporated in this joint proxy statement/prospectus, as applicable. Therefore, if anyone does give you

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information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/prospectus does not extend to you. The information contained in this joint proxy statement/prospectus speaks only as of the date of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.

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Annex A

AGREEMENT AND PLAN OF MERGER

by and between

PARK STERLING CORPORATION

and

SOUTH STATE CORPORATION

Dated as of April 26, 2017

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AGREEMENT AND PLAN OF MERGER

Agreement and Plan of Merger (this *Agreement*), dated as of April 26, 2017, by and between Park Sterling Corporation, a North Carolina corporation (the *Company*), and South State Corporation, a South Carolina corporation (*Parent*). Certain capitalized terms have the meanings given to such terms in *Article IX*.

RECITALS

WHEREAS, the boards of directors of the Company and Parent have determined that it is advisable and in the best interests of their respective companies and their respective shareholders to consummate the strategic business combination transaction provided for in this Agreement, pursuant to which the Company will, on the terms and subject to the conditions set forth in this Agreement, merge with and into Parent (the *Merger*), with Parent as the surviving corporation in the Merger (hereinafter sometimes referred to in such capacity as the *Surviving Corporation*);

WHEREAS, the boards of directors of the Company and Parent have adopted this Agreement and approved the transactions contemplated hereby, including the Merger and the Bank Merger (collectively, the *Transactions*), and the board of directors of each of the Company and Parent has resolved to recommend that the shareholders of each of the Company and Parent, respectively, approve this Agreement and the Transactions, including the Merger;

WHEREAS, for federal income Tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the *Code*), and this Agreement is intended to be and is adopted as a plan of reorganization for purposes of Sections 354 and 361 of the Code;

WHEREAS, as a condition and inducement to Parent s willingness to enter into this Agreement, certain shareholders of the Company have simultaneously herewith entered into Voting Agreements substantially in the form attached hereto as *Exhibit A* (each, a *Voting Agreement*, and collectively, the *Voting Agreements*) in connection with the Merger; and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, and for other good and valuable consideration, and intending to be legally bound, the parties agree as follows:

ARTICLE I
THE MERGER

1.1 *The Merger.* Subject to the terms and conditions of this Agreement, in accordance with the North Carolina Business Corporation Act (the *NCBCA*), and the South Carolina Business Corporation Act of 1988, as amended (the *SCBCA*), at the Effective Time, the Company shall merge with and into Parent. Parent shall be the Surviving Corporation in the Merger and shall continue its corporate existence under the laws of the State of South Carolina. Upon consummation of the Merger, the separate corporate existence of the Company shall cease.

1.2 *Effective Time.* The Merger shall become effective as of the date and time specified in the Articles of Merger filed with the Secretary of State of the State of North Carolina (the *North Carolina Secretary*) and the Articles of Merger filed with the Secretary of State of the State of South Carolina (the *South Carolina Secretary*) (collectively, the *Articles of Merger*). The term *Effective Time* shall be the date and time when the Merger becomes effective as set forth in the Articles of Merger.

1.3 *Closing.* On the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the *Closing*) shall take place at 10:00 a.m., New York City time, at the offices of Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, New York, on a date no later than three (3) Business Days after the satisfaction or waiver (subject to applicable Law) of the latest to occur of the conditions set forth in *Article VII* (other than those conditions that by their nature are to be satisfied or waived at the Closing, but subject to the satisfaction or waiver of such conditions and the continued satisfaction or waiver of all other conditions set forth in *Article VII*), unless another date, time or place is agreed to in writing by the Company and Parent. The date on which the Closing occurs is referred to in this Agreement as the *Closing Date*.

1.4 *Articles of Incorporation and Bylaws of the Surviving Corporation.* At the Effective Time, the articles of incorporation and bylaws of Parent in effect immediately prior to the Effective Time shall be the articles of incorporation and bylaws of the Surviving Corporation until thereafter amended in accordance with applicable Law.

1.5 *Tax Consequences.* It is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute, and is hereby adopted as, a plan of reorganization for purposes of Sections 354 and 361 of the Code. From and after the date of this Agreement and until the Closing Date, each party shall use its reasonable best efforts to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code.

1.6 *Effects of the Merger.* At and after the Effective Time, the Merger shall have the effects set forth in this Agreement and in the relevant provisions of the NCBCA and the SCBCA. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of the Company shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company shall become the debts, liabilities and duties of the Surviving Corporation.

1.7 *Parent Common Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of Parent, the Company or the holder of any of the following securities, each share of the common stock, par value $2.50 per share, of Parent (*Parent Common Stock*) issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding share of common stock of the Surviving Corporation, and shall not be affected by the Merger.

1.8 *Conversion of Company Common Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of Parent, the Company or the holder of any of the following securities:

(a) Each share of the common stock, par value $1.00 per share, of the Company (*Company Common Stock*) issued and outstanding immediately prior to the Effective Time (including each share of Company Common Stock that was formerly a Company Restricted Stock Award), except for any Cancelled Shares, shall be converted into the right to receive 0.14 shares (the *Exchange Ratio*), without interest and subject to adjustment in accordance with *Section 1.8(c)*, of validly issued, fully paid and nonassessable shares of Parent Common Stock (the *Merger Consideration*). Upon the Effective Time, pursuant to *Section 1.7*, the Parent Common Stock, including the shares issued to former holders of Company Common Stock as Merger Consideration, shall be the common stock of the Surviving Corporation.

(b) All shares of Company Common Stock issued and outstanding immediately prior to the Effective Time that are owned directly by Parent or the Company (in each case, other than shares of Company Common Stock (i) held in trust accounts, managed accounts, mutual funds and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties and (ii) held, directly or indirectly, by Parent or the Company in respect of a debt previously contracted) shall be cancelled and shall cease to exist, and no Merger Consideration or other consideration shall be delivered in exchange therefor (such cancelled shares, the *Cancelled Shares*). *Company Equity Award* means a Company Option and/or a Company Restricted Stock Award.

(c) If, prior to the Effective Time, the outstanding shares of Parent Common Stock or Company Common Stock shall have been increased, decreased or changed into or exchanged for a

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different number or kind of shares or securities, in any such case as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar change in capitalization, or there shall be any extraordinary dividend or distribution paid, an appropriate and proportionate adjustment shall be made to the Merger Consideration to give holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event; *provided*, that nothing in this sentence shall be construed to permit Parent or the Company to take any action with respect to its securities that is prohibited by the terms of this Agreement.

1.9 *Treatment of Company Equity Awards.*

(a) *Company Options.* At the Effective Time, each option granted by the Company to purchase shares of Company Common Stock (a *Company Option*) that is outstanding as of immediately prior to the Effective Time, whether vested or unvested, shall be cancelled by virtue of the Merger and without any action on the part of the holder thereof, in consideration for the right to receive, as promptly as practicable (but no later than fifteen (15) calendar days) following the Effective Time, a cash payment (without interest and less applicable withholding Taxes) with respect thereto equal to the product of (i) the number of shares of Company Common Stock subject to such Company Option as of immediately prior to the Effective Time and (ii) the excess, if any, of the Cash Consideration (as defined below) over the exercise price per share of Company Common Stock subject to such Company Option as of immediately prior to the Effective Time. For the avoidance of doubt, any Company Option with an exercise price equal to or in excess of the Cash Consideration shall be cancelled by virtue of the Merger without any action on the part of the holder thereof and without any payment to the holder thereof. For purposes of this Agreement, the term *Cash Consideration* shall mean the product determined by multiplying (x) the Exchange Ratio by (y) the Parent Share Value.

(b) *Company Restricted Stock Awards.* At the Effective Time, each award in respect of a share of Company Common Stock subject to vesting, repurchase or other lapse restriction granted under a Company Equity Plan (each, a *Company Restricted Stock Award*) that is outstanding immediately prior to the Effective Time shall vest in full and the restrictions thereon shall lapse, and, as of the Effective Time, each share of Company Common Stock that was formerly a Company Restricted Stock Award shall be entitled to receive the Merger Consideration (without interest and less applicable withholding Taxes) as promptly as practicable (but no later than fifteen (15) calendar days) following the Effective Time. For purposes of clarity, any accrued but unpaid dividends with respect to any Company Restricted Stock Award shall be paid at the same time as the Merger Consideration is paid with respect to such former Company Restricted Stock Awards, as described in the immediately preceding sentence.

(c) *Corporate Actions.* Prior to the Effective Time, the board of directors of the Company or the appropriate committee thereof shall adopt resolutions providing for the treatment of the Company Options and Company Restricted Stock Awards contemplated by this *Section 1.9.*

(d) *Parent Actions.* Parent may elect to process through its payroll (rather than the procedures contemplated by *Article II*) any payments of cash or Merger Consideration contemplated by this *Section 1.9* to holders of Company Equity Awards.

1.10 *Bank Merger.* Immediately following the Effective Time, Park Sterling Bank, a North Carolina-chartered commercial bank and a direct, wholly owned Subsidiary of the Company (*Park Sterling Bank*), will merge (the *Bank Merger*) with and into South State Bank, a South Carolina banking corporation and a direct, wholly owned Subsidiary of Parent (*Parent Bank*). Parent Bank shall be the surviving entity in the Bank Merger and, following the Bank Merger, the separate corporate existence of Park Sterling Bank shall cease. The parties agree that, subject to the receipt of Regulatory Approvals, the Bank Merger shall become effective immediately after the Effective Time.

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The Bank Merger shall be implemented pursuant to an agreement and plan of merger, in a form to be specified by Parent and reasonably acceptable to the Company (the *Bank Merger Agreement*). In order to obtain the necessary Regulatory Approvals for the Bank Merger, the parties shall cause the following to be accomplished as promptly as practicable: (x) the Company shall cause Park Sterling Bank to approve the Bank Merger Agreement; the Company, as the sole shareholder of Park Sterling Bank, shall approve the Bank Merger Agreement; and the Company shall cause Park Sterling Bank to duly execute and deliver to Parent the Bank Merger Agreement; and (y) Parent shall cause Parent Bank to approve the Bank Merger Agreement; Parent, as the sole shareholder of Parent Bank, shall approve the Bank Merger Agreement; and Parent shall cause Parent Bank to duly execute and deliver to the Company the Bank Merger Agreement. Prior to the Effective Time, the Company shall cause Park Sterling Bank, and Parent shall cause Parent Bank, to execute such articles of merger and any other documents and certificates as are necessary to make the Bank Merger effective (*Bank Merger Certificates*) immediately after the Effective Time.

ARTICLE II
DELIVERY OF MERGER CONSIDERATION

2.1 *Deposit of Merger Consideration.* At or prior to the Effective Time, Parent shall deposit, or shall cause to be deposited, with a bank or trust company mutually agreeable to Parent and the Company (the *Exchange Agent*), pursuant to an agreement entered into prior to the Closing (the *Exchange Agent Agreement*), for the benefit of the holders of record of shares of Company Common Stock converted into the right to receive the Merger Consideration, for exchange in accordance with this *Article II*, (a) the number of shares of Parent Common Stock sufficient to deliver the aggregate Merger Consideration and (b) any cash payable in lieu of fractional shares pursuant to *Section 2.2(f)* (such shares of Parent Common Stock and cash described in the foregoing clauses (a) and (b), together with any dividends or distributions with respect thereto (after giving effect to *Section 6.14*), the *Exchange Fund*), and Parent shall instruct the Exchange Agent to timely deliver the Merger Consideration.

2.2 *Delivery of Merger Consideration.*

(a) As soon as reasonably practicable after the Effective Time, Parent shall direct the Exchange Agent to mail to each holder of record immediately prior to the Effective Time (each, a *Holder*, and collectively, *Holders*) of certificates representing shares of Company Common Stock (each, a *Certificate*) and uncertificated shares of Common Company Stock represented by book-entry form (*Book-Entry Shares*) that have been converted into the right to receive the Merger Consideration pursuant to *Section 1.8* and (subject to *Section 1.9(d)*) *Section 1.9*, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to Certificate(s) or Book-Entry Share(s) shall pass only upon delivery of Certificate(s) (or affidavits of loss in lieu of such Certificate(s)) or transfer of such Book-Entry Share(s) to the Exchange Agent and shall be substantially in such form and have such other provisions as shall be determined by the Exchange Agent and Parent and reasonably acceptable to the Company) (the *Letter of Transmittal*) and (ii) instructions for use in surrendering Certificate(s) or Book-Entry Share(s) in exchange for the Merger Consideration and any cash in lieu of a fractional share and any dividends or distributions to which such Holder is entitled pursuant to *Section 2.2(c)*.

(b) Upon proper surrender to the Exchange Agent of its Certificate(s) or transfer of its Book-Entry Share(s), accompanied by a properly completed Letter of Transmittal, a Holder of Company Common Stock shall be entitled to receive, promptly after the Effective Time, the Merger Consideration in respect of the shares of Company Common Stock represented by its Certificate(s) or Book-Entry Share(s), as applicable. Until so surrendered, each such Certificate or Book-Entry Share shall represent after the Effective Time, for all purposes, only the right to receive, without interest, the applicable Merger Consideration upon surrender of such Certificate or Book-Entry Share in accordance with this *Article II*, together with any cash in lieu of a fractional share and any dividends or distributions to which such Holder is entitled pursuant to *Section 2.2(c)*.

(c) No dividends or other distributions declared with respect to Parent Common Stock shall be paid to the Holder of any unsurrendered Certificate or untransferred Book-Entry Share until the Holder thereof shall surrender such Certificate or transfer such Book-Entry Share in accordance with this *Article II*. Subject to the effect of applicable abandoned property, escheat or similar Laws, following surrender of any such Certificate or transfer of such Book-Entry Share in accordance with this *Article II*, the Holder thereof shall be entitled to receive, without interest, the amount of any dividends or other distributions with a record date after the Effective Time that theretofore had become payable with respect to the whole shares of Parent Common Stock to which the shares of Company Common Stock represented by such Certificate or Book-Entry Share have been converted into the right to receive and not paid.

(d) If the Merger Consideration is to be delivered in exchange for a Certificate representing Company Common Stock to a Person other than the Person in whose name the Certificate so surrendered is registered in the stock transfer records of the Company, it shall be a condition to such exchange that (i) the Certificate so surrendered shall be properly endorsed or otherwise be in proper form for transfer and (ii) the Person requesting such payment or issuance shall pay any transfer or other similar Taxes required by reason of the payment or issuance to a Person other than the registered Holder of the Certificate or establish to the reasonable satisfaction of Parent that the Tax has been paid or is not applicable. The Exchange Agent (or, subsequent to the first anniversary of the Effective Time, Parent) shall be entitled to deduct and withhold from any portion of the Merger Consideration such amounts as the Exchange Agent or Parent, as the case may be, is required to deduct and withhold under the Code, or any provision of state, local or foreign Tax Law, with respect to the making of such payment. To the extent that the amounts are so withheld by the Exchange Agent or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Holder of shares of Company Common Stock in respect of whom such deduction and withholding was made by the Exchange Agent or Parent, as the case may be.

(e) After the Effective Time, there shall be no transfers on the stock transfer books of the Company of any shares of Company Common Stock that were issued and outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates representing such shares or Book-Entry Shares are presented for transfer to the Exchange Agent, they shall be cancelled and exchanged for the Merger Consideration, cash in lieu of a fractional share and any dividends or distributions to which such Holder is entitled pursuant to *Section 2.2(c)*, in accordance with the procedures set forth in this *Article II*.

(f) Notwithstanding anything to the contrary contained in this Agreement, no certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender of Certificates or transfer of Book-Entry Shares for exchange, no dividend or distribution with respect to Parent Common Stock shall be payable on or with respect to any fractional share, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a shareholder of Parent. In lieu of the issuance of any such fractional share, Parent shall pay to each Holder of Company Common Stock who otherwise would be entitled to receive such fractional share an amount in cash (rounded to the nearest whole cent) determined by multiplying (i) the Parent Share Value by (ii) the fraction of a share (after taking into account all shares of Company Common Stock held by such Holder at the Effective Time and rounded to the nearest one ten-thousandth when expressed in decimal form) of Parent Common Stock to which such Holder would otherwise be entitled to receive pursuant to *Section 1.8*. The parties acknowledge that payment of such cash consideration in lieu of issuing fractional shares was not separately bargained-for consideration, but merely represents a mechanical rounding off for purposes of avoiding the expense and inconvenience that would otherwise be caused by the issuance of fractional shares.

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(g) Any portion of the Exchange Fund that remains unclaimed by the Holders of Company Common Stock as of the first anniversary of the Effective Time shall be returned to the Surviving Corporation. Any former Holders of Company Common Stock who have not theretofore complied with this *Article II* shall thereafter look only to the Surviving Corporation with respect to the Merger Consideration, any cash in lieu of fractional shares and any unpaid dividends and distributions on the Parent Common Stock deliverable in respect of each former share of Company Common Stock such Holder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Any Merger Consideration remaining unclaimed as of a date which is immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity shall, to the extent permitted by applicable Law, become the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto. Notwithstanding the foregoing, none of Parent, the Company, the Surviving Corporation, the Exchange Agent or any other Person shall be liable to any former holder of shares of Company Common Stock for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar Laws.

(h) In the event that any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if reasonably required by Parent or the Exchange Agent, the posting by such Person of a bond in such amount as Parent may determine is reasonably necessary as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration, cash in lieu of fractional shares and any dividends or distributions to which such Holder is entitled pursuant to *Section 2.2(c)* deliverable in respect thereof pursuant to this Agreement.

(i) Subject to the terms of this Agreement and the Exchange Agent Agreement, Parent, in the exercise of its reasonable discretion, shall have the right to make all determinations, not inconsistent with the terms of this Agreement, governing (i) the validity of any Letter of Transmittal and compliance by any Holder of Company Common Stock with the procedures and instructions set forth herein and therein, (ii) the issuance and delivery of the whole number of shares of the Parent Common Stock portion of the Merger Consideration, into which shares of Company Common Stock are converted in the Merger and (iii) the method of payment of cash in lieu of fractional shares of Parent Common Stock.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as (a) disclosed in writing in the correspondingly enumerated section or subsection of the disclosure schedule of the Company delivered herewith (the *Company Disclosure Schedules*) (*provided*, that each exception set forth in the Company Disclosure Schedules shall be deemed to qualify any other representation and warranty to the extent that the relevance of such exception to such other representation and warranty is reasonably apparent on the face of the disclosure (notwithstanding the absence of a specific cross-reference)) or (b) disclosed in any Company SEC Documents publicly filed prior to the date hereof (but excluding any disclosures set forth in any risk factors, forward-looking statements or market risk sections or any other statements that are similarly non-specific or cautionary, predictive or forward-looking in nature), the Company hereby represents and warrants to Parent as follows:

3.1 *Corporate Organization.*

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of North Carolina and is a bank holding company duly registered under the Bank Holding Company Act of 1956, as amended (*BHC Act*) that has not elected to be treated as a financial holding company under the BHC Act. Each of the Subsidiaries of the Company is an entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept) under the Laws of the jurisdiction of its organization. The deposit accounts of Park Sterling Bank are insured by the Federal Deposit Insurance Corporation (the *FDIC*) through the Deposit Insurance Fund to the fullest extent permitted by Law, all premiums and assessments required to be paid in connection therewith have been paid when due and no proceedings for the termination of such insurance are pending or, to the Knowledge of the Company, threatened. Park Sterling Bank is a member in good standing of the Federal Home Loan Bank of Atlanta and owns the requisite amount of stock therein. The Company and each of its Subsidiaries has the requisite corporate power and authority to own or lease and operate all of its properties and assets and to carry on its business as it is now being conducted. The Company and each of its Subsidiaries is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company. True and complete copies of the Articles of Incorporation of the Company, as amended (the *Company Articles of Incorporation*), and the Bylaws of the Company, as amended (the *Company Bylaws*), and the articles or certificate of incorporation and bylaws (or comparable organizational documents) of each Company Subsidiary, in each case as in effect as of the date of this Agreement, have previously been furnished or made available to Parent. Neither the Company nor any of its Subsidiaries is in violation of any of the provisions of the Company Articles of Incorporation or the Company Bylaws or such articles or certificate of incorporation and bylaws (or comparable organizational documents) of such Company Subsidiary, as applicable.

(b) *Section 3.1(b)* of the Company Disclosure Schedules sets forth a complete and correct list of all the Subsidiaries of the Company (each a *Company Subsidiary* and collectively the *Company Subsidiaries*). *Section 3.1(b)* of the Company Disclosure Schedules also sets forth a list identifying the owner and percentage ownership interest of all outstanding capital stock or other equity securities of each such Subsidiary, options, warrants, stock appreciation rights, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, shares of any capital stock or other equity securities of such Subsidiary, or Contracts by which such Subsidiary may become bound to issue additional shares of its capital stock or other equity securities, or options, warrants, scrip, rights to subscribe to, calls or commitments for any shares of its capital stock or other equity securities and the identity of the parties to any such agreements or arrangements. All of the outstanding shares of capital stock or other securities evidencing ownership of the Company Subsidiaries are validly issued, fully paid and nonassessable and such shares or other securities are owned by the Company or another of its wholly owned Subsidiaries free and clear of any lien, claim, charge, option, encumbrance, mortgage, pledge or security interest or other restriction of any kind (*Lien*) with respect thereto. Except for its interests in the Company Subsidiaries and as set forth in *Section 3.1(b)* of the Company Disclosure Schedules, the Company does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any Person. As used in this Agreement, the term *Subsidiary* when used with respect to any Person, means any corporation, partnership, limited liability company, bank, trust, association, joint venture or other business entity of which (i) such first Person directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions or (ii) such first Person is or directly or indirectly has the power to appoint a general partner, manager or managing member (for the avoidance of doubt, with respect to the Company, the statutory

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business trusts related to the trust preferred securities of the Company (the *Trust Preferred Securities*) are Subsidiaries of the Company).

3.2 *Capitalization.*

(a) The authorized capital stock of the Company consists of 200,000,000 shares of Company Common Stock and 5,000,000 shares of Preferred Stock, no par value. As of the date of this Agreement, there are (i) 53,221,201 shares of Company Common Stock issued and outstanding (including 500,071 shares of Company Common Stock outstanding in respect of Company Restricted Stock Awards), (ii) 1,610,922 shares of Company Common Stock reserved for issuance under the Company Equity Plans, of which amount 1,294,394 shares of Company Common Stock were issuable upon the exercise of outstanding Company Options, (iii) no shares of Company Common Stock held in treasury and (iv) no other shares of capital stock or other equity or voting securities of the Company issued, designated, reserved for issuance or outstanding. All of the issued and outstanding shares of Company Common Stock have been duly authorized and validly issued, and are fully paid, nonassessable and free of preemptive rights. No bonds, debentures, notes or other indebtedness that have the right to vote on any matters on which shareholders of the Company may vote (*Voting Debt*) are issued or outstanding. Except for the Trust Preferred Securities or related debentures issued by it or any of its Affiliates set forth in *Section 3.2(a)* of the Company Disclosure Schedules and the First Capital Note, as of the date of this Agreement, no trust preferred or subordinated debt securities of the Company are issued or outstanding. Except for the Company Equity Awards outstanding as of the date hereof, and as set forth on *Section 3.2(a)* of the Company Disclosure Schedules, there are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements of any character relating to the issued or unissued capital stock or other securities of the Company, or otherwise obligating the Company to issue, transfer, sell, purchase, redeem or otherwise acquire, or to register under the Securities Act of 1933, as amended, and the rules and regulations of the Securities and Exchange Commission (*SEC*) thereunder (the *Securities Act*), any such securities.

(b) Except for the Voting Agreements and proxies submitted by the Company s shareholders with respect to matters for which proxies were solicited by means of the Company s proxy statement dated April 13, 2017 in connection with the Company s annual shareholder meeting scheduled to be held on May 25, 2017, there are no voting trusts, shareholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the Company Common Stock or other equity interests of the Company. As of the date of this Agreement, the Company does not have in effect a poison pill or similar shareholder rights plan. *Section 3.2(a)* of the Company Disclosure Schedules sets forth a true, correct and complete list of all Company Equity Awards outstanding as of the date of this Agreement, specifying, on a holder-by-holder basis, (i) the name of each holder, (ii) the number of shares subject to each such Company Equity Award, (iii) the grant date of each such Company Equity Award, (iv) the vesting schedule of each such Company Equity Award, (v) the exercise price for each such Company Equity Award (if applicable), (vi) the expiration date of each such Company Equity Award (if applicable), (vii) whether such Company Equity Award is intended to qualify as an incentive stock option under Section 422 of the Code and (viii) the Company Equity Plan under which the Company Equity Award was granted. With respect to each grant of Company Equity Awards, (i) each such grant was made in accordance with the terms of the applicable Company Equity Plan, the Exchange Act and all other applicable Laws, including the rules of the NASDAQ Global Select Market (the *NASDAQ*), and (ii) each such grant was properly accounted for in accordance with GAAP in the financial statements (including the related notes) of the Company and disclosed in the Company SEC Documents in accordance with the Exchange Act and all other applicable Laws. Other than the Company Equity Awards, no equity-based awards (including any cash awards where

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the amount of payment is determined in whole or in part based on the price of any capital stock of the Company or any of its Subsidiaries) are outstanding. The Company has not elected to defer interest payments with respect to any Trust Preferred Securities or related debentures issued by it or any of its Affiliates.

3.3 *Authority; No Violation.*

(a) The Company has full corporate power and authority and is duly authorized to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery of this Agreement and the consummation of the Transactions, including the Merger, have been duly, validly and unanimously adopted by the board of directors of the Company, the board of directors of the Company has resolved to recommend to the Company s shareholders the approval of this Agreement and the Transactions, and all necessary corporate action in respect thereof on the part of the Company has been taken, subject to the approval by the affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock entitled to vote at the Company Shareholders Meeting (the *Company Shareholder Approval*) and the adoption and approval of the Bank Merger Agreement by the board of directors of Park Sterling Bank and the Company as its sole shareholder. This Agreement has been duly and validly executed and delivered by the Company. Assuming due authorization, execution and delivery by Parent, this Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforcement may be limited by (i) the effect of bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally or (ii) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) Neither the execution and delivery of this Agreement by the Company nor the consummation by the Company of the Transactions, nor compliance by the Company with any of the terms or provisions hereof, will (i) violate any provision of the Company Articles of Incorporation or the Company Bylaws, or the articles or certificate of incorporation or bylaws (or similar organizational documents) of any Company Subsidiary, or (ii) assuming that the consents and approvals referred to in *Section 3.4* are duly obtained and/or made, (A) violate any Law, judgment, order, writ, decree or injunction applicable to the Company or any of its Subsidiaries, or any of their respective properties or assets, or (B) except as set forth in *Section 3.4* of the Company Disclosure Schedules, violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under or in any payment conditioned, in whole or in part, on a change of control of the Company or approval or consummation of transactions of the type contemplated hereby, accelerate the performance required by or rights or obligations under, or result in the creation of any Lien upon any of the respective properties or assets of the Company or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, Contract or other instrument or obligation to which the Company or any of its Subsidiaries is a party, or by which they or any of their respective properties, assets or business activities may be bound or affected, except, in the case of clause (ii) above, for such violations, conflicts, breaches, defaults or the loss of benefits which would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company.

3.4 *Consents and Approvals.* Except for (a) the filing of any required applications, filings or notices with the Board of Governors of the Federal Reserve System (the *Federal Reserve*) under the BHC Act and approval of such applications, filings and notices, (b) the filing of applications, filings and notices, as applicable, with the FDIC, the North Carolina Commissioner of Banks, the South Carolina

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State Board of Financial Institutions, the South Carolina Office of the Commissioner of Banking and, to the extent required, the Virginia State Corporation Commission, and approval of or non-objection to such applications, filings and notices, (c) compliance with any applicable requirements of the Securities and Exchange Act of 1934, as amended, and the rules and regulations of the SEC thereunder (the *Exchange Act*) and the Securities Act, including the filing with the SEC of (i) a joint proxy statement/prospectus in definitive form relating to the Company Shareholders Meeting and the Parent Shareholders Meeting (including any amendments and supplements thereto, the *Joint Proxy Statement*) and (ii) a registration statement on Form S-4 in which the Joint Proxy Statement will be included as a prospectus, to be filed by Parent in connection with the Transactions (including any amendments and supplements thereto, the *Form S-4*) and declaration of effectiveness of the Form S-4, (d) the filing of the Articles of Merger with the North Carolina Secretary and the South Carolina Secretary pursuant to the NCBCA and the SCBCA, respectively, (e) the filing of the Bank Merger Certificates, (f) such filings and approvals as are required to be made or obtained under the securities or Blue Sky laws of various states in connection with the issuance of the shares of Parent Common Stock pursuant to this Agreement, (g) approval of listing of such Parent Common Stock on the NASDAQ and (h) to the extent required, the filing of any notices or other filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the *HSR Act*), no notices to, consents or approvals or non-objections of, waivers or authorizations by, or applications, filings or registrations with any foreign, federal, state or local court, administrative agency, arbitrator or commission or other governmental, prosecutorial, regulatory authority or instrumentality or SRO (each, a *Governmental Entity*) are required to be made or obtained by the Company or any of its Subsidiaries in connection (i) with the execution and delivery by the Company of this Agreement or (ii) the consummation by the Company of the Transactions, except for such consents, approvals, authorizations, filings or registrations that would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company. As used in this Agreement, *SRO* means (i) any self regulatory organization as defined in Section 3(a)(26) of the Exchange Act and (ii) any other United States or foreign securities exchange, futures exchange, commodities exchange or contract market. The only material third-party consents necessary in connection with (A) the execution and delivery by the Company of this Agreement and (B) the consummation of the Transactions not referenced above are set forth in *Section 3.4* of the Company Disclosure Schedules.

3.5 *Reports.*

(a) The Company and each of its Subsidiaries have timely filed (or furnished, as applicable) all reports, forms, correspondence, registrations and statements (together with any amendments required to be made with respect thereto, *Reports*), that they were required to file (or furnish, as applicable) since January 1, 2014 with (i) the North Carolina Secretary or the North Carolina Commissioner of Banks, (ii) the Federal Reserve, (iii) the FDIC and (iv) any other federal, state or foreign governmental or regulatory or self-regulatory agency or authority having jurisdiction over the Company, Parent and their respective Subsidiaries (clauses (i) - (iv), collectively, the *Regulatory Agencies*), and all other Reports required to be filed (or furnished, as applicable) by them since January 1, 2014, including any Report required to be filed (or furnished, as applicable) pursuant to the Laws of the United States, any state or any Regulatory Agency, and have paid all fees and assessments due and payable in connection therewith, except where the failure to file (or furnish, as applicable) such Report or to pay such fees and assessments, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. Any such Report regarding the Company or any of its Subsidiaries filed with or otherwise submitted to any Regulatory Agency complied in all material respects with relevant legal requirements, including as to content. Except for normal examinations conducted by a Regulatory Agency in the ordinary course of the business of the Company and its Subsidiaries, there is no pending proceeding before, or, to the Knowledge of the Company, examination or investigation by, any Regulatory Agency into the business or operations of the Company or any of its Subsidiaries.

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There are no unresolved violations, criticisms or exceptions by any Regulatory Agency with respect to any Report relating to any examinations or inspections of the Company or any of its Subsidiaries, except for any such violations, criticisms or exceptions that would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on the Company.

(b) Except as set forth in *Section 3.5(b)* of the Company Disclosure Schedules, the Company has timely filed with or furnished to, as applicable, the SEC all registration statements, prospectuses, reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated by reference) required to be filed or furnished by it or any of its Subsidiaries pursuant to the Securities Act or the Exchange Act, as the case may be, with the SEC since January 1, 2014 (the *Company SEC Documents*). As of their respective filing dates (or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing prior to the date hereof), each of the Company SEC Documents complied as to form in all material respects with the applicable requirements of the Securities Act and Exchange Act applicable to such Company SEC Documents. None of the Company SEC Documents, including any financial statements, schedules or exhibits included or incorporated by reference therein at the time they were filed or furnished (or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing prior to the date hereof), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the Company s Subsidiaries is required to file with or furnish to the SEC any forms, reports or other documents.

3.6 *Financial Statements.*

(a) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Company SEC Documents (the *Company Financial Statements*): (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto as of their respective dates; (ii) was prepared in accordance with United States generally accepted accounting principles (*GAAP*) applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto and, in the case of unaudited interim financial statements, as may be permitted by the SEC for Quarterly Reports on Form 10-Q); and (iii) fairly presented in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries at the respective dates thereof and the consolidated results of the Company s operations and cash flows for the periods indicated therein, subject, in the case of unaudited interim financial statements, to normal and year-end audit adjustments as permitted by GAAP and the applicable rules and regulations of the SEC.

(b) The Company and each of its Subsidiaries has established and maintains a system of internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that is sufficient to provide reasonable assurance (i) regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, (ii) that receipts and expenditures of the Company and its Subsidiaries are being made only in accordance with authorizations of management and the board of directors of the Company, and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of the Company s and its Subsidiaries assets that could have a material effect on the Company Financial Statements.

(c) The Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are designed to ensure that all information (both financial and non-financial) required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such information is accumulated and

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communicated to the Company s management as appropriate to allow timely decisions regarding required disclosure and to make the certifications of the principal executive officer and principal financial officer of the Company required under the Exchange Act with respect to such reports. The Company has disclosed, based on its most recent evaluation of its disclosure controls and procedures prior to the date of this Agreement, to the Company s auditors and the audit committee of the board of directors of the Company (i) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that could adversely affect in any material respect the Company s ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company s internal controls over financial reporting. For purposes of this Agreement, the terms significant deficiency and material weakness shall have the meaning assigned to them in Public Company Accounting Oversight Board Auditing Standard 2, as in effect on the date of this Agreement.

(d) Each of the principal executive officer and the principal financial officer of the Company (or each former principal executive officer and each former principal financial officer of the Company, as applicable) has made all certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (including the rules and regulations promulgated thereunder, the *Sarbanes-Oxley Act*) with respect to the Company SEC Documents, and the statements contained in such certifications are true and accurate in all material respects. For purposes of this Agreement, principal executive officer and principal financial officer shall have the meanings given to such terms in the Sarbanes-Oxley Act. Except as set forth on *Section 3.6(d)* of the Company Disclosure Schedules, neither the Company nor any of its Subsidiaries has outstanding (nor has arranged or modified since the enactment of the Sarbanes-Oxley Act) any extensions of credit (within the meaning of Section 402 of the Sarbanes-Oxley Act) to directors or executive officers (as defined in Rule 3b-7 under the Exchange Act) of the Company or any of its Subsidiaries. The Company is otherwise in compliance with all applicable provisions of the Sarbanes-Oxley Act, except for any non-compliance that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

(e) The books and records kept by the Company and its Subsidiaries are in all material respects complete and accurate and have been maintained in the ordinary course of business and in accordance with applicable Laws and accounting requirements. The Company Financial Statements have been prepared from, and are in accordance with, the books and records of the Company and its Subsidiaries.

(f) Neither the Company nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance-sheet partnership or any similar Contract (including any Contract relating to any transaction or relationship between or among the Company and any of its Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any off-balance-sheet arrangement), where the result, purpose or intended effect of such Contract is to avoid disclosure of any material transaction involving, or material liabilities of, the Company in the Company Financial Statements or any of its Subsidiaries in such Subsidiary s financial statements.

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3.7 *Undisclosed Liabilities.* The audited consolidated balance sheet of the Company dated as of December 31, 2016 (the *Balance Sheet Date*) is hereinafter referred to as the *Company Balance Sheet*. Except as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on the Company, neither the Company nor any of its Subsidiaries has any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), whether or not the same would have been required to be reflected on the Company Balance Sheet if it had existed on the Balance Sheet Date, except for those liabilities that (i) are reflected or reserved against on the Company Balance Sheet (including in the notes thereto), (ii) were incurred since the Balance Sheet Date in the ordinary course of business consistent with past practice or (iii) are incurred in connection with the Transactions.

3.8 *Absence of Certain Changes or Events.*

(a) Since December 31, 2016, there has not been any fact, change, circumstance, event, occurrence, condition or development that has had or would reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect on the Company.

(b) Since December 31, 2016, except with respect to the Transactions or as required or permitted by this Agreement, the Company and its Subsidiaries have carried on their respective businesses in all material respects in the ordinary course consistent with their past practices.

3.9 *Legal Proceedings.*

(a) Except as set forth in *Section 3.9* of the Company Disclosure Schedules, neither the Company nor any of its Subsidiaries is a party to or the subject of any, and there are no outstanding or pending or, to the Knowledge of the Company, threatened legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature against the Company or any of its Subsidiaries that would, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company.

(b) Except as otherwise disclosed therein, each matter set forth on *Section 3.9* of the Company Disclosure Schedules is insured under insurance policies set forth on *Section 3.19* of the Company Disclosure Schedules with reputable insurers in such amounts as constitute reasonably adequate coverage with respect to each such matter.

(c) There is no material injunction, order, judgment, decree or regulatory restriction (other than regulatory restrictions of general application that apply to similarly situated companies) imposed upon the Company, any of its Subsidiaries or the assets of the Company or any of its Subsidiaries (or that, upon consummation of the Merger, would apply to the Surviving Corporation or any of its affiliates).

3.10 *Taxes and Tax Returns.*

(a) The Company and each of its Subsidiaries has duly and timely filed or caused to be filed (including all applicable extensions) (i) all income Tax Returns and (ii) all other Tax Returns where the failure to file such Tax Returns would be reasonably expected to result in a Material Adverse Effect on the Company, in each case, including all such federal, state, foreign and local Tax Returns required to be filed by it or with respect to it (all such Tax Returns being accurate and complete in all material respects) and has duly and timely paid or caused to be paid on its behalf all Taxes required to be paid by it (whether or not shown to be due on such Tax Returns) other than Taxes being contested in good faith for which adequate reserves have been established on the financial statements of the Company in accordance with GAAP. Through the date hereof, the Company and its Subsidiaries do not have any material liability for Taxes in excess of the amount reserved or provided for on their financial statements. The Company and each of its Subsidiaries

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have made adequate provision on the Company Balance Sheet for all material accrued Taxes not yet due and payable.

(b) No jurisdiction where the Company and its Subsidiaries do not file a Tax Return has made a claim in writing that any of the Company and its Subsidiaries is required to file a Tax Return in such jurisdiction.

(c) No Liens for Taxes exist with respect to any of the assets of the Company and its Subsidiaries, except for statutory Liens for Taxes not yet due and payable.

(d) There are no audits, examinations, disputes or proceedings pending or threatened in writing with respect to, or claims or assessments asserted or threatened in writing for, any Taxes of the Company or any of its Subsidiaries.

(e) There is no waiver or extension of the application of any statute of limitations of any jurisdiction regarding the assessment or collection of any Tax with respect to the Company and any of its Subsidiaries, which waiver or extension is in effect.

(f) All material Taxes required to be withheld, collected or deposited by or with respect to the Company and each of its Subsidiaries have been timely withheld, collected or deposited, as the case may be, and to the extent required by applicable Law, have been paid to the relevant Governmental Entity. The Company and each of its Subsidiaries have complied in all material respects with all information reporting and backup withholding provisions of applicable Law, including the collection, review and retention of any required withholding certificates or comparable documents (including with respect to deposits) and any notice received pursuant to Section 3406(a)(1)(B) or (C) of the Code.

(g) Neither the Company nor any of its Subsidiaries has participated in any reportable transaction, as defined in Treasury Regulation Section 1.6011-4(b)(1).

(h) Neither the Company nor any of its Subsidiaries is a party to, is bound by, or has any obligation under, any Tax sharing, allocation, indemnity or similar agreements or arrangement that obligates it to make any payment computed by reference to the Taxes, taxable income or taxable losses of any other Person (except for agreements not primarily relating to Taxes and entered in the ordinary course of business of the Company to indemnify lenders or security holders in respect of Taxes).

(i) Neither the Company nor any of its Subsidiaries (i) has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company) or (ii) has any liability for the Taxes of any Person (other than the Company or any of its Subsidiaries) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by contract or otherwise.

(j) Neither the Company nor any of its Subsidiaries has been, within the past two (2) years or otherwise, part of a plan (or series of related transactions) within the meaning of Section 355(e) of the Code of which the Transactions are also a part, a distributing corporation or a controlled corporation (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intending to qualify for Tax-free treatment under Section 355 of the Code.

(k) Since January 1, 2014, neither the Company nor any of its Subsidiaries has been required (or has applied) to include in income any material adjustment pursuant to Section 481 of the Code by reason of a voluntary change in accounting method initiated by the Company or any of its Subsidiaries, and the Internal Revenue Service (*IRS*) has not initiated or proposed any such material adjustment or change in accounting method (including any method for determining reserves for bad debts maintained by the Company or any Subsidiary).

(l) Neither the Company nor any of its Subsidiaries will be required to include any item of income or gain in, or exclude any item of deduction or loss from, taxable income as a result of any (i) adjustment required by a change in method of accounting, (ii) closing agreement, (iii) intercompany transaction or (iv) installment sale or open transaction disposition made, or prepaid amount received, on or prior to the Closing Date.

(m) Neither the Company nor any of its Subsidiaries has any application pending with any Governmental Entity requesting permission for any changes in accounting method.

(n) No rulings, requests for rulings or closing agreements have been entered into with or issued by, or are pending with, any Governmental Entity with respect to the Company or any of its Subsidiaries.

(o) Neither the Company nor any of its Subsidiaries has taken or agreed to take any action or is aware of any fact or circumstance that would prevent or impede, or could reasonably be expected to prevent or impede, the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

3.11 *Employee Benefit Plans.*

(a) *Section 3.11(a)* of the Company Disclosure Schedules sets forth a true and complete list of all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (*ERISA*)), whether or not subject to ERISA, and all bonus, stock option, stock purchase, restricted stock, cash- or equity-based incentive, deferred compensation, retiree medical or life insurance, welfare, retirement, severance, change-in-control or other compensatory or benefit plans, programs, policies or arrangements, and all retention, bonus, employment, termination or severance arrangements to which the Company or any of its Subsidiaries or, solely with respect to any such plan subject to Sections 412 or 4980B of the Code or Title IV of ERISA, any of their respective ERISA Affiliates (as hereinafter defined) is a party, with respect to which the Company or any of its Subsidiaries or, solely with respect to any such plan subject to Section 412 or 4980B of the Code or Title IV of ERISA, any of their respective ERISA Affiliates has any current or future obligation, contingent or otherwise, or, solely with respect to any such plan subject to Section 412 or 4980B of the Code or Title IV of ERISA, that are maintained, contributed to or sponsored by the Company or any of its Subsidiaries or any of their respective ERISA Affiliates for the benefit of any current or former employee, officer, director or independent contractor of the Company or any of its Subsidiaries or any of their respective ERISA Affiliates (all such plans, programs, policies, or Contracts, whether or not listed in *Section 3.11(a)* of the Company Disclosure Schedules, collectively, the *Company Benefit Plans*).

(b) The Company has delivered or made available to Parent true, correct and complete copies of the following (as applicable): (i) the written document evidencing each Company Benefit Plan or, with respect to any such plan that is not in writing, a written description of the material terms thereof, (ii) the annual report (Form 5500), if any, filed with the IRS for the last two (2) plan years, (iii) the most recently received IRS determination letter, if any, relating to a Company Benefit Plan, (iv) the most recently prepared actuarial report or financial statement, if any, relating to a Company Benefit Plan, (v) the most recent summary plan description, if any, for such Company Benefit Plan (or other descriptions of such Company Benefit Plan provided to employees) and all modifications thereto, (vi) all material correspondence with the U.S. Department of Labor or the IRS within the last three (3) years, (vii) all amendments, modifications or material supplements to any Company Benefit Plan, and (viii) any related trust agreements, insurance Contracts or documents of any other funding arrangements relating to a Company Benefit Plan. Except as specifically provided in the foregoing documents delivered or

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made available to Parent, there are no amendments to any Company Benefit Plans that have been adopted or approved.

(c) Each Company Benefit Plan has been established, operated and administered in all material respects in accordance with its terms and the requirements of all applicable Laws, including ERISA and the Code. Neither the Company nor any of its Subsidiaries has taken any action to take corrective action or make a filing under any voluntary correction program of the IRS, the U.S. Department of Labor or any other Governmental Entity with respect to any Company Benefit Plan within the past three (3) years, and neither the Company nor any of its Subsidiaries has any Knowledge of any material plan defect that would qualify for correction under any such program.

(d) All contributions required to be made to any Company Benefit Plan by applicable Law or regulation or by any plan document or other contractual undertaking, and all premiums due or payable with respect to insurance policies funding any Company Benefit Plan, for any period through the date hereof, have been timely made or paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the books and records of the Company.

(e) Each Company Benefit Plan that is in any part a nonqualified deferred compensation plan subject to Section 409A of the Code (A) complies and, at all times after December 31, 2008 has complied, both in form and operation, with the requirements of Section 409A of the Code and the final regulations and other applicable guidance thereunder and (B) between January 1, 2005 and December 31, 2008 was operated in good faith compliance with Section 409A of the Code, as determined under applicable guidance of the U.S. Department of the Treasury and the IRS, except where such noncompliance would not, either individually or in the aggregate, be likely to result in a material liability to the Company and its Subsidiaries, taken as a whole.

(f) *Section 3.11(f)* of the Company Disclosure Schedules identifies each Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code (the *Qualified Plans*). The IRS has issued a favorable determination letter or opinion letter with respect to each Qualified Plan and the related trust has not been revoked, and, to the Knowledge of the Company, (i) there are no existing circumstances, and (ii) no events have occurred that could reasonably be expected to adversely affect the qualified status of any Qualified Plan or the related trust. No trust funding any Company Benefit Plan is intended to meet the requirements of Section 501(c)(9) of the Code.

(g) No Company Benefit Plan is subject to Title IV or Section 302 of ERISA or Section 412, 430 or 4971 of the Code, nor does the Company or any of its Subsidiaries or ERISA Affiliates have, or would reasonably be expected to incur, any liability (i) with respect to Title IV or Section 302 of ERISA or Section 412, 430 or 4971 of the Code, or (ii) due to failure to comply with the continuation coverage requirements of Section 601 *et seq.* of ERISA and Section 4980B of the Code, which liability or liabilities, individually or in the aggregate, would be likely to result in a material liability to the Company and its Subsidiaries, taken as a whole.

(h) (i) No Company Benefit Plan is a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA (a *Multiemployer Plan*) or a plan that has two or more contributing sponsors at least two of whom are not under common control, within the meaning of Section 4063 of ERISA (a *Multiple Employer Plan*); (ii) none of the Company and its Subsidiaries nor any of their respective ERISA Affiliates has, at any time during the last six (6) years, contributed to or been obligated to contribute to any Multiemployer Plan or Multiple Employer Plan; and (iii) neither the Company nor its Subsidiaries have, or would reasonably be expected to incur, any liability (including contingent liability as a result of their relationship to an ERISA Affiliate) to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as those terms are defined in Part I of Subtitle E of Title IV of ERISA.

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(i) Except as set forth in *Section 3.11(i)* of the Company Disclosure Schedules, neither the Company nor any of its Subsidiaries sponsors, has sponsored or has any obligation with respect to any employee benefit plan that provides for any post-employment or post-retirement health or medical or life insurance benefits for retired, former or current employees or beneficiaries or dependents thereof, except as required by Section 4980B of the Code.

(j) Except as set forth on *Section 3.11(j)* of the Company Disclosure Schedules or as contemplated by this Agreement, neither the execution and delivery of this Agreement nor the consummation of the Transactions will (either alone or in conjunction with any other event) result in, cause the vesting, exercisability or delivery of, or increase in the amount or value of, any payment, right or other benefit to any employee, officer, director or other service provider of the Company or any of its Subsidiaries, or result in any limitation on the right of the Company or any of its Subsidiaries to amend, merge, terminate or receive a reversion of assets from any Company Benefit Plan or related trust.

(k) Without limiting the generality of *Section 3.11(j)* and except as set forth on *Section 3.11(k)* of the Company Disclosure Schedules, no amount paid or payable (whether in cash, in property, or in the form of benefits) by the Company or any of its Subsidiaries in connection with the Transactions (either solely as a result thereof or as a result of such transactions in conjunction with any other event) will be an excess parachute payment within the meaning of Section 280G of the Code. No Company Benefit Plan provides for the gross-up or reimbursement of Taxes under Section 4999 or 409A of the Code, or otherwise.

(l) Neither the Company nor any of its ERISA Affiliates has engaged in any transaction described in Section 4069, 4204 or 4212 of ERISA.

(m) There are no pending or threatened claims (other than claims for benefits in the ordinary course), lawsuits or arbitrations that have been asserted or instituted, and, to the Knowledge of the Company, no set of circumstances exists that may reasonably give rise to a claim or lawsuit, against the Company Benefit Plans, any fiduciaries thereof with respect to their duties to the Company Benefits Plans or the assets of any of the trusts under any of the Company Benefit Plans that could reasonably be expected to result in any material liability of the Company or any of its Subsidiaries to the Pension Benefit Guaranty Corporation, the U.S. Department of the Treasury, the U.S. Department of Labor, any Multiemployer Plan, any Multiple Employer Plan, any participant in a Company Benefit Plan, or any other party. No Company Benefit Plan is under audit or, to the Knowledge of the Company, the subject of an investigation by the IRS, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation, the SEC or any other Governmental Entity, nor is any such audit pending or, to the Knowledge of the Company, threatened.

3.12 *Labor Matters.* There are no agreements with, or pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for any of the employees of the Company or any of its Subsidiaries and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the Knowledge of the Company, threatened to be brought or filed with the National Labor Relations Board or any other comparable foreign, state or local labor relations tribunal or authority. There are no organizing activities, labor strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances or other material labor disputes, other than routine grievance matters, now pending or, to the Company s Knowledge, threatened against or involving the Company or any of its Subsidiaries and there have not been any such labor strikes, work stoppages or other labor troubles with respect to the Company or any of its Subsidiaries at any time within three (3) years of the date of this Agreement. Neither the Company nor any of its Subsidiaries is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Entity relating to employees or employment practices; and, to the

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Company s Knowledge, there is no charge of discrimination in employment or employment practices for any reason, including age, gender, race, religion or other legally protected category, which has been asserted against the Company or any of its Subsidiaries that is now pending before the U.S. Equal Employment Opportunity Commission or any other Governmental Entity that would reasonably be expected to result in material liability to the Company or any of its Subsidiaries. The Company and each of its Subsidiaries is in material compliance with all applicable Laws in respect of employment, employment practices, including terms and conditions of employment and wages and hours, employment discrimination, employee classification, workers compensation, family and medical leave, the Immigration Reform and Control Act and occupational safety and health requirements. Each individual who renders services to the Company or any of its Subsidiaries who is classified by the Company or such Subsidiary, as applicable, as having the status of an independent contractor, consultant or other non-employee status for any purpose (including for purposes of taxation and tax reporting and under Company Benefit Plans) is properly so characterized, except where such misclassification would not be material to the Company and its Subsidiaries, taken as a whole.

3.13 *Compliance with Applicable Law.*

(a) The Company and each of its Subsidiaries and each of their employees hold, and have at all times since January 1, 2014 held, all licenses, registrations, franchises, certificates, variances, permits and authorizations necessary for the lawful conduct of their respective businesses and properties and are and have been in compliance with all, and are not and have not been in violation of any, applicable Law, except, in each case, where the failure to hold such license, registration, franchise, certificate, variance, permit or authorization or such noncompliance or violation would not be reasonably likely to have a Material Adverse Effect on the Company, and neither the Company nor any of its Subsidiaries has Knowledge of, or has received notice of, any violations of any of the above, except for such violations that would not be material to the Company and its Subsidiaries, taken as a whole.

(b) Except as would not be material to the Company and its Subsidiaries, taken as a whole, the Company and each of its Subsidiaries have properly administered all accounts for which the Company or any of its Subsidiaries acts as a fiduciary, including accounts for which the Company or any of its Subsidiaries serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment adviser, in accordance with the terms of the governing documents and applicable Law. None of the Company or any of its Subsidiaries, or any director, officer or employee of the Company or any of its Subsidiaries, has committed any breach of trust with respect to any such fiduciary account that would be material to the Company and its Subsidiaries, taken as a whole, and the accountings for each such fiduciary account are true and correct in all material respects and accurately reflect in all material respects the assets of such fiduciary account.

(c) Each of the Company and Park Sterling Bank is well-capitalized (as such term is defined at 12 C.F.R. § 225.2(r) and 12 C.F.R. § 325.103(b)(1), respectively) and well managed (as such term is defined at 12 C.F.R. § 225.2(s) and 12 C.F.R. § 362.17(e), respectively), and the rating of Park Sterling Bank under the Community Reinvestment Act of 1997 (*CRA*) is no less than satisfactory. Neither the Company nor Park Sterling Bank has been informed that its status as well-capitalized, well managed or, in the case of Park Sterling Bank, for CRA purposes, satisfactory, will change within one (1) year.

3.14 *Material Contracts.*

(a) Except as set forth on *Section 3.14(a)* of the Company Disclosure Schedules, neither the Company nor any of its Subsidiaries is a party to or bound by, as of the date hereof, any of the following (each Contract of the type described in this *Section 3.14(a)*, whether written or oral and

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whether or not set forth in the Company Disclosure Schedules, is referred to as a *Material Contract*):

(i) any Contract that constitutes a material contract (as such term is defined in item 601(b)(10) of Regulation S-K of the SEC);

(ii) any Contract entered into since January 1, 2014 (and any Contract entered into at any time to the extent that material obligations remain as of the date hereof), other than in the ordinary course of business consistent with past practice, for the acquisition of the securities of or any material portion of the assets of any other Person or entity;

(iii) any trust indenture, mortgage, promissory note, loan agreement or other Contract or instrument for the borrowing of money (but excluding any currency exchange, commodities or other hedging Contracts entered into in connection with a Derivative Transaction in the ordinary course of business consistent with past practice) or any leasing transaction of the type required to be capitalized in accordance with GAAP, in each case as of March 31, 2017 (or any such Contract entered into thereafter and prior to the date hereof, if such Contract is material and entered into outside the ordinary course of business), where the Company or any of its Subsidiaries is a lender, borrower or guarantor and where the transaction value exceeds $5,000,000, other than Contracts evidencing deposit liabilities, endorsements and guarantees in connection with the presentation of items for collection (*e.g.*, personal or business checks) in the ordinary course of business consistent with past practice, trade payables and Contracts relating to borrowings entered into in the ordinary course of business;

(iv) any currency exchange, commodities or other hedging Contract entered into in connection with a Derivative Transaction where the notional value exceeds $10,000,000;

(v) any Contract limiting (or purporting to limit) the freedom of the Company or any of its Subsidiaries or other Affiliates to engage in any line of business or to compete with any other Person or prohibiting the Company or any of its Subsidiaries or other Affiliates from soliciting customers, clients or employees, in each case, whether in any specified geographic region or business or generally (in each case, other than to a *de minimis* extent);

(vi) any Contract with any Affiliate of the Company or any of its Subsidiaries;

(vii) any agreement of guarantee, support or indemnification by the Company or any of its Subsidiaries, assumption or endorsement by the Company or any of its Subsidiaries of or any similar commitment by the Company or any of its Subsidiaries with respect to the obligations, liabilities (whether accrued, absolute, contingent or otherwise) or indebtedness of any other Person other than those entered into in the ordinary course of business;

(viii) any Contract pursuant to which the annualized payments by either party thereto are in excess of $100,000 that would be terminable other than by the Company or any of its Subsidiaries or any Contract under which a material payment obligation would arise or be accelerated, in each case, as a result of the announcement or consummation of this Agreement or the Transactions (either alone or upon the occurrence of any additional acts or events);

(ix) any alliance, cooperation, joint venture, shareholders partnership or similar Contract involving a sharing of profits or losses relating to the Company or any of its Subsidiaries;

(x) any employment Contract with any employee or officer of the Company or any of its Subsidiaries;

(xi) any Contract, option or commitment or right with, or held by, any third party to acquire, use or have access to any assets or properties, or any interest therein, of the

Company or any of its Subsidiaries, other than in connection with the sale of Loans, Loan participations or investment securities in the ordinary course of business consistent with past practice to third parties who are not Affiliates of the Company;

(xii) any Contract that contains any (A) exclusive dealing obligation, (B) clawback or similar undertaking requiring the reimbursement or refund of any fees, (C) most favored nation or similar provision granted by the Company or any of its Subsidiaries or (D) provision that grants any right of first refusal or right of first offer or similar right or that limits or purports to limit the ability of the Company or any of its Subsidiaries to own, operate, sell, transfer, pledge or otherwise dispose of any assets or business;

(xiii) any Contract pursuant to which the annualized payments by either party thereto are in excess of $100,000 that would require any consent or approval of a counterparty as a result of the consummation of this Agreement or the Transactions;

(xiv) any lease or other Contract (whether real, personal or mixed, tangible or intangible) pursuant to which the annualized rent or lease payments are, or are reasonably expected to be, in excess of $100,000;

(xv) any Contract for the use or purchase of materials, supplies, goods, services, equipment or other assets that involves payments in excess of $250,000 per year; and

(xvi) any Contract not listed above that is material to the financial condition, results of operations or business of the Company or any of its Subsidiaries.

(b) The Company and each of its Subsidiaries have performed in all material respects all of the obligations required to be performed by them and are entitled to all accrued benefits under each, and are not, to the Knowledge of the Company, alleged to be, and are not, in default in respect of, any Material Contract to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound, except as would not, individually or in the aggregate, be material to the Company and its Subsidiaries. Each of the Material Contracts is valid and binding on the Company or its applicable Subsidiary and in full force and effect, without amendment. With respect to the Company or any of its Subsidiaries, there exists no (x) default or event of default or (y) event, occurrence, condition or act, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default, in each case, under any Material Contract, except, as would not, individually or in the aggregate, be material to the Company and its Subsidiaries. Except as set forth in *Section 3.14(b)* of the Company Disclosure Schedules, with respect to any other contracting party, to the Knowledge of the Company, there exists no (x) default or event of default or (y) event, occurrence, condition or act, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default, in each case, under any Material Contract, except, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company. True, correct and complete copies of all Material Contracts have been furnished or made available to Parent.

3.15 *Agreements with Regulatory Agencies.* Neither the Company nor any of its Subsidiaries is subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil penalty by, or is a recipient of any supervisory letter from, or has adopted any board resolutions at the request or suggestion of any Regulatory Agency or other Governmental Entity that restricts the conduct of its business or that relates to its capital adequacy, its ability to pay dividends, its credit or risk management policies, its management or its business (any such agreement, memorandum of understanding, letter, undertaking, order, directive or resolutions, whether or not set

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forth in the Company Disclosure Schedules, a *Company Regulatory Agreement*), nor has the Company or any of its Subsidiaries been advised in writing, or have Knowledge, of any pending or threatened regulatory investigation or that any Regulatory Agency or other Governmental Agency is considering issuing, initiating, ordering or requesting any Company Regulatory Agreement.

3.16 *Investment Securities.*

(a) Each of the Company and its Subsidiaries has good and marketable title to all securities held by it in all material respects (except securities sold under repurchase agreements or held in any fiduciary or agency capacity) free and clear of any Lien, except to the extent that such securities are pledged in the ordinary course of business consistent with prudent business practices to secure obligations of the Company or any of its Subsidiaries and except for such defects in title or Liens that would not be material to the Company and its Subsidiaries, taken as a whole. Such securities are valued on the books of the Company and each of its Subsidiaries in accordance with GAAP in all material respects.

(b) The Company and each of its Subsidiaries employs investment, securities risk management and other policies, practices and procedures that the Company and each such Subsidiary believes are prudent and reasonable in the context of such businesses, and the Company and its Subsidiaries have, since January 1, 2014, been in material compliance with such policies, practices and procedures in all material respects.

3.17 *Derivative Instruments.* *Section 3.17* of the Company Disclosure Schedules lists all Derivative Transactions, whether entered into for the account of the Company or any of its Subsidiaries or for the account of a customer of the Company or any of its Subsidiaries. All Derivative Transactions: (i) were entered into in the ordinary course of business and in accordance with prudent banking practice and applicable rules, regulations and policies of all applicable Governmental Entities and with counterparties believed to be financially responsible at the time; (ii) are legal, valid and binding obligations of the Company or its Subsidiaries and, to the Knowledge of the Company, each of the counterparties thereto; and (iii) are in full force and effect and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally). The Company and its Subsidiaries and, to the Knowledge of the Company, the counterparties to all such Derivative Transactions have duly performed, in all material respects, their obligations thereunder to the extent that such obligations to perform have accrued. To the Knowledge of the Company, there are no material breaches, violations or defaults or allegations or assertions of such by any party pursuant to any such Derivative Transactions. The financial position of the Company and its Subsidiaries on a consolidated basis under or with respect to each such Derivative Transaction has been reflected in its books and records and the books and records of such Subsidiaries in accordance with GAAP consistently applied. As used herein, *Derivative Transactions* means any swap transaction, option, warrant, forward purchase or sale transaction, futures transaction, cap transaction, floor transaction or collar transaction relating to one or more currencies, commodities, bonds, equity securities, loans, interest rates, prices, values or other financial or non-financial assets, credit-related events or conditions or any indexes or any other similar transaction or combination of any of these transactions, including any collateralized debt or equity instruments evidencing or embedding any such types of transactions, and any related credit support, collateral or other similar arrangements related to such transactions.

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3.18 *Environmental Matters.*

(a) Each of the Company and its Subsidiaries, and, to the Knowledge of the Company (except as set forth in written third-party environmental reports included in the relevant Loan Documentation regarding real property securing a Loan made in the ordinary course of business to a third party that is not an Affiliate of the Company), any property in which the Company or any of its Subsidiaries holds a security interest, is, and has since January 1, 2014, been in material compliance with all local, state and federal environmental, health and safety Laws, including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (all such laws *Environmental Laws*).

(b) Since January 1, 2014, there have been no legal, administrative, arbitral or other proceedings, claims or actions pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries, nor are there governmental or third-party environmental investigations or remediation activities or governmental investigations that seek to impose or that could reasonably be expected to result in the imposition, on the Company or any of its Subsidiaries, of any liability or obligation arising under any Environmental Law pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries, which liability or obligation would reasonably be expected to, individually or in the aggregate, be material to the Company and its Subsidiaries, taken as a whole. To the Knowledge of the Company, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that would be or would reasonably be expected to be, individually or in the aggregate, material to the Company and its Subsidiaries, taken as a whole.

(c) Except as set forth in written third-party environmental reports included in the relevant Loan Documentation regarding real property securing a Loan made in the ordinary course of business to a third party that is not an Affiliate of the Company, to the Knowledge of the Company, during or prior to the period of (i) the Company s or any of its Subsidiaries ownership or operation of any property, (ii) the Company s or any of its Subsidiaries active participation in the management of any property s operations or (iii) the Company s or any of its Subsidiaries holding of a security interest or other interest in any property, there were no releases or threatened releases of hazardous materials or other materials regulated under Environmental Laws in, on, under or affecting any such property that, since January 1, 2014, would reasonably be expected to be, individually or in the aggregate, material to the Company and its Subsidiaries, taken as a whole.

(d) The Company and each of its Subsidiaries are not subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any material liability or obligation with respect to the foregoing. There has been no written third-party environmental site assessment conducted since January 1, 2014 assessing the presence of hazardous materials located on any property owned or leased by the Company or any of its Subsidiaries that is within the possession or control of the Company and its Affiliates as of the date of this Agreement that has not been delivered to Parent prior to the date of this Agreement.

3.19 *Insurance.* The Company and each of its Subsidiaries are insured against such risks and in such amounts as constitute reasonably adequate coverage against all risks customarily insured against by banking institutions and their subsidiaries of comparable size and operations to the Company and its Subsidiaries. *Section 3.19* of the Company Disclosure Schedules sets forth a true and complete list of all insurance policies applicable and available to the Company and each of its Subsidiaries with respect to its business or that are otherwise maintained by or for the Company or any of its Subsidiaries (the *Company Policies*), and the Company has made available true and complete copies of all such Company Policies to Parent. Except as set forth in *Section 3.19* of the Company Disclosure Schedules, there is no material claim for coverage by the Company or any of its Subsidiaries pending under any of

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such policy as to which coverage has been questioned, denied or disputed by the underwriters of such policies or in respect of which such underwriters have reserved their rights. Each Company Policy is in full force and effect and all premiums payable by the Company or any of its Subsidiaries have been timely paid, by the Company or its Subsidiaries, as applicable. Neither the Company nor any of its Subsidiaries has received written notice of any threatened termination of, material premium increase with respect to, or material alteration of coverage under, any of such policies.

3.20 *Title to Property.*

(a) *Section 3.20(a)* of the Company Disclosure Schedules lists (i) all real property, including other real estate owned (*OREO*), owned by the Company or any Company Subsidiary (the *Owned Real Property*), (ii) all leases, subleases, licenses or other Contracts (including all amendments, modifications, and supplements thereto) pursuant to which the Company or any of its Subsidiaries lease land and/or buildings, together with the real property rights (including security deposits), benefits and appurtenances pertaining thereto and rights in respect thereof, including ground leases (the *Real Property Leases*) and (iii) all leases, subleases, licenses or other use agreements between the Company or any of its Affiliates, as landlord, sublandlord or licensor, and third parties with respect to Owned Real Property or Leased Premises, as tenant, subtenant or licensee (*Tenant Leases*), in each case including all amendments, modifications and supplements thereto, and all such Real Property Leases and Tenant Leases have been made available to Parent on or prior to the date hereof.

(b) Except as would not be material to the Company or its Subsidiaries, the Company or one of its Subsidiaries (i) has good and marketable title to all Owned Real Properties, free and clear of all Liens of any nature whatsoever, except (A) statutory Liens securing payments not yet due (or being contested in good faith and for which adequate reserves have been established), (B) Liens for real property Taxes not yet due and payable, (C) easements, rights of way, and other similar encumbrances that do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties and (D) such imperfections or irregularities of title or Liens as do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties (clauses (A) through (D) collectively, *Permitted Encumbrances*), and (ii) has good and marketable leasehold interests in all parcels of real property leased to the Company pursuant to the Real Property Leases (the *Leased Premises*), free and clear of all Liens of any nature whatsoever, except for Permitted Encumbrances, and is in sole possession of the properties purported to be leased thereunder, subject and pursuant to the terms of the Real Property Leases. Since the Balance Sheet Date, none of the Leased Premises or Owned Real Property has been taken by eminent domain (or, to the Knowledge of the Company, is the subject of a pending or contemplated taking which has not been consummated). All of the land, buildings, structures, plants, facilities and other improvements leased or used by the Company or any of its Subsidiaries in the conduct of the Company s or such Subsidiary s business, other than those items that comprise part of the Owned Real Property, are included in the Leased Premises.

(c) Except as set forth in *Section 3.20(c)* of the Company Disclosure Schedules, no Person other than the Company and its Subsidiaries has (or will have, at Closing) (i) except with respect to any OREO on the Company Balance Sheet, any right in any of the Owned Real Property or any right to use or occupy any portion of the Owned Real Property or (ii) any right to use or occupy any portion of the Leased Premises. Except with respect to any OREO on the Company Balance Sheet, all buildings, structures, fixtures and appurtenances comprising part of the Owned Real Property are in good operating condition and have been well maintained, reasonable wear and tear excepted, and are in all material respects adequate and sufficient for the current purposes to which they are used in the conduct of the Company s and its Subsidiaries business. The

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Company and its Subsidiaries do not use in their businesses any material real property other than the Owned Real Property and the Leased Premises.

(d) Other than as disclosed in *Section 3.20(d)* of the Company Disclosure Schedules, each of the Real Property Leases and each of the Tenant Leases is valid and binding on the Company or its applicable Subsidiary and is in full force and effect, without amendment, and there exists no default or event of default or event, occurrence, condition or act, with respect to the Company or any of its Subsidiaries or, to the Knowledge of the Company, with respect to the other parties thereto, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default or event of default thereunder, except where such event of default would not reasonably be expected to, individually or in the aggregate, be material to the Company and its Subsidiaries, taken as a whole.

(e) The Company and its Subsidiaries have operated the Owned Real Property and the Leased Premises, and the continued operation of the Owned Real Property and the Leased Premises in the manner that it is used by the Company and its Subsidiaries will be, in accordance in all material respects with all applicable Laws.

(f) Except as would not be material to the Company and its Subsidiaries, taken as a whole, (i) the Company and its Subsidiaries have good, valid and marketable title to all of the personal property of the Company and its Subsidiaries consisting of the trade fixtures, shelving, furniture, on-premises ATMs, equipment, security systems, safe deposit boxes (exclusive of contents), vaults, sign structures and supplies excluding any items consumed or disposed of, but including new items acquired, used or obtained in the ordinary course of the operation of the business of the Company and its Subsidiaries (*Personal Property*) and (ii) each of the leases under which the Company or any of its Subsidiaries lease Personal Property is valid, and in full force and effect, without default thereunder by the lessee or, to the Knowledge of Company, the lessor.

3.21 *Intellectual Property.*

(a) The Company and each of its Subsidiaries own, or are licensed or otherwise possess rights to use free and clear of all Liens all material Intellectual Property used or held for use by the Company and any of its Subsidiaries as of the date hereof (collectively, the *Company Intellectual Property*) in the manner that it is currently used by the Company and any of its Subsidiaries.

(b) Since January 1, 2014, neither the Company nor any of its Subsidiaries has received written notice from any third party alleging any material interference, infringement, misappropriation or violation of any Intellectual Property rights of any third party, and, to the Knowledge of the Company, neither the Company nor any of its Subsidiaries has infringed upon, misappropriated or violated any Intellectual Property rights of any third party. To the Knowledge of the Company, since January 1, 2014, no third party has infringed upon, misappropriated or violated any Company Intellectual Property. Neither the Company nor any of its Subsidiaries licenses to, or has entered into any exclusive agreements relating to any Company Intellectual Property with, third parties, or permits third parties to use any Company Intellectual Property rights. Except as set forth on *Section 3.21(b)* of the Company Disclosure Schedules, neither the Company nor any of its Subsidiaries owes any material royalties or payments to any third party for using or licensing to others any Company Intellectual Property.

(c) Neither the Company nor any of its Subsidiaries is a party to any material agreement in which either the Company or any of its Subsidiaries is obligated to indemnify any Person against a claim of infringement or misappropriation of any Intellectual Property.

(d) For the purposes of this Agreement, *Intellectual Property* shall mean any or all of the following and all rights in, arising out of or associated with: all patents, trademarks, trade names, service marks, domain names, database rights, copyrights and, in each case, any applications therefor, mask works, net lists, technology, websites, know-how, trade secrets, inventory, ideas, algorithms, processes and computer software programs or applications (but excluding commercial off-the-shelf software available on reasonable terms).

3.22 *Broker s Fees.* Neither the Company nor any of its Affiliates nor any of their respective officers or directors has employed any broker, finder or financial advisor or incurred any liability for any broker s fees, commissions or finder s fees in connection with the Merger or the other Transactions, except for Stephens Inc., pursuant to an agreement a copy of which has been previously provided to Parent.

3.23 *Broker-Dealer, Investment Advisory and Insurance Matters.*

(a) Except as has not had, and would reasonably not be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, each of the Company Subsidiaries that is required to be registered, licensed or qualified as an insurance agency or insurance broker (an *Insurance Entity*) (i) has operated since January 1, 2014 and is currently operating in compliance with all Laws applicable to it, its business and its employees or independent contractors and (ii) has all registrations, permits, licenses, exemptions, orders, approvals and SRO memberships required for the operation of its business or ownership of its properties and assets substantially as presently conducted. Except as has not had, and would reasonably not be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company, there is no action, suit, proceeding or investigation pending or, to the Knowledge of the Company, threatened that would reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any such registrations, permits, licenses, exemptions, orders, approvals and membership. All Insurance Entities are listed in *Section 3.23(a)* of the Company Disclosure Schedules, along with a list of all permits, licenses, exemptions, orders, approvals and SRO memberships held by each such entity.

(b) Except as set forth in *Section 3.23(b)* of the Company Disclosure Schedules, none of the Company, its Subsidiaries or, to the Knowledge of the Company, any of their respective officers and employees are required to be registered, licensed or qualified with the SEC or any securities or insurance commission or other Governmental Entity as a broker-dealer, investment adviser, futures commission merchant, municipal securities dealer, registered principal, registered representative, agent, salesperson or investment adviser representative. Neither the Company nor any of its Subsidiaries has received any notice of proceedings relating to any obligation to be so registered, licensed or qualified. Each of the Company and its Subsidiaries and, to the Knowledge of the Company, their respective solicitors, third-party administrators, managers, brokers and distributors, have marketed, sold and issued investment products and securities in accordance with all applicable Laws governing sales processes and practices in all material respects.

(c) Neither the Company nor any Subsidiary of the Company is subject to Section 9(a) or 9(b) of the Investment Company Act of 1940, as amended, nor acts as an investment adviser required to register as such under the Investment Advisers Act of 1940, as amended.

3.24 *Loans.*

(a) Each loan, loan agreement, note or borrowing arrangement (including leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, *Loans*) payable to the Company or any of its Subsidiaries (i) is evidenced by Loan Documentation that is true, genuine and what it purports to be and (ii) represents the valid and legally binding obligation of the obligor, maker, co-maker, guarantor, endorser or debtor (such person referred to as an *Obligor*) thereunder, and is enforceable against the Obligor in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally

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and to general equity principles. For the purposes of this Agreement, *Loan Documentation* means all Loan files and all documents included in the Company s or any of its Subsidiaries file or imaging system with respect to a Loan, including loan applications, notes, security agreements, deeds of trust, collectors notes, appraisals, credit reports, disclosures, titles to collateral, verifications (including employment verification and deposit verification), mortgages, loan agreements (including building and loan agreements), guarantees, pledge agreements, financing statements, intercreditor agreements, participation agreements, sureties and insurance policies (including title insurance policies) and all modifications, waivers and consents relating to any of the foregoing. The Company has provided Parent with information on each Loan payable to the Company or any of its Subsidiaries, and such Loan information and, to the Knowledge of the Company, any third-party information furnished in connection with such Loan information, is true and correct in all material respects as of the dates specified, or, if no such date is indicated, as of March 31, 2017.

(b) (i) *Section 3.24(b)* of the Company Disclosure Schedules sets forth a list of all Loans as of the date hereof by the Company and its Subsidiaries to any directors, executive officers and principal shareholders (as such terms are defined in Regulation O of the Federal Reserve (12 C.F.R. Part 215)) of the Company or any of its Subsidiaries, (ii) there are no employee, officer, director or other affiliate Loans on which the borrower is paying a rate other than that reflected in the note or other relevant credit or security agreement or on which the borrower is paying a rate that was below market at the time the Loan was originated and (iii) all such Loans are and were originated in compliance in all material respects with all applicable Laws.

(c) Each Loan payable to the Company or any of its Subsidiaries (i) was originated or purchased by the Company or its Subsidiaries, and its principal balance as shown on the Company s books and records is true, correct and accurate as of the date indicated therein, (ii) contains customary and enforceable provisions such that the rights and remedies of the holder thereof shall be adequate for the practical realization against any collateral therefor and (iii) complies, and at the time the Loan was originated or purchased by the Company or its Subsidiaries complied, including as to the Loan Documentation related thereto, in all material respects, with all applicable requirements of federal, state and local Laws.

(d) Each outstanding Loan (including Loans held for resale to investors) payable to the Company or any of its Subsidiaries has been solicited and originated and is administered and serviced (to the extent administered and serviced by the Company or a Company Subsidiary), and during the period of time in which such Loan was originated, held or serviced by the Company or any of its Subsidiaries, the relevant Loan Documentation was being maintained, in all material respects in accordance with the Company s or its respective Subsidiary s underwriting and servicing standards (and, in the case of Loans held for resale to investors, the underwriting standards, if any, of the applicable investors) and customary industry practices and with all applicable requirements of federal, state and local Laws.

(e) With respect to each Loan payable to the Company or any of its Subsidiaries that is secured, the Company or its Subsidiary has a valid and enforceable Lien on the collateral described in the Loan Documentation, and each such Lien is assignable and has the priority described in the Loan Documentation (except as may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally and except as the availability of equitable remedies may be limited by general principles of equity).

(f) Except as set forth in *Section 3.24(f)* of the Company Disclosure Schedules, none of the agreements pursuant to which the Company or any of its Subsidiaries has sold Loans or pools of

Loans or participations in Loans or pools of Loans contains any obligation to repurchase such Loans or interests therein solely on account of a payment default by the obligor on any such Loan.

(g) The Company s allowance for loan losses is and has been since January 1, 2014 in compliance with the Company s methodology for determining the adequacy of its allowance for loan losses as well as the standards established by applicable Governmental Entities and the Financial Accounting Standards Board in all material respects.

(h) *Section 3.24(h)* of the Company Disclosure Schedules identifies each Loan payable to the Company or any of its Subsidiaries that (i) as of March 31, 2017, (A) was on non-accrual status, (B) a specific reserve allocation existed in connection therewith, (C) was required to be accounted for as a troubled debt restructuring in accordance with Statement of Financial Accounting Standards No. 15 or (D) was contractually past due ninety (90) days or more in the payment of principal and/or interest, or (ii) as of March 31, 2017, was classified as Other Loans Specially Mentioned, Special Mention, Substandard, Doubtful, Loss, Classified, Criticized, or words of similar import. For each Loan identified in response to clause (i) or (ii) above, *Section 3.24(h)* of the Company Disclosure Schedules sets forth the outstanding principal amount, as well as accrued and unpaid interest, on each such Loan and the identity of the borrower thereunder as of March 31, 2017.

3.25 *Customer Relationships.*

(a) Each trust or wealth management customer of the Company or any of its Subsidiaries has been in all material respects originated and serviced (i) in conformity with the applicable policies of the Company and its Subsidiaries, (ii) in accordance with the terms of any applicable Contract governing the relationship with such customer, (iii) in accordance with any instructions received from such customers and their authorized representatives and authorized signers, (iv) consistent with each customer s risk profile and (v) in compliance with all applicable Laws and the Company s and its Subsidiaries constituent documents, including any policies and procedures adopted thereunder. Each Contract governing a relationship with a trust or wealth management customer of the Company or any of its Subsidiaries has been duly and validly executed and delivered by the Company and each Subsidiary and, to the Knowledge of the Company, the other contracting parties, each such Contract constitutes a valid and binding obligation of the parties thereto, except as such enforceability may be limited by (A) the effect of bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally or (B) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless whether considered in a proceeding in equity or at law, and the Company and its Subsidiaries and the other contracting parties thereto have duly performed in all material respects their obligations thereunder, and the Company and its Subsidiaries and, to the Knowledge of the Company, such other contracting parties are in compliance with each of the terms thereof.

(b) No Contract governing a relationship with a trust or wealth management customer of the Company or any of its Subsidiaries provides for any material reduction of fees charged (or in compensation payable to the Company or any of its Subsidiaries thereunder) by reason of this Agreement or the consummation of the Merger or the other Transactions.

(c) (A) None of the Company, any of its Subsidiaries or any of their respective directors, officers or employees is the beneficial owner of any interest in any of the accounts maintained on behalf of any trust or wealth management customer of the Company or any of its Subsidiaries and (B) none of the directors, officers and employees of the Company or any of its Subsidiaries is a party to any Contract pursuant to which it is obligated to provide service to, or receive

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compensation or benefits from, any of the trust or wealth management customers of the Company or any of its Subsidiaries after the Closing Date.

(d) Each account opening document, margin account agreement, any advisory contract and customer disclosure statement with respect to any trust or wealth management customer of the Company or any of its Subsidiaries conforms in all material respects to the forms made available to Parent prior to the date hereof.

(e) All other books and records primarily related to the trust or wealth management businesses of each of the Company and each of its Subsidiaries include documented risk profiles signed by each such customer.

3.26 *Related-Party Transactions.*

(a) *Section 3.26(a)* of the Company Disclosure Schedules identifies (i) all Contracts between the Company or any of its Subsidiaries, on the one hand, and any shareholder which, to the Knowledge of the Company, beneficially owns five percent (5%) or more of any class of equity securities of the Company or any of its Subsidiaries or an Affiliate of the Company (other than the Company and its direct or indirect wholly owned Subsidiaries) (collectively, *Related Parties*), on the other hand, and (ii) all Contracts pursuant to which any Related Party is a party and the Company or any Company Subsidiary receives services or goods, including any such Contracts between any direct or indirect wholly owned Company Subsidiary, on the one hand, and any non-wholly owned Company Subsidiary, on the other hand. Except as set forth on *Section 3.26(a)* of the Company Disclosure Schedules, no relationship, direct or indirect, exists between or among the Company and its Subsidiaries or any of their respective Affiliates, on the one hand, and any director, officer, member, shareholder, customer or supplier of the Company or any of its Affiliates, on the other hand, that would be required by the Securities Act to be disclosed in a registration statement on Form S-1 pursuant to Item 404 of Regulation S-K under the Securities Act. As used in this Agreement, *Affiliate* means (unless otherwise specified), with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such specified Person. As used in this Agreement, *control*, with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or by any other means.

(b) To the Knowledge of the Company, no shareholder or Affiliate of the Company (other than the Company and its Subsidiaries) owns any material property or asset used in the conduct of the business of the Company and its Subsidiaries.

3.27 *Takeover Laws and Provisions.* The adoption and approval by the board of directors of the Company of this Agreement, the Merger and the other Transactions represent all the action necessary by the Company to render inapplicable to this Agreement, the Merger and the other Transactions, the provisions of any potentially applicable takeover laws of any state, including any moratorium, control share, fair price, takeover or interested shareholder law (any such laws, *Takeover Statutes*), and any potentially applicable provision of the Company Articles of Incorporation and the Company Bylaws. No fair price Law or similar provision of the Company Articles of Incorporation or Company Bylaws is applicable to this Agreement and the Transactions.

3.28 *Approvals.* As of the date of this Agreement, to the Knowledge of the Company, there is no reason why all necessary regulatory approvals and consents from any Governmental Entity should not be received in order to permit the consummation of the Transactions, including the Merger and the Bank Merger, on a timely basis.

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3.29 *Company Opinion.* Prior to the execution of this Agreement, the Company has received an opinion (which, if initially rendered verbally, has been or will be confirmed by a written opinion, dated the same date) from Stephens Inc. to the effect that, as of the date thereof, and based upon and subject to the factors, assumptions and limitations set forth therein, the Merger Consideration pursuant to this Agreement is fair, from a financial point of view, to the holders of Company Common Stock. Such opinion has not been amended or rescinded as of the date of this Agreement.

3.30 *Company Information.* The information supplied or to be supplied by the Company for inclusion or incorporation by reference in (a) the Joint Proxy Statement, on the date that it (or any amendment or supplement thereto) is first mailed to holders of Company Common Stock or holders of Parent Common Stock, respectively, or at the time of the Company Shareholders Meeting or the Parent Shareholders Meeting, respectively, (b) the Form S-4, when it or any amendment or supplement thereto becomes effective under the Securities Act, (c) the documents and financial statements of the Company incorporated by reference in the Joint Proxy Statement, the Form S-4 or any amendment or supplement thereto or (d) any other application, notification or other document filed with any Regulatory Agency or other Governmental Entity in connection with the Transactions, including any transactions contemplated in any amendment or supplement thereto, at the time any such other applications, notifications or other documents or any such amendments or supplements thereto are so filed, as the case may be, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No representation or warranty is made by the Company in this *Section 3.30* with respect to statements made or incorporated by reference therein based on information supplied by Parent in writing expressly for inclusion or incorporation by reference in the Joint Proxy Statement, the Form S-4 or such other applications, notifications or other documents. The Joint Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act. If at any time prior to the Effective Time, any event should be discovered by the Company or any of its Subsidiaries which should be set forth in an amendment or supplement to the Form S-4 or the Joint Proxy Statement, or in any amendment or supplement to any such other applications, notifications or other documents, the Company shall promptly so inform Parent.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT

Except as (a) disclosed in writing in the correspondingly enumerated section or subsection of the disclosure schedule of Parent delivered herewith (the *Parent Disclosure Schedules*) (*provided*, that each exception set forth in the Parent Disclosure Schedules shall be deemed to qualify any other representation and warranty to the extent that the relevance of such exception to such other representation and warranty is reasonably apparent on the face of the disclosure (notwithstanding the absence of a specific cross-reference)) or (b) disclosed in any Parent SEC Document publicly filed prior to the date hereof (but excluding any disclosures set forth in any risk factors, forward-looking statements or market risk sections or any other statements that are similarly non-specific or cautionary, predictive or forward-looking in nature), Parent hereby represents and warrants to the Company as follows:

4.1 *Corporate Organization.*

(a) Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of South Carolina and is a bank holding company duly registered under the BHC Act that has not elected to be treated as a financial holding company under the BHC Act. Each of the Subsidiaries of Parent is an entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize such concept) under the Laws of the jurisdiction of its organization. The deposit accounts of Parent Bank are insured by the FDIC through the Deposit

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Insurance Fund to the fullest extent permitted by Law, all premiums and assessments required to be paid in connection therewith have been paid when due and no proceedings for the termination of such insurance are pending or, to the Knowledge of Parent, threatened. Parent Bank is a member in good standing of the Federal Home Loan Bank of Atlanta and owns the requisite amount of stock therein. Parent and each of its Subsidiaries has the requisite corporate power and authority to own or lease and operate all of its properties and assets and to carry on its business as it is now being conducted. Parent and each of its Subsidiaries is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent. True and complete copies of the Amended and Restated Articles of Incorporation of Parent, as amended (the *Parent Articles of Incorporation*), and the Amended and Restated Bylaws of Parent (the *Parent Bylaws*), in each case as in effect as of the date of this Agreement, have previously been furnished or made available to the Company. Parent is not in violation of any of the provisions of the Parent Articles of Incorporation or Parent Bylaws.

(b) *Section 4.1(b)* of the Parent Disclosure Schedules sets forth a complete and correct list of all the Subsidiaries of Parent as of the date of this Agreement (each a *Parent Subsidiary* and collectively the *Parent Subsidiaries*). *Section 4.1(b)* of the Parent Disclosure Schedules also sets forth a list as of the date of this Agreement identifying the owner and percentage ownership interest of all outstanding capital stock or other equity securities of each such Subsidiary, options, warrants, stock appreciation rights, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, shares of any capital stock or other equity securities of such Subsidiary, or Contracts by which such Subsidiary may become bound to issue additional shares of its capital stock or other equity securities, or options, warrants, scrip, rights to subscribe to, calls or commitments for any shares of its capital stock or other equity securities and the identity of the parties to any such agreements or arrangements. All of the outstanding shares of capital stock or other securities evidencing ownership of the Parent Subsidiaries are validly issued, fully paid and nonassessable and such shares or other securities are owned by Parent or another of its Subsidiaries free and clear of any Lien with respect thereto. Except for its interests in the Parent Subsidiaries and as set forth in *Section 4.1(b)* of the Parent Disclosure Schedules, Parent does not as of the date of this Agreement own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any Person.

4.2 *Capitalization.* The authorized capital stock of Parent consists of (a) 40,000,000 shares of Parent Common Stock and (b) 10,000,000 shares of preferred stock, par value $0.01 per share, of Parent (the *Parent Preferred Stock*). As of the date of this Agreement, there are (a) 29,239,460 shares of Parent Common Stock issued and outstanding, (b) no shares of Parent Common Stock held in treasury, (c) no shares of Parent Preferred Stock issued and outstanding and (d) 1,166,991 shares of Parent Common Stock reserved for issuance upon exercise or settlement of awards granted or available for grant as employment inducement awards or under Parent s equity compensation plans (the *Parent Equity Awards*). As of the date of this Agreement, except pursuant to (i) this Agreement, (ii) the Parent Equity Awards and (iii) Parent s equity compensation plans, there are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements of any character relating to the issued or unissued capital stock or other securities of Parent, or otherwise obligating Parent to issue, transfer, sell, purchase, redeem or otherwise acquire any such securities. As of the date of this Agreement, no Voting Debt of Parent is issued or outstanding. All of the issued and outstanding shares of Parent Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. The shares of Parent Common Stock to be issued pursuant to the Merger will be duly authorized and

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validly issued and, at the Effective Time, all such shares will be fully paid, nonassessable and free of preemptive rights.

4.3 *Authority; No Violation.*

(a) Parent has full corporate power and authority and is duly authorized to execute and deliver this Agreement and to consummate the Transactions. The execution and delivery of this Agreement and the consummation of the Transactions, including the Merger, have been duly, validly and unanimously adopted by the board of directors of Parent, the board of directors of Parent has resolved to recommend to Parent s shareholders the approval of this Agreement and the Transactions, and all necessary corporate action in respect thereof on the part of Parent has been taken, subject to the approval by the affirmative vote of two-thirds of the votes entitled to be cast by the holders of shares of Parent Common Stock (the *Parent Shareholder Approval*) and the adoption and approval of the Bank Merger Agreement by the board of directors of Parent Bank and Parent as its sole shareholder. This Agreement has been duly and validly executed and delivered by Parent. Assuming due authorization, execution and delivery by the Company, this Agreement constitutes a valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, except as such enforcement may be limited by (i) the effect of bankruptcy, insolvency, fraudulent transfer, reorganization, receivership, conservatorship, arrangement, moratorium or other Laws affecting or relating to the rights of creditors generally or (ii) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) Neither the execution and delivery of this Agreement by Parent, nor the consummation by Parent of the Transactions, nor compliance by Parent with any of the terms or provisions hereof, will (i) violate any provision of the Parent Articles of Incorporation or Parent Bylaws or (ii) assuming that the consents and approvals referred to in *Section 4.4* are duly obtained and/or made, (A) violate any Law, judgment, order, writ, decree or injunction applicable to Parent or any of its Subsidiaries, or any of their respective properties or assets, or (B) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under or in any payment conditioned, in whole or in part, on a change of control of Parent or approval or consummation of transactions of the type contemplated hereby, accelerate the performance required by or rights or obligations under, or result in the creation of any Lien upon any of the respective properties or assets of Parent or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, Contract, or other instrument or obligation to which Parent or any of its Subsidiaries is a party, or by which they or any of their respective properties, assets or business activities may be bound or affected, except, in the case of clause (ii) above, for such violations, conflicts, breaches, defaults or the loss of benefits that would not reasonably be expected to, either individually or in the aggregate, have a Material Adverse Effect on Parent.

4.4 *Consents and Approvals.* Except for (a) the filing of any required applications, filings or notices with the Federal Reserve under the BHC Act and approval of such applications, filings and notices, (b) the filing of applications, filings and notices, as applicable, with the FDIC, the North Carolina Commissioner of Banks, the South Carolina State Board of Financial Institutions, the South Carolina Office of the Commissioner of Banking and, to the extent required, the Virginia State Corporation Commission, and approval of or non-objection to such applications, filings and notices, (c) compliance with any applicable requirements of the Securities Act and the Exchange Act, including the filing with the SEC of the Joint Proxy Statement and the Form S-4, and the declaration of effectiveness of the Form S-4, (d) the filing of the Articles of Merger with the North Carolina Secretary and the South Carolina Secretary pursuant to the NCBCA and the SCBCA, respectively, (e) the filing

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of the Bank Merger Certificates, (f) such filings and approvals as are required to be made or obtained under the securities or Blue Sky laws of various states in connection with the issuance of the shares of Parent Common Stock pursuant to this Agreement, (g) approval of listing of such Parent Common Stock on the NASDAQ and (h) to the extent required, the filing of any notices or other filings under the HSR Act, no material notices to, consents or approvals or non-objections of, waivers or authorizations by, or applications, filings or registrations with any Governmental Entity are required to be made or obtained by Parent or any of its Subsidiaries in connection with (i) the execution and delivery by Parent of this Agreement or (ii) the consummation by Parent of the Transactions, except for such consents, approvals, authorizations, filings or registrations that would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent.

4.5 *Reports*.

(a) Parent and each of its Subsidiaries have timely filed (or furnished, as applicable) all Reports that they were required to file (or furnish, as applicable) since January 1, 2014 with the Regulatory Agencies, and all other Reports required to be filed (or furnished, as applicable) by them since January 1, 2014, including any Report required to be filed (or furnished, as applicable) pursuant to the Laws of the United States, any state or any Regulatory Agency, and have paid all fees and assessments due and payable in connection therewith, except where the failure to file (or furnish, as applicable) such Report or to pay such fees and assessments, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent. Any such Report regarding Parent or any of its Subsidiaries filed with or otherwise submitted to any Regulatory Agency complied in all material respects with relevant legal requirements, including as to content. Except for normal examinations conducted by a Regulatory Agency in the ordinary course of the business of Parent and its Subsidiaries, there is no pending proceeding before, or, to the Knowledge of Parent, examination or investigation by, any Regulatory Agency into the business or operations of Parent or any of its Subsidiaries. There are no unresolved violations, criticisms or exceptions by any Regulatory Agency with respect to any Report relating to any examinations or inspections of Parent or any of its Subsidiaries, except for any such violations, criticisms or exceptions that would not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent.

(b) Parent has timely filed with or furnished to, as applicable, the SEC all registration statements, prospectuses, reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated by reference) required to be filed or furnished by it with the SEC pursuant to the Securities Act or the Exchange Act, as the case may be, since January 1, 2014 (the *Parent SEC Documents*). As of their respective filing dates (or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing prior to the date hereof), each of the Parent SEC Documents complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act, applicable to such Parent SEC Documents. None of the Parent SEC Documents, including any financial statements, schedules or exhibits included or incorporated by reference therein at the time they were filed or furnished (or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing prior to the date hereof), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of Parent s Subsidiaries is required to file with or furnish to the SEC any forms, reports or other documents.

4.6 *Financial Statements*.

(a) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Parent SEC Documents (the *Parent Financial Statements*): (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto as of their respective dates; (ii) was prepared in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto and, in the case of unaudited interim financial statements, as may be permitted by the SEC for Quarterly Reports on Form 10-Q); and (iii) fairly presented in all material respects the consolidated financial position of Parent and its consolidated Subsidiaries at the respective dates thereof and the consolidated results of Parent s operations and cash flows for the periods indicated therein, subject, in the case of unaudited interim financial statements, to normal and year-end audit adjustments as permitted by GAAP and the applicable rules and regulations of the SEC.

(b) Parent and each of its Subsidiaries has established and maintains a system of internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that is sufficient to provide reasonable assurance (i) regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, (ii) that receipts and expenditures of Parent and its Subsidiaries are being made only in accordance with authorizations of management and the board of directors of Parent and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Parent s and its Subsidiaries assets that could have a material effect on Parent s financial statements.

(c) Parent s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are designed to ensure that all information (both financial and non-financial) required to be disclosed by Parent in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such information is accumulated and communicated to Parent s management as appropriate to allow timely decisions regarding required disclosure and to make the certifications of the principal executive officer and principal financial officer of Parent required under the Exchange Act with respect to such reports. Parent has disclosed, based on its most recent evaluation of such disclosure controls and procedures prior to the date of this Agreement, to Parent s auditors and the audit committee of the board of directors of Parent (i) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that could adversely affect in any material respect Parent s ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in Parent s internal controls over financial reporting.

(d) Each of the principal executive officer and the principal financial officer of Parent (or each former principal executive officer and each former principal financial officer of Parent, as applicable) has made all certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act with respect to the Parent SEC Documents, and the statements contained in such certifications are true and accurate in all material respects. Neither Parent nor any of its Subsidiaries has outstanding (nor has arranged or modified since the enactment of the Sarbanes-Oxley Act) any extensions of credit (within the meaning of Section 402 of the Sarbanes-Oxley Act) to directors or executive officers (as defined in Rule 3b-7 under the Exchange Act) of Parent or any of its Subsidiaries. Parent is otherwise in compliance with all applicable provisions of the Sarbanes-Oxley Act, except for any non-compliance that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent.

(e) The books and records kept by Parent and its Subsidiaries are in all material respects complete and accurate and have been maintained in the ordinary course of business and in accordance with applicable Laws and accounting requirements. The Parent Financial Statements have been prepared from, and are in accordance with, the books and records of Parent and its Subsidiaries.

(f) Neither Parent nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance-sheet partnership or any similar Contract (including any Contract relating to any transaction or relationship between or among Parent and any of its Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any off-balance-sheet arrangement), where the result, purpose or intended effect of such contract or arrangement is to avoid disclosure of any material transaction involving, or material liabilities of, Parent or any of its Subsidiaries in Parent s or such Subsidiary s financial statements.

4.7 *Undisclosed Liabilities.* The audited consolidated balance sheet of Parent dated as of the Balance Sheet Date is hereinafter referred to as the *Parent Balance Sheet*. Except as set forth on *Section 4.7* of the Parent Disclosure Schedules or as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on Parent, neither Parent nor any of its Subsidiaries has any liability of any nature whatsoever, whether absolute, accrued, contingent or otherwise, known or unknown, and whether due or to become due, whether or not the same would have been required to be reflected in the Parent Balance Sheet if it had existed on the Balance Sheet Date, except for (i) those liabilities that are reflected or reserved against on the Parent Balance Sheet (including in the notes thereto), (ii) liabilities and obligations incurred since the Balance Sheet Date in the ordinary course of business consistent with past practice or (iii) liabilities incurred in connection with the Transactions.

4.8 *Absence of Certain Changes or Events.* Since December 31, 2016, there has not been any fact, change, circumstance, event, occurrence, condition or development that has had or would reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect on Parent.

4.9 *Legal Proceedings*.

(a) Except as set forth on *Section 4.9(a)* of the Parent Disclosure Schedules, neither Parent nor any of its Subsidiaries is a party to or the subject of any, and there are no outstanding or pending or, to the Knowledge of Parent, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature against Parent or any of its Subsidiaries that would reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect on Parent.

(b) There is no material injunction, order, judgment, decree or regulatory restriction (other than regulatory restrictions of general application that apply to similarly situated companies) imposed upon Parent.

4.10 *Compliance with Applicable Law*.

(a) Parent and each of its Subsidiaries and each of their employees hold, and have at all times since January 1, 2014 held, all licenses, registrations, franchises, certificates, variances, permits and authorizations necessary for the lawful conduct of their respective businesses and properties and are and have been in compliance with all, and are not and have not been in violation of any, applicable Law, except, in each case, where the failure to hold such license, registration, franchise, certificate, variance, permit or authorization or such noncompliance or violation would not be reasonably likely to have a Material Adverse Effect on Parent, and neither Parent nor any of its Subsidiaries has Knowledge of, or has received notice of, any violations of any of the above, except for such violations that would not be material to Parent and its Subsidiaries, taken as a whole.

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(b) Except as would not be material to Parent and its Subsidiaries, taken as a whole, Parent and each of its Subsidiaries have properly administered all accounts for which Parent or any of its Subsidiaries acts as a fiduciary, including accounts for which Parent or any of its Subsidiaries serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment adviser, in accordance with the terms of the governing documents and applicable Law. None of Parent or any of its Subsidiaries, or any director, officer or employee of Parent or any of its Subsidiaries, has committed any breach of trust with respect to any such fiduciary account that would be material to Parent and its Subsidiaries, taken as a whole, and the accountings for each such fiduciary account are true and correct in all material respects and accurately reflect in all material respects the assets of such fiduciary account.

(c) Each of Parent and Parent Bank is well-capitalized (as such term is defined at 12 C.F.R. § 225.2(r) and 12 C.F.R. § 325.103(b)(1), respectively) and well managed (as such term is defined at 12 C.F.R. § 225.2(s) and 12 C.F.R. § 362.17(e), respectively), and the rating of Parent Bank under the CRA is no less than satisfactory. Neither Parent nor Parent Bank has been informed that its status as well-capitalized, well managed or, in the case of Parent Bank, for CRA purposes, satisfactory, will change within one (1) year.

4.11 *Tax Matters.* Neither Parent nor any of its Subsidiaries has taken or agreed to take any action or is aware of any fact or circumstance that would prevent or impede, or could reasonably be expected to prevent or impede, the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

4.12 *Agreements with Regulatory Agencies.* Neither Parent nor any of its Subsidiaries is subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil penalty by, or is a recipient of any supervisory letter from, or has adopted any board resolutions at the request or suggestion of any Regulatory Agency or other Governmental Entity that restricts the conduct of its business or that relates to its capital adequacy, its ability to pay dividends, its credit or risk management policies, its management or its business (any such agreement, memorandum of understanding, letter, undertaking, order, directive or resolutions, whether or not set forth in the Parent Disclosure Schedules, a *Parent Regulatory Agreement*), nor has Parent or any of its Subsidiaries been advised in writing, or have Knowledge of any pending or threatened regulatory investigation or that any Regulatory Agency or other Governmental Agency is considering issuing, initiating, ordering or requesting any Parent Regulatory Agreement.

4.13 *Environmental Matters*.

(a) Each of Parent and its Subsidiaries, and, to the Knowledge of Parent (except as set forth in written third-party environmental reports included in the relevant Loan Documentation regarding real property securing a Loan made in the ordinary course of business to a third party that is not an Affiliate of Parent), any property in which Parent or any of its Subsidiaries holds a security interest, is, and has since January 1, 2014 been, in material compliance with all Environmental Laws.

(b) Since January 1, 2014, there have been no legal, administrative, arbitral or other proceedings, claims or actions pending, or, to the Knowledge of Parent, threatened against Parent or any of its Subsidiaries, nor are there governmental or third-party environmental investigations or remediation activities or governmental investigations that seek to impose or that could reasonably be expected to result in the imposition, on Parent or any of its Subsidiaries, of any liability or obligation arising under any Environmental Law pending or, to the Knowledge of Parent, threatened against Parent or any of its Subsidiaries, which liability or obligation would reasonably be expected to, individually or in the aggregate, be material to Parent and its

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Subsidiaries, taken as a whole. To the Knowledge of Parent, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that would be or would reasonably be expected to be, individually or in the aggregate, material to Parent and its Subsidiaries, taken as a whole.

(c) Except as set forth in written third-party environmental reports included in the relevant Loan Documentation regarding real property securing a Loan made in the ordinary course of business to a third party that is not an Affiliate of Parent, to the Knowledge of Parent, during or prior to the period of (i) Parent s or any of its Subsidiaries ownership or operation of any property, (ii) Parent s or any of its Subsidiaries active participation in the management of any property or (iii) Parent s or any of its Subsidiaries holding of a security interest or other interest in any property, there were no releases or threatened releases of hazardous materials or other materials regulated under Environmental Laws in, on, under or affecting any such property since January 1, 2014 that would reasonably be expected to be, individually or in the aggregate, material to Parent and its Subsidiaries, taken as a whole.

(d) Parent and each of its Subsidiaries are not subject to any agreement, order, judgment or decree by or with any court, Governmental Entity or third party imposing any material liability or obligation with respect to the foregoing. There has been no written third-party environmental site assessment conducted since January 1, 2014 assessing the presence of hazardous materials located on any property owned or leased by Parent or any of its Subsidiaries that is within the possession or control of Parent and its Affiliates as of the date of this Agreement that has not been delivered to the Company prior to the date of this Agreement.

4.14 *Intellectual Property*.

(a) Parent and each of its Subsidiaries own, or are licensed or otherwise possess rights to use free and clear of all Liens all material Intellectual Property used or held for use by Parent and any of its Subsidiaries as of the date hereof (collectively, the *Parent Intellectual Property*) in the manner that it is currently used by Parent and any of its Subsidiaries.

(b) Since January 1, 2014, neither Parent nor any of its Subsidiaries has received written notice from any third party alleging any material interference, infringement, misappropriation or violation of any Intellectual Property rights of any third party and, to the Knowledge of Parent, neither Parent nor any of its Subsidiaries has infringed upon, misappropriated or violated any Intellectual Property rights of any third party. To the Knowledge of Parent, since January 1, 2014, no third party has infringed upon, misappropriated or violated any Parent Intellectual Property. Neither Parent nor any of its Subsidiaries licenses to, or has entered into any exclusive agreements relating to any Parent Intellectual Property with, third parties, or, except as set forth on *Section 4.14(b)* of the Parent Disclosure Schedules, permits third parties to use any Parent Intellectual Property rights. Except as set forth on *Section 4.14(b)* of the Parent Disclosure Schedules, neither Parent nor any of its Subsidiaries owes any material royalties or payments to any third party for using or licensing to others any Parent Intellectual Property.

(c) Except as set forth in *Section 4.14(c)* of the Parent Disclosure Schedules, neither Parent nor any of its Subsidiaries is a party to any material agreement in which either Parent or any of its Subsidiaries is obligated to indemnify any Person against a claim of infringement or misappropriation of any Intellectual Property.

4.15 *Loans*. *Section 4.15* of the Parent Disclosure Schedules identifies each Loan payable to Parent or any of its Subsidiaries that (i) as of March 31, 2017, (A) was on non-accrual status, (B) a specific reserve allocation existed in connection therewith, (C) was required to be accounted for as a troubled debt restructuring in accordance with Statement of Financial Accounting Standards No. 15 or (D) was contractually past due ninety (90) days or more in the payment of principal and/or interest, or

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(ii) as of March 31, 2017, was classified as Other Loans Specially Mentioned, Special Mention, Substandard, Doubtful, Loss, Classified, Criticized, Watch List or words of similar import. For each Loan identified in response to clause (i) or (ii) above, *Section 4.15* of the Parent Disclosure Schedules sets forth the outstanding principal amount, as well as accrued and unpaid interest, on each such Loan and the identity of the borrower thereunder as of March 31, 2017.

4.16 *Broker s Fees.* Neither Parent nor any of its Affiliates nor any of their respective officers or directors has employed any broker, finder or financial advisor or incurred any liability for any broker s fees, commissions or finder s fees in connection with the Merger or the other Transactions, except for Keefe, Bruyette & Woods, Inc.

4.17 *Takeover Laws and Provisions.* The adoption by the board of directors of Parent of this Agreement, the Merger and the other Transactions represent all the action necessary by Parent to render inapplicable to this Agreement, the Merger and the other Transactions, the provisions of any potentially applicable Takeover Statutes, and any potentially applicable provision of the Parent Articles of Incorporation and the Parent Bylaws. No fair price Law or similar provision of the Parent Articles of Incorporation or Parent Bylaws is applicable to this Agreement and the Transactions.

4.18 *Approvals.* As of the date of this Agreement, to the Knowledge of Parent, there is no reason why all necessary regulatory approvals and consents from any Governmental Entity should not be received in order to permit the consummation of the Transactions, including the Merger and the Bank Merger, on a timely basis.

4.19 *Parent Opinion.* Prior to the execution of this Agreement, Parent has received an opinion (which, if initially rendered verbally, has been or will be confirmed by a written opinion, dated the same date) from Keefe, Bruyette & Woods, Inc., to the effect that, as of the date thereof, and based upon and subject to the factors, assumptions and limitations set forth therein, the Exchange Ratio pursuant to this Agreement is fair, from a financial point of view, to Parent. Such opinion has not been amended or rescinded as of the date of this Agreement.

4.20 *Parent Information.* The information supplied or to be supplied by Parent for inclusion or incorporation by reference in (a) the Joint Proxy Statement, on the date that it (or any amendment or supplement thereto) is first mailed to holders of Company Common Stock or holders of Parent Common Stock, respectively, or at the time of the Company Shareholders Meeting or the Parent Shareholders Meeting, respectively, (b) the Form S-4, when it or any amendment or supplement thereto becomes effective under the Securities Act, (c) the documents and financial statements of Parent incorporated by reference in the Joint Proxy Statement, the Form S-4 or any amendment or supplement thereto or (d) any other application, notification or other document filed with any Regulatory Agency or other Governmental Entity in connection with the Transactions, including transactions contemplated in any amendment or supplement thereto, at the time any such other applications, notifications or other documents or any such amendments or supplements thereto are so filed, as the case may be, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No representation or warranty is made by Parent in this *Section 4.20* with respect to statements made or incorporated by reference therein based on information supplied by the Company in writing expressly for inclusion or incorporation by reference in the Joint Proxy Statement, the Form S-4 or such other applications, notifications or other documents. The Joint Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act. If at any time prior to the Effective Time, any event should be discovered by Parent or any of its Subsidiaries which should be set forth in an amendment or supplement to the Form S-4 or the Joint Proxy Statement, or in any amendment or supplement to any such other applications, notifications or other documents, Parent shall promptly so inform the Company.

ARTICLE V
COVENANTS RELATING TO CONDUCT OF BUSINESS

5.1 *Conduct of Business of the Company Prior to the Effective Time.* During the period from the date of this Agreement to the Effective Time, except as consented to in writing in advance by Parent, as expressly permitted by this Agreement or as required by applicable Law, the Company shall, and shall cause each of its Subsidiaries to, (a) conduct its business in the ordinary course consistent with past practice, (b) use reasonable best efforts to maintain and preserve intact its business organization, rights, franchises and other authorizations issued by Governmental Entities and its current relationships with its customers, regulators, employees and other Persons with which it has business or other relationships and (c) take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of either the Company or Parent to (i) obtain any necessary approvals of any Regulatory Agency or other Governmental Entity required for the Transactions or, except as otherwise set forth herein, the Company Shareholder Approval, (ii) perform its covenants and agreements under this Agreement or (iii) consummate the Transactions.

5.2 *Forbearances of the Company.* During the period from the date of this Agreement to the Effective Time, except as set forth in *Section 5.2* of the Company Disclosure Schedules or as expressly required or contemplated by this Agreement, the Company shall not, and shall not permit any of its Subsidiaries to, do any of the following, without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed):

(a) (i) create or incur any indebtedness for borrowed money (other than acceptance of deposits, purchases of Federal funds, Federal Home Loan Bank borrowings with maturities of six months or less, sales of certificates of deposit, issuances of commercial paper and entering into repurchase agreements, each in the ordinary course of business consistent with past practice, including with respect to prices, terms and conditions) or (ii) assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, except, in the case of this clause (ii), in connection with presentation of items for collection (*e.g.*, personal or business checks) in the ordinary course of business consistent with past practice; *provided*, that, the Company shall consult with Parent in good faith with respect to any sales of brokered or internet certificates of deposit with a term that exceeds six (6) months;

(b) (i) adjust, split, combine or reclassify any capital stock or other equity interest, (ii) set any record or payment dates for the payment of any dividends or distributions on its capital stock or other equity interest or make, declare or pay any dividend or distribution (except for (A) dividends paid in the ordinary course of business by any direct or indirect wholly owned Company Subsidiary to the Company or any other direct or indirect wholly owned Company Subsidiary, (B) regular quarterly dividends on Company Common Stock at a rate not in excess of $0.04 per share of Company Common Stock and payment dates consistent with past practice and (C) dividends required in respect of the outstanding Trust Preferred Securities as of the date hereof) or make any other distribution on any shares of its capital stock or other equity interest or redeem, purchase or otherwise acquire any securities or obligations convertible into or exchangeable for any shares of its capital stock or other equity interest, (iii) grant any Company Equity Awards, stock appreciation rights, restricted stock, restricted stock units, awards based on the value of the Company s capital stock or other equity-based compensation or grant to any individual, corporation or other entity any right to acquire any shares of its capital stock, (iv) issue or commit to issue any additional shares of capital stock of the Company or issue, sell, lease, transfer, mortgage, encumber or otherwise dispose of any capital stock in any Company Subsidiary (except for issuances upon the exercise or settlement of Company Equity Awards outstanding as of the date hereof in accordance with the terms of such awards as in effect as of the date hereof) or

(v) enter into any agreement, understanding or arrangement with respect to the sale or voting of its capital stock;

(c) sell, lease, transfer, mortgage, encumber or otherwise dispose of any of its properties or assets, including OREO, to any Person other than a direct or indirect wholly owned Company Subsidiary, except subject to *Section 5.2(k)*, sales of OREO, Loans, Loan participations and sales of investment securities in the ordinary course of business consistent with past practice to third parties who are not Affiliates of the Company;

(d) (i) acquire direct or indirect control over any business or Person, whether by stock purchase, merger, consolidation or otherwise, or (ii) make any other investment either by purchase of stock or equity securities, contributions to capital, property transfers or purchase of any property or assets of any other Person, except, with respect to clauses (i) and (ii), in connection with a foreclosure of collateral or conveyance of such collateral in lieu of foreclosure taken in connection with collection of a Loan in the ordinary course of business consistent with past practice and with respect to Loans made to third parties who are not Affiliates of the Company, and with respect to clause (ii) only, purchases of equity securities made in connection with Federal Home Loan Bank borrowings incurred in accordance with *Section 5.2(a)*;

(e) except as required under applicable Law or the terms of any Company Benefit Plan as in effect as of the date hereof or as set forth in *Section 5.2(e)* of the Company Disclosure Schedules, (i) enter into, adopt, amend or terminate, commence participation in, or agree to enter into, adopt or terminate or commence participation in, any Company Benefit Plan (or any employee benefit plan, program or policy that would be a Company Benefit Plan if in effect as of the date hereof), (ii) increase or agree to increase the compensation or benefits payable to any current or former employee, officer, director or independent contractor of the Company or any of its Subsidiaries (including the payment of any amounts to any such individual not otherwise due), (iii) enter into any new, amend or commence participation in any existing, collective bargaining agreement or similar agreement with respect to the Company or any of its Subsidiaries, (iv) cause the funding of any rabbi trust or similar arrangement or take any action to fund or in any other way secure the payment of compensation or benefits under any Company Benefit Plan, (v) grant any awards or accelerate the vesting of or lapsing of restrictions with respect to any equity-based compensation or other incentive compensation or (vi) (A) hire or promote any employee, or engage any independent contractor that is a natural person, of the Company or any of its Subsidiaries who has (or with respect to hiring, engaging or promoting, will have) an annual target compensation opportunity of $200,000 or more (other than internal promotions made in connection with the departure of a former employee) or (B) other than in the ordinary course of business, terminate the employment of any employee, or service of any independent contractor that is a natural person, of the Company or any of its Subsidiaries other than a termination of employment or service for cause;

(f) (i) settle any claim, action or proceeding other than claims, actions or proceedings in the ordinary course of business consistent with past practice involving solely money damages where the amounts not reimbursable or recoverable pursuant to policies of insurance exceed $200,000 individually or $500,000 in the aggregate, or waive, compromise, assign, cancel or release any material rights or claims or (ii) agree or consent to the issuance of any injunction, decree, order or judgment restricting or otherwise affecting its business or operations;

(g) pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than, subject to *Section 5.2(f)*, in the ordinary course of business consistent with past practice;

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(h) implement or adopt any change in accounting principles, practices or methods, except as required by changes in GAAP as concurred in by Dixon Hughes Goodman LLP, its independent auditors, or by applicable Laws;

(i) make, change or revoke any material Tax election, change an annual Tax accounting period, adopt or change any material Tax accounting method, file any amended Tax Return, enter into any material closing agreement with respect to Taxes, or settle any Tax claim, audit, assessment or dispute or surrender any right to claim a refund of Taxes;

(j) adopt or implement any amendment to the Company Articles of Incorporation, the Company Bylaws or comparable governing documents of its Subsidiaries;

(k) except as reasonably required in connection with changes in prevailing market interest rates and in consultation with Parent, (i) materially restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported or (ii) invest in any mortgage-backed or mortgage-related securities which would be considered high-risk securities under applicable regulatory pronouncements or any collateralized debt obligations or private label (non-agency) mortgage-backed securities;

(l) except with respect to any Loans or Loan commitments, enter into, modify, amend or terminate any Material Contract or any Contract that would constitute a Material Contract if it were in effect on the date of this Agreement, other than (i) in the ordinary course of business consistent with past practice and in consultation with Parent, currency exchange, commodities or other hedging Contracts, (ii) renewals of Contracts of the type described in *Section 3.14(a)(iii)* with existing customers of the Company in the ordinary course of business consistent with past practice and (iii) normal renewals of Real Property Leases in the ordinary course of business and in consultation with Parent;

(m) change in any material respect the credit policies or collateral eligibility requirements and standards of the Company;

(n) except as required by applicable Law, enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management, interest rate or fee pricing with respect to depository accounts, hedging and other material banking and operating policies or practices, including policies and practices with respect to underwriting, pricing, originating, securitization, acquiring, selling, servicing, or buying or selling rights to service, Loans;

(o) permit the commencement of any construction of new structures or facilities upon, or purchase or lease any real property in respect of any branch or other facility, or file any application, or otherwise take any action, to establish, relocate or terminate the operation of any banking office of the Company or any Company Subsidiary, other than normal renewals of Real Property Leases in respect of any branches or other facilities utilized by the Company or any of its Subsidiaries on the date hereof in the ordinary course of business and in consultation with Parent;

(p) make, or commit to make, any capital expenditures that exceed by more than five percent (5%) per calendar year the amounts set forth on *Section 5.2(p)* of the Company Disclosure Schedules;

(q) without previously notifying and consulting with Parent (through Parent s Chief Credit Officer, Chief Executive Officer or such other representative as may be designated by Parent or as disclosed on *Section 5.2(q)(i)* of the Company Disclosure Schedules), (i) make or acquire any Loan or Loan participation or issue a commitment (or renew or extend an existing commitment), except to the extent approved by the Company and committed to, in each case prior to the date hereof and set forth in *Section 5.2(q)(i)* of the Company Disclosure Schedules, for any Loan relationship having total credit exposure to the applicable borrower (and its Affiliates), as calculated for applicable loan-to-one-borrower regulatory limitations, in excess of $5,000,000 (whether prior to or after giving effect to any such Loan or Loan participation or commitment (or renewal or extension)); *provided*, *however*, that, with respect to any Loan relationship having total credit exposure to the applicable borrower (and its Affiliates), as calculated for applicable loan-to-one-borrower regulatory limitations, in excess of $5,000,000 as of the date hereof, such Loans or Loan participations or commitments (or renewals or extensions) shall be permitted so long as not resulting in an increase in total credit exposure (in the aggregate between the date hereof and the Closing) to the applicable borrower (and its Affiliates) of greater than $2,500,000; (ii) amend, renew, restructure or modify in any material respect any existing Loan relationship or Loan participation that would result in total credit exposure to the applicable borrower (and its Affiliates), as calculated for applicable loan-to-one-borrower regulatory limitations, in excess of $5,000,000; *provided*, that, in the case of this clause (ii), with respect to any Loan relationship having total credit exposure to the applicable borrower (and its Affiliates), as calculated for applicable loan-to-one-borrower regulatory limitations, in excess of $5,000,000 as of the date hereof, such amendments, renewals, restructurings or modifications shall be permitted so long as not resulting in an increase in total credit exposure (in the aggregate between the date hereof and the Closing) to the applicable borrower (and its Affiliates) of greater than $2,500,000; (iii) except as set forth in *Section 5.2(q)(iii)* of the Company Disclosure Schedules, make or acquire, or increase the concentrations of its shared national credits; or (iv) take any of the actions set forth in *Section 5.2(q)(iv)* of the Company Disclosure Schedules;

(r) take any action that is intended to, would or would be reasonably likely to result in any of the conditions set forth in *Article VII* not being satisfied or prevent or materially delay the consummation of the Transactions, including the Merger and the Bank Merger, except, in each case, as may be required by applicable Law;

(s) take any action, or knowingly fail to take any action, which action or failure to act would prevent or impede, or could reasonably be expected to prevent or impede, the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code; or

(t) agree to, or make any commitment to, take or adopt any resolutions of the board of directors of the Company in support of, any of the actions prohibited by this *Section 5.2*.

5.3 *Forbearances of Parent.* During the period from the date of this Agreement to the Effective Time, except as set forth in *Section 5.3* of the Parent Disclosure Schedules or as expressly required or contemplated by this Agreement, Parent shall not, and shall not permit any of its Subsidiaries to, do any of the following, without the prior written consent of the Company (which consent shall not be unreasonably withheld or delayed):

(a) amend the Parent Articles of Incorporation or Parent Bylaws in a manner that would materially and adversely affect the holders of the Company Common Stock, or adversely affect the Holders of the Company Common Stock relative to other holders of Parent Common Stock;

(b) take any action that is intended to, would or would be reasonably likely to result in any of the conditions set forth in *Article VII* not being satisfied or prevent or materially delay the consummation of the Transactions, including the Merger and the Bank Merger, except, in each case, as may be required by applicable Law;

(c) take any action, or knowingly fail to take any action, which action or failure to act would prevent or impede, or could reasonably be expected to prevent or impede, the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code;

(d) agree to or make any commitment to, take, or adopt any resolutions of the board of directors of Parent in support of, any of the actions prohibited by this *Section 5.3*;

(e) adjust, split, combine or reclassify any Parent Common Stock; or

(f) take any action that is intended to or would reasonably be likely to adversely affect or materially delay the ability to obtain any necessary approvals of any Regulatory Agency or Governmental Entity required for the Transactions or, except as otherwise set forth herein, the Parent Shareholder Approval or to perform its covenants and agreements under this Agreement or to consummate the Transactions.

ARTICLE VI
ADDITIONAL AGREEMENTS

6.1 *Regulatory Matters.*

(a) Each of Parent and the Company shall, and shall cause its Subsidiaries to, use their respective reasonable best efforts to (i) take, or cause to be taken, and assist and cooperate with the other party in taking, all actions necessary, proper or advisable to comply promptly with all legal requirements with respect to the Transactions, including obtaining any third-party consent or waiver that may be required to be obtained in connection with the Transactions, and, subject to the conditions set forth in *Article VII*, to consummate the Transactions (including actions required in order to effect the Bank Merger immediately after the Effective Time) and (ii) obtain (and assist and cooperate with the other party in obtaining) any action, nonaction, permit, consent, authorization, order, clearance, waiver or approval of, or any exemption by, any Regulatory Agency or other Governmental Entity that is required or advisable in connection with the Transactions, including the Merger and the Bank Merger (collectively, the *Regulatory Approvals*). The parties shall cooperate with each other and prepare and file, as promptly as possible after the date hereof, all necessary documentation, and effect all applications, notices, petitions and filings, to obtain as promptly as practicable all actions, nonactions, permits, consents, authorizations, orders, clearances, waivers or approvals of all third parties and Regulatory Agencies or other Governmental Entities that are necessary or advisable to consummate the Transactions, including the Regulatory Approvals.

(b) Each of Parent and the Company shall use its reasonable best efforts to resolve any objections that may be asserted by any Governmental Entity with respect to this Agreement or the Transactions. Notwithstanding anything set forth in this Agreement, under no circumstances shall Parent be required, and the Company and its Subsidiaries shall not be permitted (without Parent s prior written consent in its sole discretion), to take any action, or commit to take any action, or agree to any condition or restriction, involving Parent, the Company or any of their respective Subsidiaries pursuant to this *Section 6.1* or otherwise in connection with obtaining the foregoing actions, nonactions, permits, consents, authorizations, orders, clearances, waivers or approvals, that would have, or would be reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on Parent and its Subsidiaries, taken as a whole, or on the Company and its Subsidiaries, taken as a whole, in each case measured on a scale relative to the Company and its Subsidiaries taken as a whole (any of the foregoing, a *Materially Burdensome Regulatory Condition*); *provided*, that, if requested by Parent, then the Company and its Subsidiaries will take or commit to take any such action, or agree to any such condition or restriction, so long as such action, commitment, agreement, condition or restriction is binding on the Company and its Subsidiaries only in the event the Closing occurs.

(c) Subject to applicable Law relating to the exchange of information, Parent and the Company shall, upon request, furnish each other with all information concerning Parent, the Company and their respective Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary in connection with any statement, filing, notice or application made by or on behalf of Parent, the Company or any of their respective Subsidiaries to any Governmental Entity in connection with the Transactions. In exercising the foregoing right, each of the parties shall act reasonably and as promptly as practicable; *provided*, *however*, that materials may be redacted (x) to remove references concerning the valuation of the businesses of the Parties and their respective Subsidiaries, (y) as necessary to comply with contractual agreements and (z) as necessary to address reasonable privilege or confidentiality concerns.

(d) Subject to applicable Law (including applicable Law relating to the exchange of information), the Company and Parent shall keep each other apprised of the status of matters relating to the completion of the Transactions. Without limiting the generality of the foregoing, subject to applicable Law, (i) the Company and Parent shall promptly furnish each other with copies of non-confidential notices or other communications received by the Company, Parent or any of their respective Subsidiaries (or written summaries of communications received orally) from any third party or Governmental Entity with respect to the Transactions and (ii) Parent and the Company shall provide the other party with a reasonable opportunity to review in advance any proposed non-confidential communication to, including any filings with or other non-confidential written materials submitted to, any third party or Governmental Entity, and, to the extent practicable, each will consult the other party on all the information relating to Parent or the Company, as the case may be, and any of their respective Subsidiaries, which appears in any filing made with, or written materials submitted to, any third party or Governmental Entity in connection with the Transactions.

6.2 *Access to Information.*

(a) Subject to the Confidentiality Agreement, each of the Company and Parent agrees to provide the other party and its Representatives, from time to time prior to the Effective Time, such information as the other party shall reasonably request with respect to the disclosing party and its Subsidiaries, businesses, financial conditions and operations and such access to the properties, books and records and personnel as the other party shall reasonably request, which access shall occur during normal business hours and shall be conducted in such manner as not to interfere unreasonably with the conduct of the business of either the Company or Parent or their respective Subsidiaries.

(b) Parent and the Company shall comply with, and shall cause their respective Representatives, directors, officers and employees to comply with, all of their respective obligations under the Confidentiality Agreement, which shall survive the termination of this Agreement in accordance with the terms set forth therein.

6.3 *SEC Filings and Shareholder Approval.*

(a) The Company shall take all action necessary in accordance with the NCBCA and the Company Articles of Incorporation and the Company Bylaws to duly call, give notice of, convene and hold a meeting of its shareholders as promptly as practicable for the purpose of obtaining the Company Shareholder Approval (such meeting or any adjournment or postponement thereof, the *Company Shareholders Meeting*). Subject to *Section 6.9*, the board of directors of the Company shall (i) recommend to the Company s shareholders the approval of this Agreement and the Transactions, including the Merger (the *Company Board Recommendation*), (ii) include the Company Board Recommendation in the Joint Proxy Statement and (iii) use its reasonable best efforts to obtain the Company Shareholder Approval. The Company agrees that it has an unqualified obligation to submit the Agreement to its shareholders at the Company Shareholders Meeting unless this Agreement has been terminated in accordance with its terms.

(b) Parent shall take all action necessary in accordance with the SCBCA and the Parent Articles of Incorporation and Parent Bylaws to duly call, give notice of, convene and hold a meeting of its shareholders as promptly as practicable for the purpose of obtaining the Parent Shareholder Approval (such meeting or any adjournment or postponement thereof, the *Parent Shareholders Meeting*). Subject to *Section 6.9*, the board of directors of Parent shall (i) recommend

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to Parent s shareholders the approval of this Agreement and the Merger (the *Parent Board Recommendation*), (ii) include the Parent Board Recommendation in the Joint Proxy Statement and (iii) use its reasonable best efforts to obtain the Parent Shareholder Approval. Parent agrees that it has an unqualified obligation to submit the Agreement to its shareholders at the Parent Shareholders Meeting unless this Agreement has been terminated in accordance with its terms.

(c) The Company and Parent shall cooperate to as promptly as practicable prepare and file with the SEC the Joint Proxy Statement. The Company and Parent shall as promptly as practicable prepare, and Parent shall file with the SEC, the Form S-4 in which the Joint Proxy Statement will be included as a prospectus, and Parent and the Company shall use their respective reasonable best efforts to cause the Form S-4 to be declared effective by the SEC as promptly as practicable after filing. The Joint Proxy Statement, and any amendment or supplement thereto, shall include the Company Board Recommendation and the Parent Board Recommendation. The parties shall notify each other promptly of the receipt of any comments from the SEC or its staff and of any request by the SEC or its staff for amendments or supplements to the Joint Proxy Statement or the Form S-4 or for additional information and shall supply each other with copies of all correspondence between such party or any of its Representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to the Joint Proxy Statement, the Form S-4 or the Merger. If, at any time prior to the receipt of the Company Shareholder Approval and the Parent Shareholder Approval, any event occurs with respect to the Company, Parent or any of their respective Subsidiaries, or any change occurs with respect to other information supplied by a party for inclusion in the Joint Proxy Statement or the Form S-4, which is required to be described in an amendment or supplement to the Joint Proxy Statement or the Form S-4, such party shall promptly notify the other party of such event, and the Company and Parent shall cooperate in the prompt filing with the SEC of any necessary amendment or supplement to the Joint Proxy Statement and the Form S-4 and, to the extent required by applicable Law, in disseminating the information contained in such amendment or supplement to the Company s and Parent s shareholders.

6.4 *Public Disclosure.* Parent and the Company agree that the press release announcing the execution and delivery of this Agreement shall be a joint release of Parent and the Company. Thereafter, except as expressly permitted under (and subject to compliance with) *Section 6.9* in connection with a Change in Company Recommendation or Change in Parent Recommendation, as the case may be, Parent and the Company shall consult with and provide each other reasonable notice of any press release or other public (or non-confidential) statement or comment prior to the issuance of such press release or such other statement or comment relating to this Agreement or the Transactions and shall not issue any such press release or such other statement or comment to the public prior to such notice, except as may be required by applicable Law. In addition, neither the Company nor Parent shall issue any such press release or such other statement or comment to the public without the prior approval of the other party (which approval shall not be unreasonably withheld, conditioned or delayed), except as may be required by applicable Law or except as expressly permitted under (and subject to compliance with) *Section 6.9* in connection with a Change in Company Recommendation or Change in Parent Recommendation, as the case may be.

6.5 *Employee Benefit Matters.*

(a) From the Closing Date through the first anniversary thereof (the *Continuation Period*), Parent shall provide or cause to be provided employee benefits (excluding severance benefits) for the employees (as a group) who are actively employed by the Company and its Subsidiaries on the Closing Date and continue to be actively employed after the Effective Time (*Covered Employees*) that, in the aggregate, are at least substantially comparable to the employee benefits (excluding severance benefits) that are generally made available to similarly situated employees of Parent or its Subsidiaries; *provided*, that until such time as Parent shall cause Covered Employees to

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participate in the employee benefit plans that are made available to similarly situated employees of Parent or its Subsidiaries (other than the Company and its Subsidiaries), a Covered Employee s continued participation in the employee benefit plans of the Company and its Subsidiaries shall be deemed to satisfy the foregoing provisions of this sentence (it being understood that participation in any different Parent plans may commence at different times).

(b) Parent shall assume and honor the obligations of the Company and its Subsidiaries under all employment, severance, consulting, retirement and other compensation Contracts in accordance with their terms, except to the extent such Contract is superseded or modified by an agreement with Parent, *provided*, that nothing herein shall prohibit Parent from amending, suspending or terminating any such Contract to the extent permitted by its terms and applicable Law. Parent hereby acknowledges that the Merger will constitute a Change in Control (or concept of similar import) in accordance with the provisions of such Company Benefit Plans.

(c) The Company may pay annual incentive compensation in accordance with *Section 6.5(c)* of the Company Disclosure Schedules.

(d) To the extent that a Covered Employee becomes eligible to participate in a Parent Benefit Plan, Parent shall cause such Parent Benefit Plan to recognize the service of such Covered Employee with the Company or its Subsidiaries for purposes of eligibility, participation and vesting under such Parent Benefit Plan, to the same extent that such service was recognized immediately prior to the Effective Time under a corresponding Company Benefit Plan in which such Covered Employee was eligible to participate immediately prior to the Effective Time; *provided*, that such recognition of service shall not (i) operate to duplicate any benefits of a Covered Employee with respect to the same period of service, (ii) apply for any purpose under any retiree medical plan or defined benefit pension plan or (iii) apply for purposes of any plan, program or arrangement (A) under which similarly situated employees of Parent and its Subsidiaries do not receive credit for prior service or (B) that is grandfathered or frozen, either with respect to level of benefits or participation. For purposes of clarity, Covered Employees shall be credited with service performed for either a predecessor to the Company or any Subsidiary or an entity previously acquired by the Company or any Subsidiary to the same extent that such service was recognized immediately prior to the Effective Time under a corresponding Company Benefit Plan in which such Covered Employee was eligible to participate immediately prior to the Effective Time. With respect to any health care plan of Parent or any of its Subsidiaries (other than the Company and its Subsidiaries) in which any Covered Employee is eligible to participate for the plan year in which such Covered Employee is first eligible to participate, Parent shall use commercially reasonable efforts to (x) cause any preexisting condition limitations or eligibility waiting periods under such Parent or Subsidiary plan to be waived with respect to such Covered Employee to the extent that such limitation would have been waived or satisfied under the Company Benefit Plan in which such Covered Employee participated immediately prior to the Effective Time and (y) recognize any health care expenses incurred by such Covered Employee in the year that includes the Closing Date (or, if later, the year in which such Covered Employee is first eligible to participate) for purposes of any applicable deductible and annual out-of-pocket expense requirements under any such health, dental or vision plan of Parent or any of its Subsidiaries. To the extent Parent does not or cannot take the actions described in clauses (x) and (y) of the immediately preceding sentence, it shall not require any Covered Employee to commence participation in the corresponding Parent Benefit Plan until the beginning of the first plan year following the Effective Time and such Covered Employee shall be entitled to remain on the applicable Company Benefit Plan.

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(e) If requested by Parent in writing delivered to the Company not less than ten (10) Business Days before the Closing Date, the board of directors of the Company (or the appropriate committee thereof) shall adopt resolutions and take such corporate action as is necessary to terminate the Company s 401(k) plan (the *Company 401(k) Plan*), effective as of the day prior to the Closing Date. The form and substance of such resolutions and any other actions taken in connection with the foregoing termination shall be subject to the review and approval of Parent. Following the Effective Time the assets thereof shall be distributed to the participants, and Parent shall permit the Covered Employees to make rollover contributions of eligible rollover distributions (within the meaning of Section 401(a)(31) of the Code), in the form of cash, in an amount equal to the full account balance (including loans) distributed to such Covered Employee from the Company 401(k) Plan to the Parent s 401(k) plan.

(f) From and after the date hereof, any written or oral communications to the employees, officers or directors of the Company or any of its Subsidiaries pertaining to compensation or benefit matters after the Closing, shall be in the form of mutually agreeable communications, prepared in prior consultation with Parent, it being agreed that Parent and the Company shall cooperate, including by providing Parent a reasonable period of time to review any such communication, in providing mutually agreeable communications.

(g) The parties agree to the severance-related and other matters described in *Section 6.5(g)* of the Company Disclosure Schedules.

(h) Without limiting the generality of this *Section 6.5* or *Section 9.12*, the provisions of this *Section 6.5* are solely for the benefit of the parties to this Agreement, and no current or former employee, officer, director or independent contractor or any other individual associated therewith shall be regarded for any purpose as a third-party beneficiary of this Agreement. In no event shall the terms of this Agreement be deemed to (i) establish, amend or modify any Company Benefit Plan or any employee benefit plan as defined in Section 3(3) of ERISA, or any other benefit plan, program, agreement or arrangement maintained or sponsored by Parent, the Company or any of their respective Affiliates; (ii) alter or limit the ability of Parent or any of its Subsidiaries (including, after the Closing Date, the Company and its Subsidiaries) to amend, modify or terminate any Company Benefit Plan, employment agreement or any other benefit or employment plan, program, agreement or arrangement after the Closing Date; or (iii) confer upon any current or former employee, officer, director or independent contractor any right to employment or continued employment or continued service with Parent or any of its Subsidiaries (including, following the Closing Date, the Company and its Subsidiaries), or constitute or create an employment agreement with any employee.

6.6 *Additional Agreements.*

(a) Subject to the terms and conditions of this Agreement, each of the Company and Parent agree to cooperate fully with each other and to use reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective, at the time and in the manner contemplated by this Agreement, the Merger and the other Transactions. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement (including any merger between a Subsidiary of Parent, on the one hand, and a Subsidiary of the Company, on the other) or to vest the Surviving Corporation with full title to all properties, assets, rights, approvals, immunities and franchises of either party to the Merger, the proper officers and directors of each party and their respective Subsidiaries shall, at Parent s sole expense, take all such necessary action as may be reasonably requested by Parent.

(b) Parent may at any time change the method of effecting the Merger and the Bank Merger (including by providing for the merger of the Company with a wholly owned Subsidiary of Parent),

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and the Company agrees to enter into such amendments to this Agreement as Parent may reasonably request in order to give effect to such restructuring; *provided*, *however*, that no such change or amendment shall (i) alter or change the amount, kind or timing (in a manner that materially delays) of the receipt of the Merger Consideration provided for in this Agreement, (ii) adversely affect the Tax treatment of the Merger with respect to the Company s shareholders or (iii) be reasonably likely to cause the Closing to be prevented or materially delayed or the receipt of the Regulatory Approvals to be prevented or materially delayed.

6.7 *Indemnification; Directors and Officers Insurance.*

(a) From and after the Effective Time, the Surviving Corporation shall indemnify and hold harmless each person who is now, or who has been at any time before the date of this Agreement, or who becomes before the Effective Time, a director or officer of the Company or any of its Subsidiaries (each, a *Company Indemnified Party*) against all losses, claims, damages, costs, expenses (including reasonable attorneys fees), liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding, investigation or other legal proceeding, whether civil, criminal, administrative or investigative (each, a *Claim*), in which a Company Indemnified Party is, or is threatened to be made, a party or witness or arising out of the fact that such person is or was a director or officer of the Company or any of its Subsidiaries if such Claim pertains to any matter of fact arising, existing or occurring at or before the Effective Time (including the Merger and the other Transactions), regardless of whether such Claim is asserted or claimed before, or after, the Effective Time, to the fullest extent permitted by applicable Law. The Surviving Corporation shall pay reasonable expenses (including reasonable attorneys fees) in advance of the final disposition of any such proceeding to each Company Indemnified Party to the fullest extent permitted by applicable state or federal Law upon receipt of an undertaking (in a reasonable and customary form) to repay such advance payments if he or she shall be adjudicated to be not entitled to indemnification under this *Section 6.7(a)*.

(b) Any Company Indemnified Party wishing to claim indemnification under *Section 6.7(a)*, upon learning of any Claim, shall promptly notify the Surviving Corporation thereof. In the event of any such Claim (whether arising before or after the Effective Time), (i) the Surviving Corporation shall have the right to assume the defense thereof and the Surviving Corporation shall not be liable to such Company Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Company Indemnified Parties in connection with the defense thereof, except that if the Surviving Corporation elects not to assume such defense or counsel for the Company Indemnified Parties advises that there are substantive issues which raise conflicts of interest between the Surviving Corporation and the Company Indemnified Parties, the Company Indemnified Parties may retain counsel satisfactory to them, and the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Company Indemnified Parties promptly as statements therefor are received; *provided*, that the Surviving Corporation shall be obligated pursuant to this *Section 6.7(b)* to pay for only one firm of counsel for all Company Indemnified Parties (to the extent the claims of such Company Indemnified Parties arise out of substantially similar transactions) in any jurisdiction; (ii) the Company Indemnified Parties and the Surviving Corporation will cooperate in the defense of any such Claim; and (iii) the Surviving Corporation shall not be liable for any settlement effected without its prior written consent (not to be unreasonably withheld, conditioned or delayed); *provided*, that the Surviving Corporation shall not have any obligation hereunder to any Company Indemnified Party when and if a court of competent jurisdiction shall determine, and such determination shall have become final, that the indemnification of such Company Indemnified Party in the manner contemplated hereby is prohibited by applicable Law.

(c) The Surviving Corporation shall use its reasonable best efforts (and the Company shall cooperate prior to the Effective Time in these efforts) to maintain in effect for a period of

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six (6) years after the Effective Time the currently existing directors and officers liability insurance policy maintained by the Company (*provided*, that the Surviving Corporation may substitute therefor (i) policies of at least the same coverage and amounts containing terms and conditions which are substantially no less advantageous to the Company Indemnified Parties, including with respect to the same retrospective date, limits of liability and coverage parts, or (ii) with the consent of the Company given prior to the Effective Time, any other policy) with respect to claims arising from facts, events, acts, errors or omissions which occurred prior to the Effective Time and covering persons who are currently covered by such insurance; *provided*, that in no event shall the Surviving Corporation be required to expend annually in the aggregate an amount in excess of 300% of the annual premium payment on the Company s current policy in effect as of the date of this Agreement (the *Maximum Amount*) and, if the Surviving Corporation is unable to maintain such policy (or substitute policy) as a result of this proviso, the Surviving Corporation shall obtain as much comparable insurance as is available for a period of six (6) years following the Effective Time by payment of such amount; *provided*, *further*, that (i) Parent or the Surviving Corporation may substitute therefor a six (6)-year tail prepaid policy the material terms of which, including coverage and amount, are no less favorable in any material respect to the Company Indemnified Parties than the Company s existing policies as of the date hereof; *provided*, that Parent and the Surviving Corporation shall not be obligated to pay, in the aggregate, an amount greater than the Maximum Amount for such tail policy and *provided*, *further*, that if the aggregate amount necessary to procure or maintain such tail policy exceeds the Maximum Amount, Parent or the Surviving Corporation shall obtain as much comparable insurance as is available by payment of such amount or (ii) Parent may request that the Company obtain such extended reporting period coverage for a six (6)-year period under the Company s existing insurance programs (to be effective as of the Effective Time).

(d) In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties or assets to any Person, then, and in each such case, the Surviving Corporation shall cause proper provision to be made so that the successors and assigns of the Surviving Corporation will expressly assume the obligations set forth in this *Section 6.7*.

(e) The provisions of this *Section 6.7* are intended to be for the benefit of, and shall be enforceable by, each Company Indemnified Party and his or her respective heirs and representatives.

6.8 *Exchange Listing.* Parent shall use its reasonable best efforts to list, prior to the Effective Time, on the NASDAQ, subject to official notice of issuance, the shares of Parent Common Stock to be issued pursuant to the Merger, and Parent shall give all notices and make all filings with the NASDAQ required in connection with the Transactions.

6.9 *No Solicitation.*

(a) The Company shall not, shall cause its Subsidiaries and its and their respective officers, directors and employees not to, and shall use reasonable best efforts to cause its and their respective agents, investment bankers, financial advisors, attorneys, accountants and other retained representatives (each, together with such officers, directors and employees, a *Representative*) not to, directly or indirectly, (i) initiate, solicit, knowingly encourage or knowingly facilitate any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, a merger, reorganization, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of tender offer), business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its Subsidiaries that, if consummated, would constitute an Alternative Transaction (any of the foregoing inquiries, proposals or offers being

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referred to herein as an *Acquisition Proposal*), (ii) participate in any discussions with or provide any confidential information or data to any Person (or Representative of such Person) relating to an Acquisition Proposal or Alternative Transaction, or engage in any negotiations concerning an Acquisition Proposal or Alternative Transaction, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal or Alternative Transaction, (iii) approve or execute or enter into any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other Contract related to any Acquisition Proposal or Alternative Transaction (an *Acquisition Agreement*) or (iv) propose or agree to do any of the foregoing. The Company shall be responsible for any violation of this *Section 6.9* by its Representatives.

(b) As used in this Agreement, *Alternative Transaction* means any of (i) a transaction pursuant to which any Person (or group of Persons) other than Parent or its Affiliates, directly or indirectly, acquires or would acquire more than twenty percent (20%) of the outstanding shares of Company Common Stock or outstanding voting power of the Company, whether from the Company or pursuant to a tender offer or exchange offer or otherwise, (ii) a merger, reorganization, share exchange, consolidation or other business combination involving the Company and any of its Subsidiaries whose assets, individually or in the aggregate, constitute twenty percent (20%) or more of the fair market value of the consolidated assets of the Company (except, in each case, the Merger and the Bank Merger), (iii) any transaction pursuant to which any Person (or group of Persons) other than Parent or its Affiliates acquires or would acquire control of assets (including for this purpose the outstanding equity securities of any Company Subsidiaries and securities of the entity surviving any merger or business combination involving any Company Subsidiary) of the Company or any of its Subsidiaries representing more than twenty percent (20%) of the fair market value of all the assets, deposits, net revenues or net income of the Company and its Subsidiaries, taken as a whole, immediately prior to such transaction or (iv) any other consolidation, business combination, recapitalization or similar transaction involving the Company or any of its Subsidiaries, other than the Transactions, as a result of which the holders of shares of Company Common Stock immediately prior to such transaction do not, in the aggregate, own at least eighty percent (80%) of the outstanding shares of Company Common Stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of Company Common Stock immediately prior to the consummation thereof.

(c) Notwithstanding the foregoing, the Company and its Representatives may, prior to receipt of the Company Shareholder Approval, and subject to compliance with the other terms of this *Section 6.9* and to first entering into a confidentiality agreement having provisions that are no less favorable to the Company than those contained in the Confidentiality Agreement, engage in discussions and negotiations with, or provide any nonpublic information or data to, any Person in response to an unsolicited *bona fide* written Acquisition Proposal by such Person first made after the date of this Agreement (that did not result from a breach of this *Section 6.9*) and which the board of directors of the Company concludes in good faith (after consultation with its outside legal counsel and financial advisors) constitutes or is reasonably likely to result in a Superior Proposal, if and only to the extent that the board of directors of the Company concludes in good faith (after consultation with its outside legal counsel) that failure to do so would be reasonably likely to violate the directors fiduciary duties under applicable Law. The Company shall provide Parent with a copy of any nonpublic information or data provided to any Person pursuant to the prior sentence prior to or simultaneously with furnishing such information to such Person (to the extent not previously provided).

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(d) The Company shall notify Parent promptly (but in no event later than twenty-four (24) hours) after receipt of any Acquisition Proposal, or any request for nonpublic information relating to the Company or any of its Subsidiaries by any Person that informs the Company or any of its Subsidiaries that it is considering making, or has made, an Acquisition Proposal, or any inquiry from any Person seeking to have discussions or negotiations with the Company that is reasonably likely to lead to a possible Acquisition Proposal or Alternative Transaction. Such notice shall be made orally and confirmed in writing, and shall indicate the identity of the Person making the Acquisition Proposal, inquiry or request and the material terms and conditions of any inquiries, proposals or offers (including a copy thereof if in writing and any related documentation or correspondence). The Company shall also promptly, and in any event within twenty-four (24) hours, notify Parent, orally and in writing, if it enters into discussions or negotiations concerning any Acquisition Proposal or Alternative Transaction or provides nonpublic information or data to any Person in accordance with *Section 6.9(c)* and keep Parent reasonably informed of the status and terms of any such proposals, offers, inquiries, discussions or negotiations on a current basis, including by providing a copy of all material documentation or correspondence relating thereto.

(e) Except as provided in *Section 6.9(f)*, none of the Company, the board of directors of the Company, or any committee thereof shall (i) withhold, withdraw or modify in any manner adverse to Parent or propose publicly to withhold, withdraw or modify in any manner adverse to Parent, the Company Board Recommendation or approval, recommendation or declaration of advisability by the Company, the board of directors of the Company or any such committee thereof with respect to this Agreement or the Transactions, (ii) approve or recommend to its shareholders, or resolve to or publicly propose or announce its intention to approve or recommend to its shareholders, an Acquisition Proposal or (iii) fail to publicly, finally and without qualification (A) recommend against any Acquisition Proposal or (B) reaffirm the Company Board Recommendation, in each case, within ten (10) Business Days after such Acquisition Proposal is made public or any request by Parent to do so (which request may be made once per Acquisition Proposal (and any material change thereto)) (any of the foregoing, a *Change in Company Recommendation*).

(f) Notwithstanding anything in this Agreement to the contrary, prior to the time the Company Shareholder Approval is obtained, the board of directors of the Company may make a Change in Company Recommendation if and only if (i) an unsolicited *bona fide* written Acquisition Proposal (that did not result from a breach of this *Section 6.9*) is made to the Company by a third party, and such Acquisition Proposal is not withdrawn, (ii) the board of directors of the Company has concluded in good faith (after consultation with its outside legal counsel and financial advisors) that such Acquisition Proposal constitutes a Superior Proposal, (iii) the board of directors of the Company has concluded in good faith (after consultation with its outside legal counsel) that failure to do so would be reasonably likely to violate the directors fiduciary duties under applicable Law, (iv) prior to effecting the Change in Company Recommendation, five (5) Business Days shall have elapsed since the Company has given written notice to Parent advising Parent that the Company intends to take such action and specifying in reasonable detail the reasons therefor, including the terms and conditions of, and the identity of the person making, any such Acquisition Proposal that is the basis of the proposed action (a *Company Notice of Recommendation Change*) (it being understood that any amendment to any material term of such Acquisition Proposal shall require a new Company Notice of Recommendation Change, except that, in such case, the five (5) Business Day period referred to in this clause (iv) and in clauses (v) and (vi) shall be reduced to three (3) Business Days following the giving of such new Company Notice of Recommendation Change), (v) during such five (5) Business Day period, the Company has considered, and engaged in good-faith discussions with Parent regarding, any adjustment or modification of the terms of this Agreement proposed by Parent and (vi) the board of directors of the Company, following such

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five (5) Business Day period, again reasonably determines in good faith (after consultation with its outside legal counsel, and taking into account any adjustment or modification of the terms of this Agreement proposed by Parent) that such Acquisition Proposal nonetheless continues to constitute a Superior Proposal and that failure to make a Change in Company Recommendation would be reasonably likely to violate the directors fiduciary duties under applicable Law. For purposes of this Agreement, *Superior Proposal* means an unsolicited, *bona fide* written Acquisition Proposal made by a third Person (or group of Persons acting in concert within the meaning of Rule 13d-5 under the Exchange Act) to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination or acquisition transaction, (A) all or substantially all of the assets of the Company or (B) all of the outstanding voting securities of the Company and which the board of directors of the Company has in good faith determined (taking into account, among other things, (1) its consultation with its outside legal counsel and its financial advisors and (2) the terms and conditions of such Acquisition Proposal and this Agreement (as it may be proposed to be amended by Parent)), to be more favorable, from a financial point of view, to the Company s shareholders than the Transactions (as it may be proposed to be amended by Parent) and to be reasonably capable of being consummated on the terms proposed, taking into account all other legal, financial, timing, regulatory and other aspects of such Acquisition Proposal and the Person making the proposal.

(g) Except as provided in *Section 6.9(h)*, none of Parent, the board of directors of Parent, or any committee thereof shall withhold, withdraw or modify in any manner adverse to the Company, or propose publicly to withhold, withdraw or modify in any manner adverse to the Company, the Parent Board Recommendation or approval, recommendation or declaration of advisability by Parent, the board of directors of Parent or any such committee thereof with respect to this Agreement or the Transactions (a *Change in Parent Recommendation*).

(h) Notwithstanding anything in this Agreement to the contrary, prior to the time the Parent Shareholder Approval is obtained, the board of directors of Parent may make a Change in Parent Recommendation if and only if (i) the board of directors of Parent has concluded in good faith (after consultation with its outside legal counsel) that failure to do so would be reasonably likely to violate the directors fiduciary duties under applicable Law and (ii) prior to effecting the Change in Parent Recommendation, five (5) Business Days shall have elapsed since Parent has given written notice to the Company advising the Company that Parent intends to take such action and specifying in reasonable detail the reasons therefor (a *Parent Notice of Recommendation Change*), (iii) during such five (5) Business Day period, Parent has considered and engaged in good-faith discussions with the Company regarding, any adjustment or modification of the terms of this Agreement proposed by the Company, and (iv) the board of directors of Parent, following such five (5) Business Day period, again reasonably determines in good faith (after consultation with its outside legal counsel, and taking into account any adjustment or modification of the terms of this Agreement proposed by the Company) that failure to make a Change in Parent Recommendation would be reasonably likely to violate the directors fiduciary duties under applicable Law.

(i) Nothing contained in this *Section 6.9* shall prohibit the Company or its Subsidiaries from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making a statement contemplated by Item 1012(a) of Regulation M-A or Rule 14d-9 promulgated under the Exchange Act, or from issuing a stop, look and listen statement pending disclosure of its position thereunder; *provided*, *however*, that compliance with such rules shall not in any way limit or modify the effect that any action taken pursuant to such rules has under any other provision of this Agreement, including *Section 8.1(f)*; *provided*, *further*, that any such disclosure (other than a stop, look and listen statement pending disclosure of its position thereunder, which is followed within ten (10) Business Days by an unqualified public reaffirmation of the Company Board Recommendation) shall be deemed for all

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purposes of this Agreement to be a Change in Company Recommendation unless the Company Board expressly publicly reaffirms without qualification the Company Board Recommendation in connection with such communication.

(j) The Company agrees that it (i) will and will cause its Subsidiaries, and its and their Representatives to, cease immediately and terminate any and all existing activities, discussions or negotiations with any third parties conducted heretofore with respect to any Acquisition Proposal or Alternative Transaction or similar transaction and (ii) will not release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which it or any of its Subsidiaries is a party with respect to any Acquisition Proposal or Alternative Transaction, and will enforce the terms thereof and, to the extent applicable, request from such third parties the return or destruction of any confidential information of the Company provided thereunder.

(k) The Company shall not submit to the vote of its shareholders any Acquisition Proposal or Alternative Transaction other than this Agreement and the Merger prior to the termination of this Agreement in accordance with its terms.

6.10 *Notification of Certain Matters.* Each of the Company and Parent shall give prompt notice to the other of any fact, change, event or circumstance known to it that (a) has had or is reasonably likely, individually or taken together with all other facts, changes, events and circumstances known to it, to have or to result in any Material Adverse Effect on the Company or Parent, as applicable, with respect to it or (b) would or would be reasonably likely to cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein or that could be expected to give rise, individually or in the aggregate, to the failure of a condition in *Article VII*; *provided*, that any failure to give notice in accordance with the foregoing with respect to any breach shall not be deemed to constitute a violation of this *Section 6.10* or the failure of any condition set forth in *Section 7.2* or *7.3* to be satisfied, or otherwise constitute a breach of this Agreement by the party failing to give such notice, in each case unless the underlying breach would independently result in a failure of the conditions set forth in *Section 7.2* or *7.3* to be satisfied.

6.11 *Governance Matters.*

(a) Effective immediately after the Effective Time, Parent shall appoint (i) Mr. James C. Cherry and one other current non-employee member of the board of directors of the Company mutually agreed upon by the parties (it being understood that such non-employee member must be approved by the Governance Committee of the board of directors of Parent) prior to the Effective Time (each such director, a *Company Director*) to Parent s board of directors and to the board of directors of Parent Bank, in each case, for a term expiring at the next annual meeting of the shareholders of Parent or Parent Bank, as applicable, following the Effective Time and (ii) Mr. Cherry to the Executive Committee of Parent s board of directors to serve thereon for a period of one (1) year from the date of appointment.

(b) Subject to and in accordance with the bylaws of the Surviving Corporation, effective as of the Effective Time, (i) Mr. Robert R. Horger shall continue to serve as the Chairman of the board of directors of the Surviving Corporation and (ii) the officers of Parent in office immediately prior to the Effective Time, together with such additional persons as may thereafter be elected, shall serve as the officers of the Surviving Corporation from and after the Effective Time in accordance with the bylaws of the Surviving Corporation.

6.12 *Certain Post-Closing Matters.* The parties agree to the matters described in *Section 6.12* of the Company Disclosure Schedules.

6.13 *Exemption from Liability Under Section 16(b).* The Company and Parent agree that, in order to most effectively compensate and retain those officers and directors of the Company subject to the reporting requirements of Section 16(a) of the Exchange Act (the *Company Insiders*), both prior to

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and after the Effective Time, it is desirable that Company Insiders not be subject to a risk of liability under Section 16(b) of the Exchange Act to the fullest extent permitted by applicable Law in connection with the conversion of shares of Company Common Stock in the Merger, and for that compensatory and retention purposes agree to this *Section 6.13*. The boards of directors of Parent and of the Company, or a committee of non-employee directors thereof (as such term is defined for purposes of Rule 16b-3(d) under the Exchange Act), shall promptly, and in any event prior to the Effective Time, take all such steps as may be necessary or appropriate to cause (i) any dispositions of Company Common Stock by any Company Insiders and (ii) any acquisitions of Parent Common Stock by any Company Insiders who, immediately following the Merger, will be officers or directors of the Surviving Corporation subject to the reporting requirements of Section 16(a) of the Exchange Act, in each case, pursuant to the Transactions, to be exempt from liability pursuant to Rule 16b-3 under the Exchange Act to the fullest extent permitted by applicable Law.

6.14 *Dividends.* After the date of this Agreement, each of Parent and the Company shall coordinate with the other the declaration of any dividends in respect of Parent Common Stock and Company Common Stock and the record dates and payment dates relating thereto, it being the intention of the parties that holders of Company Common Stock shall not receive two dividends, or fail to receive one dividend, in any quarter with respect to their shares of Company Common Stock and any shares of Parent Common Stock any such holder receives in exchange therefor in the Merger.

6.15 *Takeover Laws and Provisions.* No party shall take any action that would cause this Agreement, the Merger or any of the other Transactions to be subject to requirements imposed by any Takeover Statute, and each party shall take all necessary steps within its control to exempt (or ensure the continued exemption of) the Merger and the other Transactions, or if necessary challenge the validity or applicability of, any applicable Takeover Statute, as now or hereafter in effect. If any Takeover Statute may become, or may purport to be, applicable to the Transactions, each of Parent and the Company will grant such approvals and take such actions as are necessary so that the Transactions may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on any of the Transactions, including, if necessary, challenging the validity or applicability of any such Takeover Statute.

6.16 *Shareholder Litigation.* The Company shall give Parent prompt notice of any shareholder litigation against the Company and/or its directors or affiliates relating to the Transactions and shall give Parent the opportunity to participate in at its own expense the defense or settlement of any such litigation. In addition, no settlement of any shareholder litigation against the Company shall be agreed to without Parent s prior written consent (such consent not to be unreasonably withheld, conditioned or delayed).

6.17 *Company Debt.*

(a) Parent agrees to execute and deliver, or cause to be executed and delivered, by or on behalf of the Surviving Corporation, at or prior to the Effective Time, one or more supplemental indentures, guarantees, and other instruments required for the due assumption of the Company s obligations to the extent required by the terms of any outstanding debt securities, Trust Preferred Securities or related guarantees. Prior to the Closing Date, the Company and Parent shall cooperate to prepare any instrument required by the documentation governing such outstanding debt securities, Trust Preferred Securities or related guarantees pursuant to which Parent shall assume the obligations of the Company with respect to outstanding debt securities, Trust Preferred Securities or related guarantees as of the Closing (*Supplemental Instruments*) and any related certificates and other documents required by the documentation governing such outstanding debt securities, Trust Preferred Securities or related guarantees. On the Closing Date, the Company and Parent, as and to the extent required by the documentation governing such outstanding debt securities, Trust Preferred Securities or related guarantees, shall execute and deliver any such Supplemental Instrument and any related certificates and other documents.

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(b) If requested by Parent, the Company shall deliver all notices and take all other actions to facilitate the termination at the Closing of all commitments in respect of (i) the Senior Term Loan Agreement, dated as of December 18, 2015, by and between the Company and Capital Bank Corporation, as amended, supplemented or otherwise modified from time to time (the *Existing Loan Facility*) and (ii) the First Capital Bancorp, Inc. Variable Rate Subordinated Note, dated as of January 10, 2014, by and between First Capital Bancorp, Inc. and Franklin Federal Savings (the *First Capital Note*) and the repayment in full on the Closing Date of all obligations in respect of the indebtedness thereunder; *provided*, that the Company and Parent shall cooperate to provide any funds required to effect all such repayments at or prior to the Closing. In furtherance and not in limitation of the foregoing, if requested by Parent, the Company shall use reasonable best efforts to deliver to Parent at least two (2) Business Days prior to the Closing Date an executed payoff letter with respect to the Existing Credit Facility and the First Capital Note (collectively, the *Payoff Letters*) in form and substance customary for transactions of this type, which Payoff Letters shall, among other things, include the respective payoff amounts.

6.18 *Restructuring Efforts.* If either the Company or Parent shall have failed to obtain the Company Shareholder Approval or the Parent Shareholder Approval, as applicable, at the duly convened Company Shareholders Meeting or Parent Shareholders Meeting, as applicable, or any adjournment or postponement thereof, unless this Agreement has been terminated in accordance with *Section 8.1*, each of the parties shall (i) in good faith use its reasonable best efforts to negotiate a restructuring of the transaction provided for herein and/or (ii) resubmit this Agreement or the Transactions (or as restructured pursuant to this *Section 6.18*) to its shareholders for adoption and approval; *provided*, *however*, that in the case of clause (i) only, no party shall have any obligation to agree to (A) alter or change any material term of this Agreement, including the amount, kind or timing (in a manner that materially delays) of receipt of the Merger Consideration provided for in this Agreement or (B) adversely affect the Tax treatment of the Merger with respect to the shareholders of the Company or Parent.

ARTICLE VII
CONDITIONS PRECEDENT

7.1 *Conditions to Each Party s Obligation to Effect the Closing.* The respective obligation of each party to effect the Merger shall be subject to the satisfaction or waiver at or prior to the Effective Time of the following conditions:

(a) *Shareholder Approvals.* Each of the Company Shareholder Approval and the Parent Shareholder Approval shall have been obtained.

(b) *Regulatory Approvals.* All Regulatory Approvals required to consummate the Merger and the Bank Merger shall have been obtained and shall remain in full force and effect or, in the case of waiting periods, shall have expired or been terminated, and no such Regulatory Approval shall contain or shall have resulted in, or would reasonably be expected to result in, the imposition of any Materially Burdensome Regulatory Condition.

(c) *No Injunctions or Restraints; Illegality.* No order, injunction, decree or judgment issued by any court or Governmental Entity of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or the other Transactions shall be in effect. No Law, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Entity that prohibits or makes illegal the consummation of the Merger or the other Transactions.

(d) *Exchange Listing*. Parent shall have filed with NASDAQ a notification form for the listing of all shares of Parent Common Stock to be delivered as Merger Consideration, and NASDAQ shall not have objected to the listing of such shares of Parent Common Stock.

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(e) *Form S-4.* The Form S-4 shall have become effective under the Securities Act and shall not be the subject of any stop order suspending the effectiveness of the Form S-4, nor shall proceedings for that purpose have been initiated by the SEC and be continuing.

7.2 *Conditions to Obligations of Parent.* The obligation of Parent to effect the Merger is also subject to the satisfaction, or waiver by Parent, at or prior to the Effective Time, of the following conditions:

(a) *Representations and Warranties.* (i) Each of the representations and warranties of the Company set forth in the first sentence of *Section 3.1(a)*, *Section 3.2* (other than inaccuracies that are *de minimis* in amount and effect), *Section 3.3(a)*, *Section 3.3(b)(i)*, *Section 3.8(a)* and *Section 3.22* shall be true and correct in all respects at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), (ii) each of the representations and warranties of the Company set forth in *Section 3.1* (other than the first sentence of *Section 3.1(a)*) shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), and (iii) each of the other representations and warranties of the Company set forth in this Agreement shall be true and correct in all respects (without giving effect to any limitation as to materiality or Material Adverse Effect set forth therein) at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), except in the case of the foregoing clause (iii), where the failure to be so true and correct (without giving effect to any limitation as to materiality or Material Adverse Effect set forth therein), individually or in the aggregate, has not had and would not reasonably be expected to have a Material Adverse Effect on the Company.

(b) *Performance of Obligations of the Company.* The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time.

(c) *Company Officer s Certificate.* Parent shall have received a certificate signed on behalf of the Company by its Chief Executive Officer or Chief Financial Officer stating that the conditions specified in *Section 7.2(a)* and *Section 7.2(b)* have been satisfied.

(d) *Opinion of Tax Counsel.* Parent shall have received an opinion from Wachtell, Lipton, Rosen & Katz, dated as of the Closing Date, to the effect that, on the basis of the facts, representations and assumptions set forth or referred to in such opinion, the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering its opinion, Wachtell, Lipton, Rosen & Katz may require and rely upon representations contained in letters or certificates from each of Parent and the Company, reasonably satisfactory in form and substance to such counsel.

7.3 *Conditions to Obligations of the Company.* The obligation of the Company to effect the Merger is also subject to the satisfaction, or waiver by the Company, at or prior to the Effective Time of the following conditions:

(a) *Representations and Warranties.* (i) Each of the representations and warranties of Parent set forth in the first sentence of *Section 4.1(a)*, *Section 4.2* (other than inaccuracies that are *de minimis* in amount and effect), *Section 4.3(a)*, *Section 4.3(b)(i)* and *Section 4.8* of this Agreement shall be true and correct in all respects at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), (ii) each of the representations and warranties of Parent set forth in *Section 4.1* (other than the first sentence of *Section 4.1(a)*) shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), and (iii) each of the other representations and warranties of Parent set forth in this Agreement shall be true and correct in all respects (without giving effect to any limitation as to materiality or Material Adverse Effect set forth therein) at and as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), except in the case of the foregoing clause (iii), where the failure to be so true and correct (without giving effect to any limitation as to materiality or Material Adverse Effect set forth therein), individually or in the aggregate, has not had and would not reasonably be expected to have a Material Adverse Effect on Parent.

(b) *Performance of Obligations of Parent.* Parent shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time.

(c) *Parent Officer s Certificate.* The Company shall have received a certificate from Parent signed by an authorized officer of Parent stating that the conditions specified in *Section 7.3(a)* and *Section 7.3(b)* have been satisfied.

(d) *Opinion of Tax Counsel.* The Company shall have received an opinion from McGuireWoods LLP, dated as of the Closing Date, to the effect that, on the basis of the facts, representations and assumptions set forth or referred to in such opinion, the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering its opinion, McGuireWoods LLP may require and rely upon representations contained in letters or certificates from each of Parent and the Company, reasonably satisfactory in form and substance to such counsel.

ARTICLE VIII
TERMINATION AND AMENDMENT

8.1 *Termination.* This Agreement may be terminated at any time prior to the Effective Time, whether before or after the adoption and approval of this Agreement by the shareholders of the Company and the shareholders of Parent:

(a) by mutual written consent of Company and Parent;

(b) by either the Company or Parent, if the Closing shall not have occurred on or before the End Date; *provided*, that the right to terminate this Agreement under this *Section 8.1(b)* shall not be available to any party whose action or failure to act has been the cause of or resulted in the failure of the Closing to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(c) by either the Company or Parent, if any Regulatory Approval required to be obtained pursuant to *Section 7.1(b)* has been denied by the relevant Governmental Entity and such denial has become final and nonappealable or any Governmental Entity of competent jurisdiction shall have issued a final, nonappealable injunction or order permanently enjoining or otherwise prohibiting the consummation of the Transactions;

(d) by the Company, if Parent has breached or is in breach of any representation, warranty, covenant or agreement on the part of Parent contained in this Agreement in any respect, which breach, if continuing on the Closing Date, would, individually or together with all such other then-uncured breaches by Parent, constitute grounds for the conditions set forth in *Section 7.3(a)* or *Section 7.3(b)* not to be satisfied on the Closing Date and such breach is not cured prior to the earlier of (i) the End Date and (ii) the thirtieth (30th) Business Day after written notice thereof to Parent or by its nature or timing cannot be cured within such time period;

(e) by Parent, if the Company has breached or is in breach of any representation, warranty, covenant or agreement on the part of the Company contained in this Agreement in any respect, which breach, if continuing on the Closing Date, would, individually or together with all such other then-uncured breaches by the Company, constitute grounds for the conditions set forth in *Section 7.2(a)* or *Section 7.2(b)* not to be satisfied on the Closing Date and such breach is not cured prior to the earlier of (i) the End Date and (ii) the thirtieth (30th) Business Day after written notice thereof to the Company or by its nature or timing cannot be cured within such time period;

(f) by Parent, (i) if the Company has failed to make the Company Board Recommendation, (ii) upon a Change in Company Recommendation or (iii) if the Company has failed to comply in any material respect with its obligations under *Section 6.3(a)* and *Section 6.9*;

(g) by the Company, (i) if Parent has failed to make the Parent Board Recommendation, (ii) upon a Change in Parent Recommendation or (iii) if Parent has failed to comply in any material respect with its obligations under *Section 6.3(b)* and *Section 6.9*;

(h) by the Company, if the Company Shareholders Meeting has been held, the Company Shareholder Approval has not been obtained at such meeting at which a vote on this Agreement is taken (taking into account any adjournment or postponement thereof), prior to the Company Shareholder Meeting, the Company has received a Superior Proposal which did not result from a breach of *Section 6.9* and the Company s board of directors has determined to enter into a definitive agreement providing for such Superior Proposal upon termination of this Agreement in accordance with this *Section 8.1(h)* and enters into such agreement concurrently with such termination; *provided*, that the Company shall pay Parent the Termination Fee pursuant to *Section 8.3(c)* concurrently with and as a condition to the effectiveness of such termination;

(i) by Parent, if the Company Shareholders Meeting has been held and the Company Shareholder Approval has not been obtained at such meeting at which a vote on this Agreement is taken (taking into account any adjournment or postponement thereof); or

(j) by the Company, if the Parent Shareholders Meeting has been held and the Parent Shareholder Approval has not been obtained at such meeting at which a vote on this Agreement is taken (taking into account any adjournment or postponement thereof).

8.2 *Effect of Termination.* In the event of termination of this Agreement by either Parent or the Company pursuant to this *Article VIII*, no party shall have any liability or further obligation hereunder to the other party, except that (a) *Section 6.2(b)* (Access to Information), *Section 6.4* (Public Disclosure), *Section 8.1* (Termination), *Section 8.2* (Effect of Termination), *Section 8.3* (Termination Fee), *Section 8.4* (Amendment), *Section 8.5* (Extension; Waiver), and *Article IX* (General Provisions) shall survive any termination of this Agreement and (b) notwithstanding anything to the contrary in this Agreement, termination will not relieve a breaching party from liability or damages arising out of any fraud or any willful and material breach of any provision of this Agreement (including the loss to Parent or the holders of Company Common Stock and Company Equity Awards, as applicable, of the economic benefits of the Transactions, including, in the case of the Company, the loss of the premium offered to the holders of Company Common Stock and Company Equity Awards).

8.3 *Termination Fee.*

(a) In the event that (i) before the termination of this Agreement, a bona fide Acquisition Proposal shall have been communicated to or otherwise made known to the shareholders, senior

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management or the board of directors of the Company, or any Person shall have publicly announced an intention (whether or not conditional) to make an Acquisition Proposal after the date of this Agreement, (ii) thereafter this Agreement is terminated (A) by the Company or Parent pursuant to *Section 8.1(b)* (if the Company Shareholder Approval has not theretofore been obtained), (B) by Parent pursuant to *Section 8.1(e)* or (C) by Parent pursuant to *Section 8.1(i)* and (iii) prior to the date that is twelve (12) months after the date of such termination, the Company consummates an Alternative Transaction or enters into an Acquisition Agreement, in each case, whether or not relating to the same Acquisition Proposal as that referenced in clause (i), then the Company shall on the earlier of (x) the date an Alternative Transaction is consummated or (y) the date any such Acquisition Agreement is entered into, as applicable, pay Parent a fee equal to $25,000,000 (the *Termination Fee*) by wire transfer of immediately available funds; *provided*, that, for purposes of this *Section 8.3(a)*, all references in the definition of Acquisition Proposal to 20% shall instead refer to 50%.

(b) In the event this Agreement is terminated by Parent pursuant to *Section 8.1(f)*, then the Company shall, within three Business Days after the date of termination, pay Parent the Termination Fee by wire transfer of immediately available funds.

(c) In the event this Agreement is terminated by the Company pursuant to *Section 8.1(h)*, then the Company shall, concurrently with and as a condition to such termination, pay Parent the Termination Fee by wire transfer of immediately available funds.

(d) In the event this Agreement is terminated by the Company pursuant to *Section 8.1(g)*, then Parent shall, within three Business Days after the date of termination, pay the Company the Termination Fee by wire transfer of immediately available funds.

(e) Each of the Company and Parent acknowledges that the agreements contained in this *Section 8.3* are an integral part of the Transactions, and that, without these agreements, Parent and the Company, respectively, would not enter into this Agreement; accordingly, if the Company or Parent, as applicable, fails promptly to pay the amount due pursuant to this *Section 8.3*, and, in order to obtain such payment, Parent or the Company (as applicable) commences a suit which results in a judgment against the Company or Parent (as applicable) for the fee set forth in this *Section 8.3* or any portion thereof, the Company or Parent, as applicable, shall pay to the other party its fees and expenses (including reasonable attorneys fees and expenses) in connection with such suit. In addition, if Parent or the Company fails to pay the amounts payable pursuant to this *Section 8.3*, then Parent or the Company, as applicable, shall pay interest on such overdue amounts (for the period commencing as of the date that such overdue amount was originally required to be paid and ending on the date that such overdue amount is actually paid in full) at a rate per annum equal to the prime rate published in *The Wall Street Journal* on the date such payment was required to be made plus 300 basis points for the period commencing as of the date that such overdue amount was originally required to be paid. The amounts payable by the Company or Parent pursuant to *Section 8.3* constitute liquidated damages and not a penalty, and, except in the case of fraud or willful and material breach of this Agreement, shall be the sole monetary remedy of Parent or the Company, as applicable, in the event of a termination of this Agreement specified in such section. In no event shall any party be required to pay the Termination Fee more than once.

8.4 *Amendment.* Subject to compliance with applicable Law, this Agreement may be amended by Parent and the Company; *provided*, *however*, after any approval of the Transactions by the shareholders of the Company or the shareholders of Parent, there may not be, without further approval of such shareholders, as applicable, any amendment of this Agreement that requires such further approval under applicable Law; *provided*, *further*, that this Agreement may not be amended except by an instrument in writing signed on behalf of Parent and the Company.

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8.5 *Extension; Waiver.* At any time prior to the Effective Time, the parties may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions for its benefit contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to exercise any right or to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other matter.

ARTICLE IX
GENERAL PROVISIONS

9.1 *No Survival of Representations and Warranties and Agreements.* None of the representations and warranties set forth in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This *Section 9.1* shall not limit the survival of any covenant or agreement contained in this Agreement that by its terms applies or is to be performed in whole or in part after the Effective Time.

9.2 *Expenses.* Except as otherwise expressly provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such expense.

9.3 *Notices.* Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and sent by facsimile, by nationally recognized overnight courier service or by registered mail and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this *Section 9.3* prior to 5:00 p.m. (New York City time) on a Business Day, (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this *Section 9.3* later than 5:00 p.m. (New York City time) on any date and earlier than 12:00 a.m. (New York City time) on the following date, (iii) when received, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given if sent by registered mail. The address for such notices and communications shall be as follows:

(a) if to the Company, to:
Park Sterling Corporation
1043 East Morehead Street, Suite 201
Charlotte, North Carolina 28204
Attention: Donald K. Truslow
Fax: (704) 716-2138
with a copy (which shall not constitute notice) to:
McGuireWoods LLP
201 North Tryon Street
Suite 3000
Charlotte, North Carolina 28202
Attention: Chris Scheurer, Esq.
Fax: (704) 444-8772

(b) if to Parent, to:
South State Corporation
520 Gervais Street
Columbia, South Carolina 29201
Attention: John C. Pollok
Fax: (803) 531-0524
with a copy (which shall not constitute notice) to:
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Attention: Matthew M. Guest, Esq.
Fax: (212) 403-2000

9.4 *Interpretation.* For the purposes of this Agreement, (a) words in the singular shall be deemed to include the plural and vice versa and words of one gender shall be deemed to include the other gender as the context requires, (b) the terms hereof, herein and herewith and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits to this Agreement) and not to any particular provision of this Agreement, and Article, Section, paragraph, Schedule and Exhibit references are to the Articles, Sections, paragraphs, Schedules and Exhibits to this Agreement unless otherwise specified, (c) whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation, (d) the word or shall not be exclusive and (e) all references to any period of days shall be deemed to be to the relevant number of calendar days unless otherwise specified. It is understood and agreed that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Company Disclosure Schedules or the Parent Disclosure Schedules is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and neither party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Company Disclosure Schedules or the Parent Disclosure Schedules in any dispute or controversy between the parties as to whether any obligation, item or matter not described in this Agreement or included in the Company Disclosure Schedules or the Parent Disclosure Schedules is or is not material for purposes of this Agreement.

9.5 *Counterparts.* This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

9.6 *Entire Agreement.* This Agreement (including the Company Disclosure Schedules and the Parent Disclosure Schedules, the other Schedules and Exhibits and the other documents and the instruments referred to herein), the Voting Agreements and the Confidentiality Agreement constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

9.7 *Confidential Supervisory Information.* Notwithstanding any other provision of this Agreement, no disclosure, representation or warranty shall be made (or other action taken) pursuant to this Agreement that would involve the disclosure of confidential supervisory information (including confidential supervisory information as defined in 12 C.F.R. § 261.2(c) and as identified in 12 C.F.R. § 309.5(g)(8)) of a Governmental Entity by any party to this Agreement to the extent prohibited by applicable Law. To the extent legally permissible, appropriate substitute disclosures or actions shall be made or taken under circumstances in which the limitations of the preceding sentence apply.

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9.8 *Governing Law; Venue; Waiver of Jury Trial*.

(a) This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to any choice- or conflict-of-law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware; *provided*, that the NCBCA shall govern to the extent mandatorily applicable to North Carolina corporations, and the SCBCA shall govern to the extent mandatorily applicable to South Carolina corporations. In addition, each of the parties (a) submits to the personal jurisdiction of the Delaware Court of Chancery in and for New Castle County, or in the event (but only in the event) that such Delaware Court of Chancery does not have subject matter jurisdiction over such dispute, the United States District Court for the District of Delaware, or in the event (but only in the event) that such United States District Court also does not have jurisdiction over such dispute, any Delaware state court sitting in New Castle County, in the event any dispute (whether in contract, tort or otherwise) arises out of this Agreement or the Transactions, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any claim, action or proceeding relating to this Agreement or the Transactions in any court other than the Delaware Court of Chancery in and for New Castle County, or in the event (but only in the event) that such Delaware Court of Chancery does not have subject matter jurisdiction over such claim, action or proceeding, the United States District Court for the District of Delaware, or in the event (but only in the event) that such United States District Court also does not have jurisdiction over such claim, action or proceeding, any Delaware state court sitting in New Castle County. Each party agrees that service of process upon such party in any such claim, action or proceeding shall be effective if notice is given in accordance with the provisions of this Agreement.

(b) EACH PARTY HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM, ACTION OR PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS. EACH PARTY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS *SECTION 9.8*.

9.9 *Specific Performance.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties shall be entitled to seek specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which such party is entitled at law or in equity. Each of the parties hereby further waives any requirement under any law to post security as a prerequisite to obtaining equitable relief.

9.10 *Additional Definitions.* In addition to any other definitions contained in this Agreement, the following words, terms and phrases shall have the following meanings when used in this Agreement.

Business Day shall mean any day other than a Saturday, Sunday or day on which banking institutions in New York, New York, Charlotte, North Carolina or Columbia, South Carolina are authorized or obligated pursuant to legal requirements or executive order to be closed.

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Company Equity Plans shall mean the Park Sterling Bank 1999 Stock Option Plan, Park Sterling Bank 2006 Employee Stock Option Plan, the Park Sterling Bank 2006 Stock Option Plan for Directors, the Park Sterling Bank 2010 Employee Stock Option Plan, the Park Sterling Bank 2010 Stock Option Plan for Directors, the Company 2008 Equity Incentive Plan, the Company 2010 Long-Term Incentive Plan, the Company 2014 Long-Term Incentive Plan and the Company 2010 Stock Incentive Plan.

Confidentiality Agreement shall mean that certain letter agreement, dated as of February 1, 2017, by and between the Company and Parent (as it may be amended from time to time).

Contract shall mean any contract, agreement, commitment, arrangement, understanding, indenture, lease, purchase order or license.

Corporate Entity shall mean a bank, corporation, partnership, limited liability company, association, joint venture or other organization, whether an incorporated or unincorporated organization.

End Date shall mean April 26, 2018.

ERISA Affiliate shall mean, with respect to any entity, trade or business, any other entity, trade or business that is, or was at the relevant time, a member of a group described in Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) of ERISA that includes or included the first entity, trade or business, or that is, or was at the relevant time, a member of the same controlled group as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

Knowledge with respect to the Company, shall mean the actual knowledge, after due inquiry, of those individuals set forth in *Section 9.10* of the Company Disclosure Schedules and, with respect to Parent, shall mean the actual knowledge, after due inquiry, of those individuals set forth in *Section 9.10* of the Parent Disclosure Schedules.

Law or *Laws* shall mean any federal, state, local or foreign or provincial law, statute, ordinance, rule, regulation, order, policy, binding guideline or agency requirement of or undertaking to or agreement with any Governmental Entity, including common law.

Material Adverse Effect shall mean, with respect to the Company, Parent or the Surviving Corporation, as the case may be, any event, circumstance, development, change or effect that, individually or in the aggregate, (i) is, or is reasonably likely to be, material and adverse to the business, operations, financial condition or results of operations of such party and its Subsidiaries taken as a whole or (ii) prevents or materially impairs, or would be reasonably likely to prevent or materially impair, the ability of such party to timely consummate the Closing (including the Merger and the other Transactions) on the terms set forth herein, or to perform its agreements or covenants hereunder; *provided*, that, in the case of clause (i) only, a Material Adverse Effect shall not be deemed to include any event, circumstance, development, change or effect to the extent resulting from (A) changes after the date of this Agreement in GAAP, (B) changes after the date of this Agreement in Laws of general applicability to companies in the financial services industry, (C) changes after the date of this Agreement in political or regulatory conditions or general economic or market conditions in the United States or any state or territory thereof, in each case generally affecting other companies in the financial services industry, (D) a failure, in and of itself, to meet earnings projections or internal financial forecasts, but not including any underlying causes thereof, or changes in the trading price of Company Common Stock or Parent Common Stock (as applicable), in and of itself, but not including any underlying causes thereof, (E) the public disclosure of this Agreement or (F) any outbreak or escalation of hostilities, declared or undeclared acts of war or terrorism; except, with respect to clauses (A), (B), (C) and (F), to the extent that the effects of such change disproportionately affect such party and its Subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its Subsidiaries operate.

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Parent Benefit Plan means all employee benefit plans (as defined in Section 3(3) of ERISA), whether or not subject to ERISA, and all bonus, stock option, stock purchase, restricted stock, cash- or equity-based incentive, deferred compensation, retiree medical or life insurance, welfare, retirement, severance, change-in-control or other compensatory or benefit plans, programs, policies or arrangements, and all retention, bonus, employment, termination or severance arrangements to which the Parent or any of its Subsidiaries, solely with respect to any such plan subject to Code Section 412 or Title IV or ERISA, or any of their respective ERISA Affiliates is a party, with respect to which the Parent or any of its Subsidiaries, solely with respect to any such plan subject to Code Section 412 or Title IV of ERISA, or any of their respective ERISA Affiliates has any current or future obligation, contingent or otherwise, or, solely with respect to any such plan subject to Code Section 412 or Title IV of ERISA, that are maintained, contributed to or sponsored by the Parent or any of its Subsidiaries or any of their respective ERISA Affiliates for the benefit of any current or former employee, officer, director or independent contractor of the Parent or any of its Subsidiaries or any of their respective ERISA Affiliates. Following the Effective Time, Parent Benefit Plans shall include all Company Benefit Plans.

Parent Share Value shall mean the average closing price, rounded to the nearest cent, per share of Parent Common Stock on the NASDAQ for the consecutive period of ten (10) trading days immediately preceding (but not including) the Closing Date.

party or *parties* shall mean the Company and Parent.

Person shall mean any individual, Corporate Entity or Governmental Entity.

Tax or *Taxes* shall mean all federal, state, local and foreign income, excise, gross receipts, gross income, ad valorem, profits, gains, property, capital, sales, transfer, use, value-added, stamp, documentation, payroll, employment, severance, withholding, duties, license, intangibles, franchise, backup withholding, environmental, occupation, alternative or add-on minimum taxes imposed by any Governmental Entity, and other taxes, charges, levies or like assessments, and including all penalties and additions to tax and interest thereon.

Tax Return shall mean any return, declaration, report, statement, information statement and other document filed or required to be filed with respect to Taxes, including any schedule or attachment thereto, and including any amendment thereof, supplied to a Governmental Entity.

9.11 *Severability.* If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other Persons or circumstances. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original legal and economic intent of the parties as closely as possible in an acceptable manner to the end that the Merger and the other Transactions are fulfilled to the fullest extent possible.

9.12 *Assignment; Third-Party Beneficiaries.* Neither this Agreement nor any of the rights, interests or obligations shall be assigned by any of the parties (whether by operation of law or otherwise) without the prior written consent of the other parties; *provided*, *however*, that Parent may assign any of its rights under this Agreement to a direct or indirect wholly owned Subsidiary of Parent. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Except as otherwise specifically provided in *Section 6.7*, this Agreement (including the documents and instruments referred to herein) is not intended to confer upon any Person other than the parties any rights or remedies hereunder.

[Signature page follows]

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

SOUTH STATE CORPORATION

By: /s/ ROBERT R. HILL, JR.

Name: Robert R. Hill, Jr.
Title: *Chief Executive Officer*

PARK STERLING CORPORATION

By: /s/ JAMES C. CHERRY

Name: James C. Cherry
Title: *Chief Executive Officer*

[Signature Page to Agreement and Plan of Merger]

Annex B

OPINION OF SOUTH STATE S FINANCIAL ADVISOR

April 26, 2017

The Board of Directors
South State Corporation
520 Gervais Street
Columbia, South Carolina 29201

Members of the Board:

You have requested the opinion of Keefe, Bruyette & Woods, Inc. (KBW or we) as investment bankers as to the fairness, from a financial point of view, to South State Corporation (South State) of the Exchange Ratio (as defined below), in the proposed merger (the Merger) of Park Sterling Corporation (Park Sterling) with and into South State, pursuant to the Agreement and Plan of Merger (the Agreement) to be entered into by and between South State and Park Sterling. Pursuant to the Agreement and subject to the terms, conditions and limitations set forth therein, at the Effective Time (as defined in the Agreement), by virtue of the Merger and without any action on the part of South State, Park Sterling, the holders of common stock, par value $1.00 per share, of Park Sterling (Park Sterling Common Stock) or the holders of common stock, par value $2.50 per share, of South State (South State Common Stock), each share of Park Sterling Common Stock issued and outstanding immediately prior to the Effective Time (except for any Cancelled Shares (as defined in the Agreement)) shall be converted into the right to receive 0.14 of a share of South State Common Stock. The ratio of 0.14 of a share of South State Common stock for one share of Park Sterling Common Stock is referred to herein as the Exchange Ratio. The terms and conditions of the Merger are more fully set forth in the Agreement.

The Agreement further provides that, immediately following the Effective Time, Park Sterling Bank, a direct, wholly-owned subsidiary of Park Sterling, will merge with and into South State Bank, a direct, wholly-owned subsidiary of South State, with South State Bank as the surviving entity, pursuant to a separate agreement and plan of merger (such transaction, the Bank Merger).

KBW has acted as financial advisor to South State and not as an advisor to or agent of any other person. As part of our investment banking business, we are continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, we have experience in, and knowledge of, the valuation of banking enterprises. We and our affiliates, in the ordinary course of our and their broker-dealer businesses (and further to certain existing sales and trading relationships between a KBW affiliate and South State, and between KBW and certain of its affiliates and Park Sterling), may from time to time purchase securities from, and sell securities to, South State and Park Sterling. In addition, as market makers in securities, we and our affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of South State or Park Sterling for

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our and their own accounts and for the accounts of our and their respective customers and clients. We have acted exclusively for the board of directors of South State (the Board) in rendering this opinion and will receive a fee from South State for our services, the entire amount of which is contingent upon the successful completion of the Merger. In addition, South State has agreed to indemnify us for certain liabilities arising out of our engagement.

In addition to this present engagement, KBW has provided investment banking and financial advisory services to South State during the past two years for which compensation was received. KBW acted as financial advisor to South State in connection with its January 2017 acquisition of Southeastern Bank Financial Corporation. In addition, KBW acted as financial advisor to South State in connection with its acquisition of certain branches of Bank of America, National Association which acquisition was completed in August 2015. During the past two years, KBW has provided investment banking and financial advisory services to Park Sterling and received compensation for such services. KBW acted as financial advisor to Park Sterling in connection with its October 2015 acquisition of First Capital Bancorp, Inc. We may in the future provide investment banking and financial advisory services to South State and receive compensation for such services.

In connection with this opinion, we have reviewed, analyzed and relied upon material bearing upon the financial and operating condition of South State and Park Sterling and bearing upon the Merger, including among other things, the following: (i) a draft of the Agreement dated April 24, 2017 (the most recent draft made available to us); (ii) the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended December 31, 2016 of South State; (iii) the audited financial statements and the Annual Reports on Form 10-K for the three fiscal years ended December 31, 2016 of Park Sterling; (iv) certain unaudited quarterly financial results for the quarter ended March 31, 2017 of South State (contained in the Current Report on Form 8-K filed by South State with the Securities and Exchange Commission on April 21, 2017); (v) certain preliminary and unaudited quarterly financial results for the quarter ended March 31, 2017 of Park Sterling (provided by representatives of Park Sterling); (vi) certain regulatory filings of South State, Park Sterling and their respective subsidiaries, including (as applicable) the semi-annual reports on Form FR Y-9SP and quarterly reports on Form FR Y-9C and quarterly call reports required to be filed with respect to each semi-annual period and quarter (as the case may be) during the three year period ended December 31, 2016; (vii) certain other interim reports and other communications of South State and Park Sterling to their respective stockholders; and (viii) other financial information concerning the respective businesses and operations of South State and Park Sterling furnished to us by South State and Park Sterling or which we were otherwise directed to use for purposes of our analysis. Our consideration of financial information and other factors that we deemed appropriate under the circumstances or relevant to our analyses included, among others, the following: (i) the historical and current financial position and results of operations of South State and Park Sterling; (ii) the assets and liabilities of South State and Park Sterling; (iii) the nature and terms of certain other merger transactions and business combinations in the banking industry; (iv) a comparison of certain financial and stock market information of South State and Park Sterling with similar information for certain other companies, the securities of which are publicly traded; (v) publicly available consensus street estimates of Park Sterling for 2017, as well as assumed Park Sterling long-term growth rates provided to us by South State management, all of which information was discussed with us by such management and used and relied upon by us at the direction of such management and with the consent of the Board; (vi) publicly available consensus street estimates of South State for 2017, as well as assumed South State long-term growth rates provided to us by South State management, all of which information was discussed with us by such management and used and relied upon by us at the direction of such management and with the consent of the

Board; and (vii) estimates regarding certain pro forma financial effects of the Merger on South State (including without limitation the cost savings and related expenses expected to result or be derived from the Merger) that were prepared by South State management, provided to and discussed with us by such management, and used and relied upon by us at the direction of such management and with the consent of the Board. We have also performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the banking industry generally. We have also participated in discussions that were held by the managements of South State and Park Sterling regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as we have deemed relevant to our inquiry.

In conducting our review and arriving at our opinion, we have relied upon and assumed the accuracy and completeness of all of the financial and other information provided to us or publicly available and we have not independently verified the accuracy or completeness of any such information or assumed any responsibility or liability for such verification, accuracy or completeness. We have relied upon the management of South State as to the reasonableness and achievability of the 2017 publicly available consensus street estimates of South State and Park Sterling, the assumed long-term growth rates of South State and Park Sterling, and the estimates regarding certain pro forma financial effects of the Merger on South State (including, without limitation, the cost savings and related expenses expected to result or be derived from the Merger), all as referred to above, as well as the assumptions set forth in and the bases for all such information. We have assumed, at the direction of South State, that all of the foregoing information was reasonably prepared on bases reflecting, or in the case of the publicly available consensus street estimates of South State and Park Sterling referred to above that such estimates are consistent with, the best currently available estimates and judgments of South State management, and that the forecasts and estimates reflected in such information will be realized in the amounts and in the time periods currently estimated.

It is understood that the portion of the foregoing financial information of South State and Park Sterling that was provided to us was not prepared with the expectation of public disclosure, that all of the foregoing financial information, including the 2017 publicly available consensus street estimates of South State and Park Sterling, is based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such information. We have assumed, based on discussions with the management of South State and with the consent of the Board, that all such information provides a reasonable basis upon which we could form our opinion and we express no view as to any such information or the assumptions or bases therefor. We have relied on all such information without independent verification or analysis and do not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

We also have assumed that there have been no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either South State or Park Sterling since the date of the last financial statements of each such entity that were made available to us. We are not experts in the independent verification of the adequacy of allowances for loan and lease losses and we have assumed, without independent verification and with your consent, that the aggregate allowances for loan and lease losses for each of South State and Park Sterling are adequate to cover such losses. In rendering our opinion, we have not made or obtained any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of South State or Park Sterling, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor have

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we examined any individual loan or credit files, nor did we evaluate the solvency, financial capability or fair value of South State or Park Sterling under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, we assume no responsibility or liability for their accuracy.

We have assumed, in all respects material to our analyses, the following: (i) that the Merger and any related transaction (including the Bank Merger) will be completed substantially in accordance with the terms set forth in the Agreement (the final terms of which we have assumed will not differ in any respect material to our analyses from the draft version reviewed by us) with no adjustments to the Exchange Ratio; (ii) that the representations and warranties of each party in the Agreement and in all related documents and instruments referred to in the Agreement are true and correct; (iii) that each party to the Agreement or any of the related documents will perform all of the covenants and agreements required to be performed by such party under such documents; (iv) that all conditions to the completion of the Merger and any related transaction (including the Bank Merger) will be satisfied without any waivers or modifications to the Agreement or any related documents; and (v) that in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger and any related transactions (including the Bank Merger), no delay, limitation, restriction or condition, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of South State, Park Sterling or the pro forma entity or the contemplated benefits of the Merger, including without limitation the cost savings and related expenses expected to result or be derived from the Merger. We have assumed that the Merger will be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. We have further been advised by representatives of South State that South State has relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to South State, Park Sterling, the Merger and any related transaction (including the Bank Merger), and the Agreement. KBW has not provided advice with respect to any such matters.

This opinion addresses only the fairness, from a financial point of view, as of the date hereof, of the Exchange Ratio in the Merger to South State. We express no view or opinion as to any other terms or aspects of the Merger or any term or aspect of any related transaction (including the Bank Merger), including without limitation, the form or structure of the Merger or any such related transaction, or any consequences of the Merger or any such related transaction to South State, its stockholders, creditors or otherwise. Our opinion is necessarily based upon conditions as they exist and can be evaluated on the date hereof and the information made available to us through the date hereof. It is understood that subsequent developments may affect the conclusion reached in this opinion and that KBW does not have an obligation to update, revise or reaffirm this opinion. Our opinion does not address, and we express no view or opinion with respect to, (i) the underlying business decision of South State to engage in the Merger or enter into the Agreement, (ii) the relative merits of the Merger as compared to any strategic alternatives that are, have been or may be available to or contemplated by South State or the Board, (iii) the fairness of the amount or nature of any compensation to any of South State s officers, directors or employees, or any class of such persons, relative to any compensation to the holders of South State Common Stock or relative to the Exchange Ratio, (iv) the effect of the Merger or any related transaction (including the Bank Merger) on, or the fairness of the consideration to be received by, holders of any class of securities of South State, Park Sterling or any other party to any

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other transaction contemplated by the Agreement, (v) the actual value of South State Common Stock to be issued in the Merger, (vi) the prices, trading range or volume at which South State Common Stock or Park Sterling Common Stock may trade following the public announcement of the Merger or the prices, trading range or volume at which South State Common Stock may trade following the consummation of the Merger, (vii) any advice or opinions provided by any other advisor to any of the parties to the Merger or any other transaction contemplated by the Agreement, or (viii) any legal, regulatory, accounting, tax or similar matters relating to South State, Park Sterling, any of their respective shareholders, or relating to or arising out of or as a consequence of the Merger or any other related transaction (including the Bank Merger), including whether or not the Merger would qualify as a tax-free reorganization for United States federal income tax purposes.

This opinion is for the information of, and is directed to, the Board (in its capacity as such) in connection with its consideration of the financial terms of the Merger. This opinion does not constitute a recommendation to the Board as to how it should vote on the Merger or to any holder of South State Common Stock or any shareholder of any other entity as to how to vote in connection with the Merger or any other matter.

This opinion has been reviewed and approved by our Fairness Opinion Committee in conformity with our policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio in the Merger is fair, from a financial point of view, to South State.

Very truly yours,

Keefe, Bruyette & Woods, Inc.

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Annex C

OPINION OF PARK STERLING S FINANCIAL ADVISOR

April 26, 2017

Board of Directors
Park Sterling Corporation
1043 East Morehead Street, Suite 201
Charlotte, NC 28204

Members of the Board:

We have served as your financial advisor in connection with the proposed merger of Park Sterling Corporation (the Company) with and into South State Corporation (the Buyer) (collectively, the Transaction) pursuant to the Agreement and Plan of Merger (the Agreement) to be entered into by and between the Company and the Buyer. You have requested our opinion as to whether the Merger Consideration (as defined below) in the Transaction is fair, from a financial point of view, to the public shareholders of the common stock of the Company. In accordance with the Agreement and subject to the terms and conditions set forth therein, at the Effective Time (as defined in the Agreement), each share of common stock, par value $1.00, of the Company (the Company Common Stock) issued and outstanding immediately prior to the Effective Time (except as otherwise specified in the Agreement) shall be converted automatically into and represent the right to receive 0.1400 shares of common stock, par value $2.50, of the Buyer (the Buyer Common Stock) (the Merger Consideration), subject to adjustment as provided in the Agreement (as to which we express no opinion). The terms and conditions of the Transaction are more fully set forth in the Agreement. For purposes of this letter, the public shareholders of the common stock of the Company means the holders of outstanding shares of Company Common Stock, other than the Buyer and its directors, officers and affiliates and the directors, officers, managers and affiliates of the Company.

In connection with rendering our opinion we have:

(i) reviewed the most recent draft provided to us of the Agreement and related documents;

(ii) analyzed certain publicly available financial statements and reports regarding the Company and the Buyer;

(iii) analyzed certain publicly available consensus earnings estimates of the Company and the Buyer for 2017 and 2018, as well as assumed long term growth rates based thereon, all of which information was discussed with us by Company and Buyer management and used and relied upon by us with permission of such management;

(iv) analyzed, on a pro forma basis in reliance upon publicly available consensus earnings estimates and other information concerning the Company and the Buyer prepared by and assumptions provided by the management teams of the Company and the Buyer, the effect of the Transaction on the balance sheet, capitalization ratios, earnings and book value both in the aggregate and, where applicable, on a per share basis of the Buyer;

(v) reviewed the reported prices and trading activity for the common stock of the the Company and the Buyer;

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(vi) compared the financial performance and trading prices of the Company and the Buyer with that of certain other publicly-traded companies that we deemed relevant to our analysis of the Transaction;

(vii) reviewed the financial terms, to the extent publicly available, of certain merger or acquisition transactions that we deemed relevant to our analysis of the Transaction;

(viii) discussed with management of the Company and management of the Buyer the operations of and future business prospects for the Company and the Buyer and the anticipated financial consequences of the Transaction to the Company and the Buyer, including potential cost savings or potential synergies;

(ix) assisted in your deliberations regarding the material terms of the Transaction and your negotiations with the Buyer;

(x) performed such other analyses as we have deemed appropriate.

We have relied on the accuracy and completeness of the information and financial data provided to us by the Company and the Buyer and of the other information reviewed by us in connection with the preparation of our opinion, and our opinion is based upon such information. We have not assumed any responsibility for independent verification of the accuracy or completeness of any of such information or financial data. The managements of the Company and the Buyer have assured us that they are not aware of any relevant information that has been omitted or remains undisclosed to us. We have not assumed any responsibility for making or undertaking an independent evaluation or appraisal of any of the assets or liabilities of the Company or of the Buyer, and we have not been furnished with any such evaluations or appraisals; nor have we evaluated the solvency or fair value of the Company or of the Buyer under any laws relating to bankruptcy, insolvency or similar matters. We have not received or reviewed any individual credit files nor have we made an evaluation of the adequacy of the allowance for loan losses of the Company or the Buyer. We have not assumed any obligation to conduct any physical inspection of the properties or facilities of the Company or of the Buyer. We have further relied, with the consent of the Company, upon Company and Buyer management as to the reasonableness and achievability of (i) the publicly available consensus earnings estimates of the Company and the Buyer referred to above and the assumed long term growth rates based thereon that were discussed with us by such management and that we were directed by such management to use and (ii) the projected balance sheet and capital data of the Buyer and the estimates regarding certain pro forma financial effects of the Transaction on the Buyer (and the assumptions and bases therefor, including but not limited to cost savings and related expenses expected to result from the Transaction) that were prepared by Buyer management and provided to and discussed with us by such management. We have assumed, with the consent of the Company, that all such information is consistent with (in the case of Company and Buyer earnings estimates), or was otherwise reasonably prepared on a basis reflecting, the best currently available estimates and judgments of such management and that the forecasts, estimates and projected data reflected in such information will be realized in the amounts and in the time periods currently estimated. We have also assumed that the representations and warranties contained in the Agreement and all related documents are true, correct and complete in all material respects.

It is understood that the estimated and projected information for the Company and the Buyer prepared and provided to us by the respective managements of the Company and the Buyer were not prepared with the expectation of public disclosure, that all such information, together with the publicly available consensus earnings estimates of the Company and the Buyer referred to above, are based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions and that, accordingly, actual results could vary significantly from those set forth in such information and earnings estimates. We have assumed, based on discussions with the respective managements of the Company and the Buyer, that all such

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information and earnings estimates provide a reasonable basis upon which we could form our opinion and we express no view as to any such information (or the assumptions or bases therefor) or such earnings estimates. We have relied on all such information and earnings estimates without independent verification or analysis and do not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

As part of our investment banking business, we are continually engaged in the valuation of companies and their securities in connection with business reorganizations, private placements, negotiated underwritings, mergers and acquisitions and valuations for estate, corporate and other purposes. We issue periodic research reports regarding the Company and the Buyers business activities and prospects and we expect to provide similar services in the future.

We have served as financial adviser to the Company in connection with the Transaction, and we are entitled to receive from the Company reimbursement of our expenses and a fee for our services as financial adviser to the Company, a significant portion of which is contingent upon the consummation of the Transaction. We are also entitled to receive a fee from the Company for providing our fairness opinion to the Company, which is not contingent upon the closing of the Transaction. The Company has also agreed to indemnify us for certain liabilities arising out of our engagement, including certain liabilities that could arise out of our providing this opinion letter. Stephens expects to pursue future investment banking services assignments from participants in this Transaction, including the Buyer. In the ordinary course of business, Stephens Inc. and its affiliates at any time may hold long or short positions, and may trade or otherwise effect transactions as principal or for the accounts of customers, in debt or equity securities or options on securities of the Company or of any other participant in the Transaction.

We are not legal, regulatory, accounting or tax experts, and we have relied solely, and without independent verification, on the assessments of the Company and its other advisors with respect to such matters. We have assumed, with your consent, that the Transaction will not result in any materially adverse legal, regulatory, accounting or tax consequences for the Company or for shareholders of the Company.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise or reaffirm this opinion. We have assumed that the Transaction will be consummated on the terms of the latest draft of the Agreement provided to us, without material waiver or modification. We have assumed that in the course of obtaining the necessary regulatory, lending or other consents or approvals (contractual or otherwise) for the Transaction, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that would have a material adverse effect on the contemplated benefits of the Transaction to the Company or to the shareholders of the Company. We are not expressing any opinion herein as to the price at which the common stock or any other securities of the Company will trade following the announcement of the Transaction.

This opinion is for the use and benefit of the Board of Directors of the Company for purposes of assisting with its evaluation of the Transaction. Our opinion does not address the merits of the underlying decision by the Company to engage in the Transaction, the merits of the Transaction as compared to other alternatives potentially available to the Company or the relative effects of any alternative transaction in which the Company might engage, nor is it intended to be a recommendation to any person as to any specific action that should be taken in connection with the Transaction. This opinion is not intended to confer any rights or remedies upon any other person. In addition, except as explicitly set forth in this letter, you have not asked us to address, and this opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of the Company. We have not been asked to express any opinion, and do not express any

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opinion, as to the fairness of the amount or nature of the compensation to any of the Company s officers, directors or employees, or to any group of such officers, directors or employees, relative to the compensation to other shareholders of the Company. We have not been asked to express any opinion, and do not express any opinion, as to the fairness of the amounts or portions of the aggregate consideration in the Transaction to be distributed to any particular shareholders or to any particular group or class of shareholders. Our fairness opinion committee has approved the opinion set forth in this letter. Neither this opinion nor its substance may be disclosed by you to anyone other than your advisors without our written permission. Notwithstanding the foregoing, this opinion and a summary discussion of our underlying analyses and role as financial adviser to the Company may be included in communications to shareholders of the Company, provided that we approve of the content of such disclosures prior to any filing or publication of such shareholder communications.

Based on the foregoing and our general experience as investment bankers, and subject to the assumptions and qualifications stated herein, we are of the opinion, as of the date hereof, that the Merger Consideration in the Transaction is fair, from a financial point of view, to the public shareholders of Company Common Stock.

Very truly yours,

/s/ STEPHENS INC.

STEPHENS INC.

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Annex D

FORM OF VOTING AGREEMENT

This Voting Agreement (this *Agreement*), dated as of April 26, 2017, is entered into by and between South State Corporation, a South Carolina corporation (*Parent*), and the undersigned (the *Shareholder*), a shareholder of Park Sterling Corporation, a North Carolina corporation (the *Company*).

WHEREAS, subject to the terms and conditions of the Agreement and Plan of Merger (as the same may be amended, supplemented or modified, the *Merger Agreement*), dated as of the date hereof, between Parent and the Company, the Company will be merged with and into Parent, with Parent as the surviving corporation (the *Merger*);

WHEREAS, as of the date of this Agreement, the Shareholder owns beneficially or of record, and has the power to vote or direct the voting of, certain shares of common stock, par value $1.00 per share, of the Company (*Common Stock*) (all such shares, the *Existing Shares*);

WHEREAS, as a condition and inducement for Parent to enter into the Merger Agreement, Parent has required that the Shareholder, in his or her capacity as a shareholder of the Company, enter into this Agreement, and the Shareholder has agreed to enter into this Agreement.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. ***Definitions*.** Capitalized terms not defined in this Agreement have the meanings assigned to those terms in the Merger Agreement.

2. ***Effectiveness; Termination*.** This Agreement shall be effective upon signing. If the Merger Agreement is terminated for any reason in accordance with its terms, this Agreement shall automatically terminate and be null and void and of no effect; *provided* that (i) this *Section 2* and *Sections 10* through *16* hereof shall survive any such termination and (ii) such termination shall not relieve any party of any liability or damages resulting from any willful or material breach of any of its representations, warranties, covenants or other agreements set forth herein.

3. ***Voting Agreement*.** From the date hereof until the earlier of (a) the Closing and (b) the termination of the Merger Agreement in accordance with its terms (the *Support Period*), the Shareholder irrevocably and unconditionally hereby agrees that at any meeting (whether annual or special and each postponement, recess, adjournment or continuation thereof) of the Company s shareholders, however called, and in connection with any written consent of the Company s shareholders, the Shareholder shall (i) appear at such meeting or otherwise cause all of his or her Existing Shares and all other shares of Common Stock or voting securities, over which he or she has acquired beneficial or record ownership and the power to vote or direct the voting thereof, after the date hereof (including any shares of Common Stock acquired by means of purchase, dividend or distribution, or issued upon the exercise of any stock options to acquire Common Stock or the conversion of any convertible securities, or pursuant to any other equity awards or derivative securities (including any Company Equity Awards) or otherwise) (together with the Existing Shares, the *Shares*), which he or she owns or controls as of the applicable record date, to be counted as present thereat for purposes of calculating a quorum, and (ii) vote or cause to be voted (including by proxy or written consent, if applicable) all such Shares (A) in favor of the approval of the Merger Agreement and the approval of the Transactions, including the Merger, (B) in favor of any proposal to adjourn or postpone such meeting of the Company s shareholders to a later date if there are

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not sufficient votes to approve the Merger Agreement and in favor of any advisory, non-binding compensation proposal set forth in the Joint Proxy Statement and submitted to the shareholders of the Company in connection with the Merger, (C) against any action or proposal in favor of an Acquisition Proposal or Alternative Transaction, without regard to the terms of such Acquisition Proposal or Alternative Transaction, and (D) against any action, proposal, transaction, agreement or amendment of the Company Articles of Incorporation or Company Bylaws, in each case, which would reasonably be likely to (1) result in a material breach of any covenant, representation or warranty or any other obligation or agreement of the Company contained in the Merger Agreement, or of the Shareholder contained in this Agreement, or (2) prevent, materially impede or materially delay the consummation of the Transactions, including the Merger. For the avoidance of doubt, the foregoing commitments apply to any Shares held by any trust, limited partnership or other entity holding Shares for which the Shareholder serves in any partner, shareholder, trustee or similar capacity. To the extent the Shareholder does not control, by himself or herself, the determinations of such shareholder entity, the Shareholder agrees to exercise all voting or other determination rights he or she has in such shareholder entity to carry out the intent and purposes of his or her support and voting obligations in this paragraph and otherwise set forth in this Agreement. The Shareholder covenants and agrees that, except for this Agreement, he or she (x) has not entered into, and shall not enter into during the Support Period, any voting agreement or voting trust with respect to the Shares and (y) has not granted, and shall not grant during the Support Period, a proxy, consent or power of attorney with respect to the Shares except any proxy to carry out the intent of this Agreement or any proxy submitted in connection with the Company s annual shareholder meeting scheduled to be held on May 25, 2017.

4.

Transfer Restrictions Prior to the Merger. The Shareholder hereby agrees that he or she will not, during the Support Period, without the prior written consent of Parent, directly or indirectly, offer for sale, sell, transfer, assign, give, tender in any tender or exchange offer, pledge, encumber, hypothecate or similarly dispose of (by merger, by testamentary disposition, by operation of law or otherwise), either voluntarily or involuntarily, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of, enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or other disposition of (by merger, by testamentary disposition, by operation of law or otherwise) or otherwise convey or dispose of, any of the Shares, or any interest therein, including the right to vote any Shares, as applicable (a *Transfer*); *provided*, that the Shareholder may (i) Transfer Shares for estate planning or philanthropic purposes so long as the transferee, prior to the date of Transfer, agrees in a signed writing to be bound by and comply with the provisions of this Agreement, and the Shareholder provides at least three (3) Business Days prior written notice (which shall include the written consent of the transferee agreeing to be bound by and comply with the provisions of this Agreement) to Parent, in which case the Shareholder shall remain responsible for any breach of this Agreement by such transferee, or Transfer Shares at such Shareholder s death pursuant to Law or such Shareholder s estate plan (*provided*, that the transferee agrees in a signed writing to be bound by and comply with the provisions of this Agreement) or (ii) surrender Shares to the Company in connection with the vesting, settlement or exercise of Company Equity Awards to satisfy any withholding for the payment of taxes incurred in connection with such vesting, settlement or exercise, or, in respect of Company Options, the exercise price thereon. In furtherance of the foregoing, the Shareholder hereby authorizes the Company to instruct its transfer agent to enter a stop transfer order with respect to all of the Shares.

5.

Representations of the Shareholder. The Shareholder represents and warrants to Parent as follows: (a) the Shareholder has full legal right, capacity and authority to execute and deliver

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this Agreement, to perform the Shareholder s obligations hereunder and to consummate the transactions contemplated hereby; (b) this Agreement has been duly and validly executed and delivered by the Shareholder and constitutes a valid and legally binding agreement of the Shareholder, enforceable against the Shareholder in accordance with its terms, and no other action is necessary to authorize the execution and delivery of this Agreement by the Shareholder or the performance of his or her obligations hereunder; (c) the execution and delivery of this Agreement by the Shareholder does not, and the consummation of the transactions contemplated hereby and the compliance with the provisions hereof will not, conflict with or violate any law or result in any breach of or violation of, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any of the Shares pursuant to, any agreement or other instrument or obligation binding upon the Shareholder or the Shares, nor require any authorization, consent or approval of, or filing with, any Governmental Entity; (d) the Shareholder beneficially owns and has the power to vote or direct the voting of the Shares; (e) the Shareholder beneficially owns the Shares free and clear of any proxy, voting restriction, adverse claim or other Lien (other than any restrictions created by this Agreement or under applicable federal or state securities laws); and (f) the Shareholder has read and is familiar with the terms of the Merger Agreement. The Shareholder agrees that the Shareholder shall not take any action that would make any representation or warranty of the Shareholder contained herein untrue or incorrect or have the effect of preventing, impairing, delaying or adversely affecting the performance by the Shareholder of his or her obligations under this Agreement. The Shareholder agrees, without further consideration, to execute and deliver such additional documents and to take such further actions as are necessary or reasonably requested by Parent to confirm and assure the rights and obligations set forth in this Agreement. As used in this Agreement, the terms *beneficial owner*, beneficially *own* and *beneficial ownership* shall have the meaning set forth in Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

6. ***Publicity.*** The Shareholder hereby authorizes Parent and the Company to publish and disclose in any announcement or disclosure in connection with the Merger, including in the Form S-4, the Joint Proxy Statement or any other filing with any Governmental Entity made in connection with the Merger, the Shareholder s identity and ownership of the Shares and the nature of the Shareholder s obligations under this Agreement. The Shareholder agrees to notify Parent as promptly as practicable of any inaccuracies or omissions in any information relating to the Shareholder that is so published or disclosed.

7. ***Entire Agreement.*** This Agreement and, with respect to Parent and the Company, the Merger Agreement, constitute the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, other than, if the Shareholder is an officer of the Company, with respect to any employment agreement between the Shareholder and the Company, Parent or their respective affiliates. Nothing in this Agreement, express or implied, is intended to or shall confer upon any person not a party to this Agreement any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement. Parent acknowledges and agrees that, except as expressly provided herein, nothing in this Agreement shall be deemed to vest in Parent any direct or indirect ownership or incidence of ownership of or with respect to any Shares. All rights, ownership and economic benefits of and relating to the Shares shall remain vested in and belong to the Shareholder, and Parent shall have no authority to manage, direct, superintend, restrict, regulate, govern or administer any of the policies or operations of the Company or exercise any power or authority to direct the Shareholder in the voting of any of the Shares, except as

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otherwise expressly provided herein. This Agreement is intended to create, and creates, a contractual relationship and is not intended to create, and does not create, any agency, partnership, joint venture or other like relationship between the parties.

8. ***Assignment.*** This Agreement shall not be assigned by operation of law or otherwise and shall be binding upon and inure solely to the benefit of each party hereto; *provided*, *however*, that the rights under this Agreement are assignable by Parent to a majority-owned affiliate or any successor-in-interest of Parent, but no such assignment shall relieve Parent of its obligations hereunder.

9. ***Remedies/Specific Enforcement.*** Each of the parties hereto agrees that this Agreement is intended to be legally binding and specifically enforceable pursuant to its terms and that Parent would be irreparably harmed if any of the provisions of this Agreement are not performed in accordance with its specific terms and that monetary damages would not provide adequate remedy in such event. Accordingly, in the event of any breach or threatened breach by the Shareholder of any covenant or obligation contained in this Agreement, in addition to any other remedy to which Parent may be entitled (including monetary damages), Parent shall be entitled to seek injunctive relief to prevent breaches of this Agreement and to specifically enforce the terms and provisions hereof, and the Shareholder hereby waives any defense in any action for specific performance or an injunction or other equitable relief that a remedy at law would be adequate. The Shareholder further agrees that neither Parent nor any other person or entity shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this paragraph, and the Shareholder irrevocably waives any right he or she may have to require the obtaining, furnishing or posting of any such bond or similar instrument.

10. ***Governing Law and Enforceability.*** This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of North Carolina, without regard to any choice or conflict of law provision or rule (whether of the State of North Carolina or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of North Carolina.
In addition, in the event any dispute (whether in contract, tort or otherwise) arises out of this Agreement or the transactions contemplated hereby, each of the parties hereto consents in writing to the fullest extent permitted by law, to the sole and exclusive forum of the state courts of North Carolina in and for Mecklenburg County, North Carolina, with such dispute being designated by the party filing the action as a mandatory complex business case pursuant to Section 7A-45.4 of the North Carolina General Statutes and subject to designation or assignment to the North Carolina Business Court (or, if no state court located within the State of North Carolina has jurisdiction, the United States District Court for the Western District of North Carolina).

Each party agrees that service of process upon such party in any such claim, action or proceeding shall be effective if notice is given in accordance with *Section 11*.

11. ***Notice.*** All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by registered or certified mail (return receipt requested) or delivered by nationally recognized overnight courier service if to the Shareholder, to the address set forth in ***Schedule A*** hereto, and if to Parent, in accordance with Section 9.3 of the Merger Agreement.

12. ***Severability.*** Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law. In the event that any provision of this Agreement, or the application thereof, becomes or is declared

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by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

13. ***Amendments; Waivers*.** Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed (a) in the case of an amendment, by Parent and the Shareholder, and (b) in the case of a waiver, by the party against whom the waiver is to be effective. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

14. ***Waiver of Jury Trial*.** EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE EXTENT PERMITTED BY LAW AT THE TIME OF INSTITUTION OF THE APPLICABLE LITIGATION, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT: (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (II) THE PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (III) THE PARTY MAKES THIS WAIVER VOLUNTARILY; AND (IV) THE PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS *SECTION 14*.

15. ***No Representative Capacity*.** Notwithstanding anything to the contrary herein, this Agreement applies solely to Shareholder in his or her individual capacity as a shareholder, and, to the extent the Shareholder serves as a member of the board of directors or officer of the Company or as a fiduciary for others, nothing in this Agreement shall limit or affect any actions or omissions taken by the Shareholder in Shareholder s capacity as a director or officer or (subject to *Section 3*) as a fiduciary for others, including in exercising rights under the Merger Agreement, and no such actions or omissions shall be deemed a breach of this Agreement or shall be construed to prohibit, limit or restrict Shareholder from discharging Shareholder s duties as a director or officer or (subject to *Section 3*) as a fiduciary for others.

16. ***Counterparts*.** The parties may execute this Agreement in one or more counterparts, including by facsimile or other electronic signature. All the counterparts will be construed together and will constitute one Agreement.

[Signature pages follow]

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SIGNED as of the date first set forth above:

SOUTH STATE CORPORATION

By: ____

SHAREHOLDER:

____

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SCHEDULE A

Shareholder Information

Name and Address for Notices

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Annex E

CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF SOUTH STATE CORPORATION AND PARK STERLING CORPORATION (Pursuant to S.C. Code Section 33-11-1-3)

Section 33-11-103 of the Code of Laws of South Carolina, 1976, as amended requires that the notice of the meeting of shareholders at which a plan of merger will be voted upon be accompanied by balance sheets for each corporation participating in the merger as of the close of the preceding two fiscal years as well as income statements for each participating corporation for each of the preceding three fiscal years. The condensed consolidated balance sheets as of December 31, 2016 and 2015 and condensed consolidated income statements for the years ended December 31, 2016, 2015 and 2014 comply with the requirements of Section 33-11-103 with respect to South State Corporation. The condensed consolidated balance sheets as of December 31, 2016 and 2015 and condensed consolidated income statements for the years ended December 31, 2016, 2015 and 2014 comply with the requirements of Section 33-11-103 with respect to Park Sterling Corporation.

This **Annex E** should be read in conjunction with the audited consolidated financial statements of South State Corporation and Park Sterling Corporation, respectively, and the notes to such audited consolidated financial statements contained in reports that South State Corporation and Park Sterling Corporation have previously filed with the Securities and Exchange Commission, including as set forth in this joint proxy statement/prospectus under *Where You Can Find More Information* and incorporated by reference into this joint proxy statement/prospectus.

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SOUTH STATE CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

(Dollars in thousands, except par value)

	December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 201,966	$ 178,664
Interest-bearing deposits with banks	36,241	218,883
Federal funds sold and securities purchased under agreements to resell	136,241	298,247
Total cash and cash equivalents	374,448	695,794
Investment securities:		
Securities held to maturity (fair value of $6,250 and $9,723, respectively)	6,094	9,314
Securities available for sale, at fair value	999,405	1,009,541
Other investments	9,482	8,893
Total investment securities	1,014,981	1,027,748
Loans held for sale	50,572	41,649
Loans:		
Acquired credit impaired (covered of $0 and $98,459, respectively; non-covered of $602,546 and $635,411, respectively), net of allowance for loan losses	602,546	733,870
Acquired non-credit impaired (covered of $0 and $8,047, respectively; non-covered of $836,699 and $1,041,491, respectively)	836,699	1,049,538
Non-acquired	5,241,041	4,220,726
Less allowance for non-acquired loan losses	(36,960)	(34,090)
Loans, net	6,643,326	5,970,044
FDIC indemnification asset		4,401
Other real estate owned (covered of $0 and $5,751, respectively; non-covered of $18,316 and $24,803, respectively)	18,316	30,554
Premises and equipment, net	183,510	174,537
Bank owned life insurance	104,148	101,588
Deferred tax assets	31,123	37,827
Mortgage servicing rights	29,037	26,202
Core deposit and other intangibles	39,848	47,425
Goodwill	338,340	338,340
Other assets	72,943	61,239
Total assets	$ 8,900,592	$ 8,557,348
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 2,199,046	$ 1,976,480
Interest-bearing	5,135,377	5,123,948

Total deposits	7,334,423	7,100,428
Federal funds purchased and securities sold under agreements to repurchase	313,773	288,231
Other borrowings	55,358	55,158
Other liabilities	62,450	54,147
Total liabilities	7,766,004	7,497,964
Shareholders equity:		
Preferred stock $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding		
Common stock $2.50 par value; authorized 40,000,000 shares; 24,230,392 and 24,162,657 shares issued and outstanding, respectively	60,576	60,407
Surplus	711,307	703,929
Retained earnings	370,916	298,919
Accumulated other comprehensive loss	(8,211)	(3,871)
Total shareholders equity	1,134,588	1,059,384
Total liabilities and shareholders equity	$ 8,900,592	$ 8,557,348

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SOUTH STATE CORPORATION AND SUBSIDIARY

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	Year Ended December 31,		
	2016	**2015**	**2014**
Interest income:			
Loans, including fees	$ 308,461	$ 315,574	$ 319,882
Investment securities:			
Taxable	18,025	16,110	15,758
Tax-exempt	3,884	4,300	4,589
Federal funds sold and securities purchased under agreements to resell	2,793	2,117	1,793
Total interest income	333,163	338,101	342,022
Interest expense:			
Deposits	5,803	7,344	9,301
Federal funds purchased and securities sold under agreements to repurchase	574	395	357
Other borrowings	1,940	2,589	6,004
Total interest expense	8,317	10,328	15,662
Net interest income	324,846	327,773	326,360
Provision for loan losses	6,819	5,864	6,590
Net interest income after provision for loan losses	318,027	321,909	319,770
Noninterest income:			
Fees on deposit accounts	82,897	74,479	69,291
Mortgage banking income	20,547	21,761	16,170
Trust and investment services income	19,764	20,117	18,344
Securities gains, net	122		(2)
Other-than-temporary impairment losses		(489)	
Recoveries on acquired loans	6,465	2,976	6,176
Amortization of FDIC indemnification asset, net	(5,902)	(8,587)	(21,895)
Other	6,437	5,298	6,612
Total noninterest income	130,330	115,555	94,696
Noninterest expense:			
Salaries and employee benefits	164,663	161,304	158,432
Net occupancy expense	21,712	21,105	22,459
Information services expense	20,549	17,810	15,844
Furniture and equipment expense	12,403	11,233	13,271
OREO expense and loan related	6,307	9,595	11,833
Bankcard expense	11,723	9,320	8,563
Amortization of intangibles	7,577	8,324	8,320
Supplies, printing and postage expense	6,279	5,919	6,937
Professional fees	6,702	5,533	4,960
FDIC assessment and other regulatory charges	3,896	4,714	5,432
Advertising and marketing	3,092	3,838	4,156
Merger related expense	5,002		23,940
Branch consolidation related expense	3,079	6,945	
Other	21,331	21,449	18,891
Total noninterest expense	294,315	287,089	303,038
Earnings:			

Income before provision for income taxes	154,042	150,375	111,428
Provision for income taxes	52,760	50,902	35,991
Net income	101,282	99,473	75,437
Preferred stock dividends			1,073
Net income	$ 101,282	$ 99,473	$ 74,364
Earnings per common share:			
Basic	$ 4.22	$ 4.15	$ 3.11
Diluted	$ 4.18	$ 4.11	$ 3.08
Dividends per common share	$ 1.21	$ 0.98	$ 0.82
Weighted average common shares outstanding:			
Basic	23,998	23,966	23,897
Diluted	24,219	24,224	24,154

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PARK STERLING CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

(Dollars in thousands, except par value)

	December 31, 2016	December 31, 2015
	(dollars in thousands, except per share data)	
ASSETS		
Cash and due from banks	$ 34,162	$ 53,840
Interest-earning balances at banks	48,882	16,451
Federal funds sold	570	235
Investment securities available-for-sale, at fair value	402,501	384,934
Investment securities held-to-maturity (fair value of $92,828 and $107,629 at December 31, 2016 and 2015, respectively)	91,752	106,458
Nonmarketable equity securities	17,501	11,366
Loans held for sale	7,996	4,943
Loans:		
Non-covered	2,412,186	1,724,164
Covered		17,651
Less allowance for loan losses	(12,125)	(9,064)
Net loans	2,400,061	1,732,751
Premises and equipment, net	63,080	55,658
Bank-owned life insurance	70,785	58,633
Deferred tax asset	25,721	28,971
Other real estate owned noncovered	2,438	4,211
Other real estate owned covered		1,240
Goodwill	63,317	29,197
FDIC indemnification asset		943
Core deposit intangible	11,438	9,571
Accrued interest receivable	6,799	5,082
Other assets	8,392	9,780
Total assets	$ 3,255,395	$ 2,514,264
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 521,295	$ 350,836
Interest-bearing	1,992,457	1,601,826
Total deposits	2,513,752	1,952,662
Short-term borrowings	285,000	185,000
Long-term borrowings	29,736	30,000
Subordinated loan and junior subordinated debt	33,501	24,262
Accrued interest payable	541	515
Accrued expenses and other liabilities	37,021	37,121
Total liabilities	2,899,551	2,229,560
Shareholders equity:		

Common stock, $1.00 par value 200,000,000 shares authorized; 53,116,519 and 44,854,509 shares issued and outstanding at December 31, 2016 and 2015, respectively	$	53,117	$	44,854
Additional paid-in capital		273,400		222,596
Retained earnings		32,609		20,117
Accumulated other comprehensive loss		(3,282)		(2,863)
Total shareholders equity		355,844		284,704
Total liabilities and shareholders equity	$	3,255,395	$	2,514,264

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PARK STERLING CORPORATION AND SUBSIDIARY

Consolidated Statements of Income

(Dollars in thousands, except per share data)

	2016	2015	2014
	(dollars in thousands, except share and per share data)		
Interest income			
Loans, including fees	$ 107,440	$ 77,537	$ 74,867
Federal funds sold	15	2	1
Taxable investment securities	10,703	10,612	9,318
Tax-exempt investment securities	556	579	631
Nonmarketable equity securities	621	500	362
Interest on deposits at banks	181	82	118
Total interest income	119,516	89,312	85,297
Interest expense			
Money market, NOW and savings deposits	3,925	2,449	2,270
Time deposits	5,763	3,202	3,155
Short-term borrowings	1,251	528	86
Long-term borrowings	1,600	367	513
Junior subordinated debt	1,936	1,385	1,631
Total interest expense	14,475	7,931	7,655
Net interest income	105,041	81,381	77,642
Provision for loan losses	2,630	723	(1,286)
Net interest income after provision for loan losses	102,411	80,658	78,928
Noninterest income			
Service charges on deposit accounts	6,449	4,934	3,881
Income from fiduciary activities	2,331	3,090	2,748
Commissions and fees from investment brokerage	757	512	452
Income from capital market activities	2,584	1,467	646
Gain (Loss) on sale of securities available-for-sale	(87)	54	180
Bankcard services income	2,792	2,507	2,632
Mortgage banking income	3,428	3,306	2,641
Income from bank-owned life insurance	2,709	2,749	2,688
Amortization of indemnification asset		(705)	(3,203)
Loss share true-up liability expense	(311)	(181)	(587)
Other noninterest income	742	510	1,875
Total noninterest income	21,394	18,243	13,953
Noninterest expense			
Salaries and employee benefits	48,027	39,945	39,538
Occupancy and equipment	12,854	10,317	10,409
Advertising and promotion	1,086	1,263	1,494
Legal and professional fees	3,522	3,402	3,486
Deposit charges and FDIC insurance	1,706	1,639	1,491
Data processing and outside service fees	12,183	6,625	6,449
Communication fees	2,024	2,099	1,974
Core deposit intangible amortization	1,832	1,389	1,269
Net cost of operation of other real estate owned	255	406	817
Loan and collection expense	792	740	1,350
Postage and supplies	604	488	667
Other noninterest expense	9,351	5,840	4,990

Total noninterest expense		94,236		74,153		73,934
Income before income taxes		29,569		24,748		18,947
Income tax expense		9,621		8,142		6,058
Net income	$	19,948	$	16,606	$	12,889
Basic earnings per common share	$	0.38	$	0.38	$	0.29
Diluted earnings per common share	$	0.38	$	0.37	$	0.29
Weighted-average common shares outstanding						
Basic		52,450,780		43,939,039		43,924,457
Diluted		52,850,617		44,304,888		44,247,000

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Annex F

FORM OF ARTICLES OF AMENDMENT TO THE AMENDED AND RESTATED ARTICLES OF INCORPORATION OF SOUTH STATE CORPORATION

Pursuant to Section 33-10-106 of the South Carolina Code of Laws, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

1. **The name of the corporation is:** South State Corporation (the Corporation).

2. **Date of Incorporation:** February 22, 1985.

3. **Agent s Name and Address:** V. Nicole Comer, 700 Gervais Street, Columbia, South Carolina 29201.

4. On [ ], 2017, the Corporation s shareholders approved an amendment (the Amendment) to the Corporation s Amended and Restated Articles of Incorporation (the Articles) to amend and restate the first sentence of Article V of the Articles in its entirety to state:

   The aggregate number of shares which the corporation shall have the authority to issue is (i) Eighty Million (80,000,000) shares of one class of Common Stock each of which shall have a par value of Two Dollars Fifty Cents ($2.50) and (ii) Ten Million (10,000,000) shares of preferred stock, par value $.01 per share (referred to in these amended and restated Articles of Incorporation as preferred stock).

5. Not applicable.

6. **Amendments adopted by shareholder action:** At the date of adoption of the Amendment, the number of outstanding shares of each voting group entitled to vote separately on the Amendment, and the vote of such shares was:

Voting Group	**Number of Outstanding Shares**	**Number of Votes Entitled to be Cast**	**Number of Votes Represented at the Meeting**	**Number of Undisputed Shares For or Against**
Common Stock, par value $2.50 per share				

7. The effective date of these Articles of Amendment shall be [ ], in accordance with the provisions of Section 33-1-230 of the Code.

Date: [ ]

SOUTH STATE CORPORATION
By: ________________________

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. ***Indemnification of Directors and Officers.***

Section 33-2-102 of the South Carolina Business Corporation Act of 1988, as amended (the SCBCA) permits a South Carolina corporation to include in its articles of incorporation a provision eliminating or limiting the personal liability of its directors to the corporation and its shareholders for monetary damages for breach of fiduciary duty as a director, except: (1) for any breach of the director s duty of loyalty to the corporation or its shareholders, (2) for acts or omissions not in good faith or which involve gross negligence, intentional misconduct or a knowing violation of law, (3) as imposed for any unlawful distributions as set forth in Section 33-8-330 of the SCBCA or (4) for any transaction from which the director derived an improper personal benefit. South State s articles of incorporation contain such a provision, thereby limiting the liability of its directors to the maximum extent permitted by South Carolina law.

Section 33-8-510 of the SCBCA permits a South Carolina corporation to indemnify an individual who is made a party to any proceeding because he or she is or was a director against liability incurred in the proceeding if he or she: (1) conducted himself or herself in good faith, (2) reasonably believed that his or her conduct was in the corporation s best interest or, if he or she was not acting in his or her official capacity, that such conduct was at least not opposed to the corporation s best interest and (3) in the case of a criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The SCBCA provides that where a director is a defendant in a proceeding by or in the right of the corporation, the director may not be indemnified if he or she is adjudged liable to the corporation. The SCBCA also provides that a director may not be indemnified in respect of any proceeding alleging improper personal benefit in which he or she was adjudged liable on the grounds that personal benefit was improperly received by such director. Under Section 33-8-540 of the SCBCA, a director found liable in a proceeding by or in the right of the corporation or in a proceeding alleging improper personal benefit may petition a court to nevertheless order indemnification of reasonable expenses if the court determines that the director is fairly and reasonably entitled to indemnification in view of all the relevant circumstances.

Section 33-8-520 of the SCBCA provides that, unless limited by the articles of incorporation of a South Carolina corporation, a director who is wholly successful on the merits or otherwise in defense of any proceeding to which such director was a party because such director is or was a director of the corporation must be indemnified against reasonable expenses. Section 33-8-530 of the SCBCA provides that a South Carolina corporation may advance reasonable expenses to a director upon the corporation s receipt of (1) a written affirmation by the director of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (2) a written undertaking, executed by the director or on his or her behalf, to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met, so long as a determination is made by the corporation that indemnification is proper under Section 33-8-530 of the SCBCA.

Section 33-8-560 of the SCBCA provides that unless a corporation s articles of incorporation provide otherwise: (1) an officer of the corporation who is not a director is entitled to mandatory indemnification under Section 33-8-520, and is entitled to apply for court-ordered indemnification under Section 33-8-540, in each case to the same extent as a director; (2) the corporation may indemnify and advance expenses to an officer, employee, or agent of the corporation who is not a director to the same extent as to a director; and (3) a corporation also may indemnify and advance expenses to an officer, employee or agent who is not a director to the extent, consistent with public policy, that may be provided by its articles of incorporation, bylaws, general or specific action of its board of directors or contract.

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South State s bylaws provide for the indemnification of any current and former directors and officers to the fullest extent authorized by law against (a) reasonable expenses, including attorneys fees, incurred by him or her in connection with any threatened, pending or completed civil, criminal, administrative, investigative or arbitrative action, suit or proceeding (and any appeal therein), whether or not brought by or on behalf of South State, seeking to hold him or her liable by reason of the fact that he or she is or was acting in such capacity, and (b) reasonable payments made by him or her in satisfaction of any judgment, money decree, fine (including an excise tax assessed with respect to an employee benefit plan), penalty or settlement for which he or she may have become liable in any such action, suit or proceeding. South State s bylaws further provide that the foregoing right to indemnification shall include the right to be paid by South State the reasonable expenses (including attorney s fees) incurred in defending any such action, suit or proceeding in advance of its final disposition; provided, however, that, if required by law, an advancement of expenses incurred by a claimant shall be made only if: (a) the claimant furnishes South State with a written affirmation of his or her good faith belief that he or she met the standard of conduct required by law; and (b) the claimant furnishes South Sate with a written undertaking, executed personally on his or her behalf, to repay the advance if it is ultimately determined that he or she did not meet the standard of conduct.

South State s bylaws provide that South State may, to the extent authorized from time to time by South State s board of directors, grant rights of indemnification and to the advancement of expenses to any employee or agent of South State consistent with the other provisions of South State s bylaws concerning the indemnification of South State directors and officers. South State s bylaws provide that South State may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of South State or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not South State would have the power to indemnify such person against such expense, liability or loss under applicable law.

The foregoing is only a general summary of certain aspects of South Carolina law and South State s articles of incorporation and bylaws dealing with indemnification of directors and officers, and does not purport to be complete. It is qualified in its entirety by reference to the detailed provisions of those Sections of the SCBCA referenced above and the South State s articles of incorporation and bylaws.

Item 21. ***Exhibits and Financial Statement Schedules*.**

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of April 26, 2017, by and between Park Sterling Corporation and South State Corporation* (attached as **Annex A** to the joint proxy statement/prospectus contained in this Registration Statement)
3.1	Amended and Restated Articles of Incorporation of South State Corporation, filed October 24, 2014 (incorporated by reference to Exhibit 3.1 to South State Corporation s Current Report on Form 8-K, filed on October 28, 2014, and incorporated herein by reference)
3.2	Amended and Restated Bylaws of South State Corporation, dated January 21, 2016 (incorporated by reference to Exhibit 3.1 to South State Corporation s Current Report on Form 8-K, filed on January 27, 2016, and incorporated herein by reference)
4.1	Specimen of South State Corporation Common Stock Certificate (incorporated by reference as Exhibit 4.1 to South State Corporation s Annual Report on Form 10-K filed on February 27, 2015, and incorporated herein by reference)
5.1	Opinion of Nelson, Mullins, Riley & Scarborough, LLP regarding the validity of the securities to be issued

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Exhibit No.	Description of Exhibit
8.1	Opinion of Wachtell, Lipton, Rosen & Katz LLP regarding certain tax matters**
8.2	Opinion of McGuireWoods LLP regarding certain tax matters**
23.1	Consent of Nelson Mullins Riley & Scarborough, LLP (included in Exhibit 5.1)
23.2	Consent of Wachtell, Lipton, Rosen & Katz (included in Exhibit 8.1)**
23.3	Consent of McGuireWoods LLP (included in Exhibit 8.2)**
23.4	Consent of Dixon Hughes Goodman LLP (with respect to South State Corporation)
23.5	Consent of Dixon Hughes Goodman LLP (with respect to Park Sterling Corporation)
23.6	Consent of Crowe Horwath LLP (with respect to Southeastern Bank Financial Corporation)
24.1	Power of Attorney (included on the signature page to this Registration Statement)
99.1	Consent of Keefe, Bruyette & Woods, Inc.
99.2	Consent of Stephens Inc.
99.3	Rule 438 Consent of James C. Cherry
99.4	Form of proxy of South State Corporation
99.5	Form of proxy of Park Sterling Corporation

*

Annexes, schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. South State Corporation agrees to furnish supplementally a copy of any omitted attachment to the Securities and Exchange Commission on a confidential basis upon request.

**

To be filed by amendment.

Item 22. ***Undertakings*.**

The undersigned registrant hereby undertakes:

(1)

To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement (notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement); and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2)

That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the

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securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser: (i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424; (ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant; (iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and (iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(5) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(6) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145I, the registrant undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(7) That every prospectus (i) that is filed pursuant to paragraph (6) above, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment has become effective, and that for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(8) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(9) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of, and included in, this registration statement when it became effective.

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(10) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURE

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement report to be signed on its behalf by the undersigned hereunto duly authorized.

SOUTH STATE CORPORATION

By: /s/ JOHN C. POLLOK

John C. Pollok
Senior Executive Vice President, Chief Financial Officer and Chief Operating Officer

Date: July 14, 2017

SIGNATURES AND POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned directors and/or officers whose signature appears below constitutes and appoints Robert R. Hill, Jr. and John C. Pollok, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for the undersigned and in his or her name, place and stead, in any and all capacities, to sign this and/or any or all amendments (including post-effective amendments) to this Registration Statement and to sign any Registration Statement that is to be effective on filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agent, and each of them, full power of authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, each acting alone, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on July 14, 2017.

Signature	Title
/s/ ROBERT R. HILL, JR. Robert R. Hill, Jr.	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ JOHN C. POLLOK John C. Pollok	Senior Executive Vice President, Chief Financial Officer, Chief Operating Officer and Director (Principal Financial Officer)
/s/ KEITH S. RAINWATER Keith S. Rainwater	Executive Vice President and Director of External Reporting (Principal Accounting Officer)
/s/ ROBERT R. HORGER Robert R. Horger	Chairman of the Board of Directors

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Signature	Title
/s/ PAULA HARPER BETHEA Paula Harper Bethea	Vice Chairman of the Board of Directors
/s/ JIMMY E. ADDISON Jimmy E. Addison	Director
/s/ MARTIN B. DAVIS Martin B. Davis	Director
/s/ ROBERT H. DEMERE, JR. Robert H. Demere, Jr.	Director
/s/ CYNTHIA A. HARTLEY Cynthia A. Hartley	Director
/s/ THOMAS J. JOHNSON Thomas J. Johnson	Director
/s/ GREY B. MURRAY Grey B. Murray	Director
/s/ JAMES W. ROQUEMORE James W. Roquemore	Director
/s/ THOMAS E. SUGGS Thomas E. Suggs	Director
/s/ KEVIN P. WALKER Kevin P. Walker	Director

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EXHIBIT INDEX

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*

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**

To be filed by amendment.

of December 31, 2013 and 2012, respectively, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately $0.1 billion of such loans as of both December 31, 2013 and 2012, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized; however, improvement in the general risk profile of our overall commercial mortgage loan portfolio has enabled us to pursue incremental volume in this area. As of December 31, 2013, there are no loan-specific reserves related to these loans attributable to either the Financial Services Businesses or the Closed Block Business. In addition, these pre-stabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see Invested Assets of Other Entities and Operations below.

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The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses

Loan-to-Value Ratio	December 31, 2013 Debt Service Coverage Ratio Greater than 1.2x	1.0x to <1.2x (in millions)	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
0% 59.99%	$ 15,202	$ 536	$ 144	$ 15,882
60% 69.99%	8,645	308	68	9,021
70% 79.99%	3,176	310	188	3,674
Greater than 80%	234	129	224	587
Total commercial and agricultural mortgage loans	$ 27,257	$ 1,283	$ 624	$ 29,164

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Block Business

Loan-to-Value Ratio	December 31, 2013 Debt Service Coverage Ratio Greater than 1.2x	1.0x to <1.2x (in millions)	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
0% 59.99%	$ 5,905	$ 198	$ 34	$ 6,137
60% 69.99%	2,471	71	27	2,569
70% 79.99%	674	112	29	815
Greater than 80%	78	30	48	156
Total commercial and agricultural mortgage loans	$ 9,128	$ 411	$ 138	$ 9,677

The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of December 31, 2013.

	December 31, 2013			
	Financial Services Businesses		Closed Block Business	
Year of Origination	Gross Carrying Value	% of Total ($ in millions)	Gross Carrying Value	% of Total

2013	$ 8,809	30.2%	$ 1,502	15.5%
2012	4,732	16.2	1,817	18.8
2011	4,711	16.2	1,406	14.5
2010	2,813	9.6	1,020	10.5
2009	856	2.9	335	3.5
2008	1,573	5.4	545	5.6
2007 & Prior	5,670	19.5	3,052	31.5
Total commercial and agricultural mortgage loans	$ 29,164	100.0%	$ 9,677	100.0%

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Commercial Mortgage and Other Loans by Contractual Maturity Date

The following table sets forth the breakdown of our commercial mortgage and other loan portfolio by contractual maturity as of December 31, 2013.

	December 31, 2013			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Vintage				
Maturing in 2014	$ 712	2.4%	$ 352	3.6%
Maturing in 2015	2,057	6.6	510	5.3
Maturing in 2016	3,479	11.1	888	9.1
Maturing in 2017	2,728	8.7	673	6.9
Maturing in 2018	4,385	14.0	1,254	12.9
Maturing in 2019	2,142	6.8	609	6.3
Maturing in 2020	3,393	10.8	1,050	10.8
Maturing in 2021	2,554	8.2	971	10.0
Maturing in 2022	1,916	6.1	983	10.1
Maturing in 2023	2,411	7.7	682	7.0
Maturing in 2024	661	2.1	334	3.4
Maturing in 2025 and beyond	4,859	15.5	1,415	14.6
Total commercial mortgage and other loans	$ 31,297	100.0%	$ 9,721	100.0%

Commercial Mortgage and Other Loan Quality

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees the same way we do for commercial mortgage loans.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be impaired as a result of our loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for an impaired loan are recorded based on the present value of expected future cash flows discounted at the loan s effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability, and loss severity factors by property type. These factors are reviewed and updated as appropriate. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

Our general account investments in commercial mortgage and other loans attributable to the Financial Services Businesses, based upon the recorded investment gross of allowance for credit losses, was $31,297 million and $26,809 million as of December 31, 2013 and 2012, respectively. As a percentage of recorded investment gross of allowance, 99% of the assets were current for both periods.

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Our general account investments in commercial mortgage and other loans attributable to the Closed Block Business, based upon the recorded investment gross of allowance for credit losses, was $9,721 million and $9,666 million as of December 31, 2013 and 2012, respectively. As a percentage of recorded investment gross of allowance, more than 99% of the assets were current for both periods.

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of year	$ 186	$ 58	$ 250	$ 60
Addition to/(release of) allowance for losses	10	(7)	(11)	(2)
Charge-offs, net of recoveries	(27)	(3)	(51)	0
Change in foreign exchange	(5)	0	(2)	0
Allowance, end of period	$ 164	$ 48	$ 186	$ 58
Loan specific reserve	$ 11	$ 3	$ 41	$ 7
Portfolio reserve	$ 153	$ 45	$ 145	$ 51

Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Financial Services Businesses

	December 31, 2013				December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 32	$ 4	$ 1	$ 35	$ 15	$ 2	$ 0	$ 17
Mutual fund common stocks(1)	2,245	562	8	2,799	1,874	516	0	2,390
Other common stocks	2,277	920	12	3,185	2,392	274	42	2,624
Total equity securities(2)	$ 4,554	$ 1,486	$ 21	$ 6,019	$ 4,281	$ 792	$ 42	$ 5,031

(1) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
(2) Amounts presented exclude hedge funds and other alternative investments which are reported in Other long-term investments.

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The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Closed Block Business

	December 31, 2013				December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 1	$ 1	$ 0	$ 2	$ 10	$ 2	$ 0	$ 12
Mutual fund common stocks	8	6	0	14	0	0	0	0
Common stocks	2,433	1,443	8	3,868	2,447	779	13	3,213
Total equity securities	$ 2,442	$ 1,450	$ 8	$ 3,884	$ 2,457	$ 781	$ 13	$ 3,225

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available-for-sale, we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. For additional information regarding our policies regarding other-than-temporary impairments for equity securities see Note 2 to the Consolidated Financial Statements.

Impairments of equity securities attributable to the Financial Services Businesses were $12 million and $104 million for the years ended December 31, 2013 and 2012, respectively. Impairments of equity securities attributable to the Closed Block Business were $3 million and $21 million for years ended December 31, 2013 and 2012, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

Other Long-Term Investments

The following table sets forth the composition of Other long-term investments, which primarily consists of investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments, as of the dates indicated.

	December 31, 2013		December 31, 2012	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate-related	$ 277	$ 481	$ 320	$ 504

Non-real estate-related	4,141	1,863	3,861	1,538
Real estate held through direct ownership(1)	1,559	0	1,602	0
Other(2)	1,195	(320)	882	(30)
Total other long-term investments	$ 7,172	$ 2,024	$ 6,665	$ 2,012

(1) Primarily includes investments in office buildings within our Japanese insurance operations.
(2) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements.

Invested Assets of Other Entities and Operations

Invested Assets of Other Entities and Operations includes investments held outside the general account and primarily represents investments associated with our asset management and derivative operations. Our derivative operation acts on behalf of affiliates primarily to manage interest rate, foreign currency, credit, and equity exposures. Assets within our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

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The following table sets forth the composition of investments held outside the general account, based on the parameters described above, as of the dates indicated.

	December 31, 2013	December 31, 2012
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$ 242	$ 272
Private, available-for-sale, at fair value	73	93
Other trading account assets, at fair value(1)	4,770	4,627
Equity securities, available-for-sale, at fair value	7	21
Commercial mortgage and other loans, at book value(2)	202	502
Other long-term investments	1,132	1,351
Short-term investments	392	62
Total investments	$ 6,818	$ 6,928

(1) Primarily related to assets associated with consolidated variable interest entities for which the Company is the investment manager as well as our derivative operation used to manage interest rate, foreign currency, credit and equity exposures. For further information on these consolidated variable interest entities, see Note 5 to the Consolidated Financial Statements.
(2) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

Commercial Mortgage and Other Loans

Our asset management operations include our commercial mortgage operations, which provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac.

We also carry shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease up. All else being equal, these interim loans are inherently more risky than those collateralized by properties that have already stabilized. Our interim loans are generally paid off through refinancing or the sale of the underlying collateral by the borrower.

The following table sets forth information regarding the interim loan portfolio held outside the general account in other entities and operations as of the dates indicated.

	December 31, 2013	December 31, 2012
	($ in millions)	
Interim Loan Portfolio:		
Principal balance of loans outstanding	$ 23	$ 239
Allowance for credit or valuation-related losses	$ 2	$ 14
Weighted average loan-to-value ratio(1)	95%	91%
Weighted average debt service coverage ratio(1)	1.12	1.25

(1) A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios.

As of December 31, 2013, we hold no commercial real estate held-for-sale related to foreclosed interim loans. The mortgage loans of our commercial mortgage operations are included in Commercial mortgage and other loans, with related derivatives and other hedging instruments primarily included in Other trading account assets and Other long-term investments.

Other Long-Term Investments

Other long-term investments primarily include strategic investments made as part of our asset management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the

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intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our asset management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other long-term investments also include certain assets in consolidated investment funds where the company is deemed to exercise control over these funds.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long term financial resources available to support the operations of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our quarterly planning process. We believe that cash flows from the sources of funds available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including under reasonably foreseeable stress scenarios. We have a capital management framework in place that governs the allocation of capital and approval of capital uses, and we forecast capital sources and uses on a quarterly basis. We also employ a Capital Protection Framework to ensure the availability of capital resources to maintain adequate capitalization on a consolidated basis and competitive risk-based capital ratios and solvency margins for our insurance subsidiaries under various stress scenarios.

On September 19, 2013, the Financial Stability Oversight Council made a final determination that Prudential Financial is a Designated Financial Company under the Dodd-Frank Act. As a Designated Financial Company, Prudential Financial is now subject to supervision and examination by the Federal Reserve Bank of Boston and to stricter prudential regulatory standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans, early remediation; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects. In addition, on July 18, 2013, the Financial Stability Board, consisting of representatives of national financial authorities of the G20 nations, identified the Company as a global systemically important insurer. See Executive Summary Regulatory Developments above, as well as Business Regulation and Risk Factors for information on these recent actions and their impact.

During 2013, we took the following significant actions that impacted our liquidity and capital position:

- We repositioned Prudential Financial s capital structure through a $1.1 billion net reduction in senior notes outstanding and a $0.3 billion net increase in junior subordinated notes outstanding;
- We repurchased $750 million of shares of our Common Stock and declared aggregate Common Stock dividends of $810 million;
- We made an investment in our Individual Life business through our acquisition of the Hartford Life Business;

We augmented our alternative sources of liquidity by entering into a put option agreement giving Prudential Financial the right to issue up to $1.5 billion of senior notes due November 2023 to a trust entity at any time over a ten-year period in return for principal and interest strips of U.S. Treasury securities;

We obtained an additional $2.5 billion of capacity for the financing of non-economic reserves required to be held by our domestic insurance subsidiaries under Regulation XXX and Guideline AXXX; and

We extended the expiration dates of our three-year and five-year syndicated credit facilities to November 2016 and November 2018, respectively.

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Capital

Our capital management framework is primarily based on statutory risk-based capital and solvency margin measures. Due to our diverse mix of businesses and applicable regulatory requirements, we apply certain refinements to the framework that are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company.

We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets, and we believe Prudential Financial s capitalization and use of financial leverage are consistent with those ratings targets. Our long-term senior debt rating targets for Prudential Financial are A for Standard & Poor s Rating Services, or S&P, Moody s Investors Service, Inc., or Moody s, and Fitch Ratings Ltd., or Fitch, and a for A.M. Best Company, or A.M. Best. Our financial strength rating targets for our life insurance companies are AA/Aa/AA for S&P, Moody s and Fitch, respectively, and A+ for A.M. Best. Currently, some of our ratings are below these targets. For a description of the potential impacts of ratings downgrades, see Ratings.

Capital Governance

Our capital management framework is ultimately reviewed and approved by our Board of Directors. The Board has adopted a capital management policy that authorizes our Chairman and Chief Executive Officer and Vice Chairman to approve certain capital actions on behalf of the Company and to further delegate authority with respect to capital actions to appropriate officers. Any capital commitment that exceeds the authority granted to senior management under the capital management policy is separately authorized by the Board.

In addition, our Capital and Finance Committee (CFC) reviews the use and allocation of capital above certain threshold amounts to promote the efficient use of capital, consistent with our strategic objectives, ratings aspirations and other goals and targets. This management committee provides a multi-disciplinary due diligence review of specific initiatives or transactions requiring the use of capital, including all mergers and acquisitions. The CFC also evaluates our annual capital and financing plan (and quarterly updates to this plan), as well as our capital, liquidity and financial position, borrowing plans, and related matters prior to the discussion of these items with the Board of Directors.

Capitalization

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses and outstanding capital debt, including junior subordinated debt, of the Financial Services Businesses. As shown in the table below, as of December 31, 2013, the Financial Services Businesses had $35.5 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	December 31, 2013	December 31, 2012
	(in millions)	
Attributed Equity(1)	$ 25,299	$ 27,016
Junior subordinated debt (i.e. hybrid securities)	4,884	4,594
Other capital debt	5,345	6,049

Total capital	$ 35,528	$ 37,659

(1) Excludes AOCI. This amount may be subject to volatility due to, among other things, the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, for which the foreign currency exposure is economically matched and offset in AOCI (see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies for additional information).

Insurance Regulatory Capital

We manage Prudential Insurance, Prudential of Japan, Gibraltar Life and our other domestic and international insurance subsidiaries to regulatory capital levels consistent with our AA ratings targets.

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The Risk-Based Capital, or RBC, ratio is a primary measure of the capital adequacy of Prudential Insurance, which includes businesses in both the Financial Services Businesses and the Closed Block Business, and our other domestic insurance subsidiaries. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the National Association of Insurance Commissioners, or NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer s products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities but is available to the public.

Effective for the year ended December 31, 2013, the NAIC has adopted a change to the methodology for calculating RBC risk charges associated with commercial and agricultural mortgage loans. Prior to the adoption of this methodology change, the risk charges were calculated based on an insurance company s portfolio level experience as compared to an industry average. The newly adopted change considers each loan s risk in the calculation of these risk charges. This methodology applies to each of Prudential Financial s U.S. insurance subsidiaries.

The RBC ratios for Prudential Insurance and Prudential Annuities Life Assurance Corporation were 456% and 421%, respectively, as of December 31, 2012. As of December 31, 2013, the ratios for both of these subsidiaries were greater than 400%, including the impact of the aforementioned change in methodology for calculating RBC risk charges associated with commercial and agricultural mortgage loans.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies based on local statutory accounting practices. These solvency margins are a primary measure of the capital adequacy of our international insurance operations. Maintenance of our solvency margins at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer s financial strength.

The solvency margins for Prudential of Japan and Gibraltar Life were 749% and 896%, respectively, as of March 31, 2013, the most recent statutory fiscal year-end. As of December 31, 2013, the solvency margins for both of these subsidiaries were greater than 700%.

All of our domestic and international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations.

The regulatory capital levels of our domestic and international insurance subsidiaries can be materially impacted by interest rates, equity market and real estate market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of our investment portfolio, foreign exchange rate movements and business growth, among other items. In addition, particularly for our domestic insurance subsidiaries, the recapture of business subject to third-party reinsurance arrangements due to, for example, defaults by, or credit quality migration affecting, the third-party reinsurers could negatively impact regulatory capital.

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. As discussed above in Executive Summary Regulatory Developments, the NY DFS has notified us that it does not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York purposes in respect of certain variable annuity products, and if we are ultimately required to establish material additional reserves on a New York statutory accounting basis or post material amounts of additional collateral with respect to such variable annuity or other products, our ability to deploy capital held within our U.S. domestic insurance subsidiaries for other purposes could be affected.

We evaluate the regulatory capital of our domestic and international insurance operations under reasonably foreseeable stress scenarios and believe we have adequate resources to maintain our capital levels comfortably above regulatory requirements under these scenarios. For further information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 15 to the Consolidated Financial Statements.

Capital Protection Framework

We employ a Capital Protection Framework to ensure that sufficient capital resources are available to maintain adequate capitalization on a consolidated basis and competitive RBC ratios and solvency margins for our insurance subsidiaries under various stress scenarios. The Capital Protection Framework incorporates the

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potential impacts from market related stresses, including equity markets, real estate, interest rates, credit losses, and foreign currency exchange rates. Potential sources of capital include on-balance sheet capital, derivatives, reinsurance and contingent sources of capital. Although we continue to enhance our approach, we believe we currently have access to sufficient resources to maintain adequate capitalization and competitive RBC ratios and solvency margins under a range of potential stress scenarios. See Business Corporate and Other for further information on our Capital Protection Framework.

Captive Reinsurance Companies

We use captive reinsurance companies in our domestic insurance operations to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only. To support the risks they assume, our captives are capitalized to a level we believe is consistent with the AA financial strength rating targets of our insurance subsidiaries. All of our captive reinsurance companies are wholly-owned subsidiaries and are located domestically, typically in the state of domicile of the direct writing insurance subsidiary that cedes the majority of business to the captive. In addition to state insurance regulation, our captives are subject to internal policies governing their activities. Prudential Financial provides support to these captives, typically through net worth maintenance agreements, and in the normal course of business will contribute capital to the captives to support business growth and other needs. In addition, in connection with financing arrangements, Prudential Financial may guarantee certain of the captives obligations.

Recently, the NAIC, the New York State Department of Financial Services and other regulators have increased their focus on life insurers use of captive reinsurance companies. We cannot predict what, if any, changes may result from these reviews. If insurance laws are changed in a way that restricts our use of captive reinsurance companies in the future, our ability to write certain products and efficiently manage their associated risks could be adversely affected and we may need to increase prices on certain products, modify certain products or find alternate financing sources, any of which could adversely affect our competitiveness, capital and financial position and results of operations. Given the uncertainty of the ultimate outcome of these reviews, at this time we are unable to estimate their expected effects on our future capital and financial position and results of operations.

Our domestic life insurance subsidiaries are subject to a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX. The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves through the issuance of surplus notes by the captives, which are treated as capital for statutory purposes. See Financing Activities Subsidiary borrowings Financing of regulatory reserves associated with domestic life insurance products below for additional information on our financing activities related to Regulation XXX and Guideline AXXX.

We reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to a captive reinsurance company, Pruco Reinsurance, Ltd., or Pruco Re. This enables us to aggregate these risks within Pruco Re and manage them more efficiently through a hedging program. We believe Pruco Re currently maintains an adequate level of capital and access to liquidity to support this hedging program. However, as discussed below under Liquidity associated with other activities Hedging activities associated with living benefit guarantees, Pruco Re s capital and liquidity needs can vary significantly due to, among other things, changes in equity markets, interest rates, mortality and policyholder behavior. Through our Capital Protection Framework, we hold on-balance sheet capital and maintain access to committed sources of capital that are available to meet these needs as they arise.

We reinsure 90% of the short-term risks of Prudential Insurance s Closed Block Business to a captive reinsurance company domiciled in New Jersey. These short-term risks represent the impact of variations in experience of the Closed Block that are expected to be recovered over time as a result of corresponding adjustments to policyholder dividends. The reinsurance arrangement is intended to alleviate the short-term

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statutory surplus volatility within Prudential Insurance resulting from the Closed Block Business, including volatility caused by the impact of any unrealized mark-to-market losses and realized credit losses within its investment portfolio. To support the captive s funding obligations under the reinsurance arrangement, we maintain a $2.0 billion letter of credit facility with unaffiliated financial institutions through which the captive can obtain a letter of credit during an availability period expiring in October 2015. Prudential Financial guarantees all obligations of the New Jersey captive under the facility, including its obligation to reimburse any draws made under the letter of credit. Because experience of the Closed Block is ultimately passed along to policyholders over time through the annual policyholder dividend, we believe that a draw under the letter of credit is unlikely. Our ability to obtain a letter of credit under the facility is subject to the continued satisfaction of customary conditions similar to those described under Credit Facilities below.

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In June 2013, our Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2013 through June 30, 2014. This authorization supersedes the Board s previous $1.0 billion repurchase authority that covered the prior twelve-month period. A total of 6.6 million shares of our Common Stock were repurchased under the prior authorization for a total cost of $400 million. The timing and amount of any future share repurchases will be determined by management based on market conditions and other considerations, including increased capital needs of our businesses due to changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act.

In the first quarter of 2013, Prudential Financial moved to a quarterly Common Stock dividend schedule. Previously, Common Stock dividends were paid on an annual basis. The following table sets forth information about repurchases of shares of Prudential Financial s Common Stock, as well as declarations of Common Stock dividends, for each of the quarterly periods in 2013 and for the prior four years:

	Dividend Amount		Shares Repurchased	
Quarterly period ended:	**Per Share**	**Aggregate**	**Shares**	**Total Cost**
	(in millions, except per share data)			
December 31, 2013	$ 0.53	$ 247	2.9	$ 250
September 30, 2013	$ 0.40	$ 187	3.2	$ 250
June 30, 2013	$ 0.40	$ 188	3.9	$ 250
March 31, 2013	$ 0.40	$ 188		$

	Dividend Amount		Shares Repurchased	
Year ended:	**Per Share**	**Aggregate**	**Shares**	**Total Cost**
	(in millions, except per share data)			
December 31, 2012	$ 1.60	$ 749	11.5	$ 650
December 31, 2011	$ 1.45	$ 689	19.8	$ 1,000
December 31, 2010	$ 1.15	$ 564		$
December 31, 2009	$ 0.70	$ 327		$

In addition, on February 11, 2014, Prudential Financial s Board of Directors declared a cash dividend of $0.53 per share of Common Stock, payable on March 20, 2014. As a Designated Financial Company under Dodd-Frank, Prudential Financial expects to be subject to minimum risk-based capital and leverage requirements and to the submission of annual capital plans to the FRB. Prudential Financial s compliance with these and other requirements under Dodd-Frank could limit its ability to pay Common Stock dividends and repurchase shares in the future.

Liquidity

Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. A minimum cash

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balance of $1.3 billion is targeted to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries. This targeted minimum balance is reviewed and approved annually by the Finance Committee of the Board of Directors.

To mitigate the risk of having limited or no access to financing due to stressed market conditions, we generally prefund capital debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed on a quarterly basis for our major operating subsidiaries. Liquidity risk is further mitigated by our access to the alternative sources of liquidity discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends and returns of capital from subsidiaries, repayments of operating loans from subsidiaries and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial s access to the capital markets as well as the Alternative Sources of Liquidity described below.

The primary uses of funds at Prudential Financial include servicing debt, paying operating expenses, making capital contributions and loans to subsidiaries, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under Board authority.

As of December 31, 2013, Prudential Financial had cash and short-term investments of $5,555 million, a decrease of $3,008 million from 2012. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding net borrowings from this intercompany liquidity account, Prudential Financial had cash and short-term investments of $4,354 million as of December 31, 2013, a decrease of $1,073 million from December 31, 2012.

The following table sets forth Prudential Financial s principal sources and uses of cash and short-term investments, excluding net borrowings from our intercompany liquidity account, for the periods indicated.

	Year Ended December 31,	
	2013	**2012**
	(in millions)	
Sources:		
Dividends and/or returns of capital from subsidiaries(1)	$ 3,007	$ 2,862
Proceeds from the issuance of junior subordinated debt (hybrid securities)	1,210	3,075
Proceeds from the issuance of long-term senior debt	1,050	0
Proceeds from stock-based compensation and exercise of stock options	538	308
Net receipts under intercompany loan agreements(2)(3)	421	1,205
Interest income from subsidiaries on intercompany agreements, net of interest paid	369	406
Proceeds from short-term debt, net of repayments	78	0
Repayment of funding agreements from Prudential Insurance	0	525
Net proceeds from external financing agreement(4)	0	244
Other, net(5)	0	197
Total sources	6,673	8,822

Uses:		
Capital contributions to subsidiaries(6)	1,760	1,912
Maturities of long-term senior debt, excluding retail medium-term notes	1,581	850
Interest paid on external debt	1,028	1,010
Repayments of junior subordinated debt (hybrid securities)	920	0
Common Stock dividends(7)	828	749
Share repurchases(8)	738	650
Repayment of retail medium-term notes	615	1,741
Net income tax payments	246	0
Class B Stock dividends	19	19
Other, net	11	0
Total uses	7,746	6,931
Net increase (decrease) in cash and short-term investments	$ (1,073)	$ 1,891

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(1) 2013 includes dividends and/or returns of capital of $1,642 million from international subsidiaries, $441 million from asset management subsidiaries, $338 million from an investment subsidiary, $391 million from Prudential Annuities Holding Company, of which $284 million was from Prudential Annuities Life Assurance Corporation, and $195 million from other subsidiaries. 2012 includes dividends and/or returns of capital of $865 million from international subsidiaries, $646 million from asset management subsidiaries, $600 million from Prudential Insurance, $408 million from Prudential Annuities Life Assurance Corporation, $230 million from Prudential Bank & Trust and $113 million from other subsidiaries.
(2) 2013 includes net repayments of $282 million by Pruco Life Insurance Company, $200 million by Prudential Annuities Life Assurance Corporation and $176 million by asset management subsidiaries, net proceeds of $351 million from the issuance of notes to Gibraltar Life and $108 million from the issuance of notes to Prudential of Japan, and net repayments of $47 million from other subsidiaries, offset by net borrowings of $743 million by PrucoRe. 2012 includes net proceeds of $395 million from the issuance of notes to Prudential of Japan, partially offset by a repayment of $20 million to Prudential Holdings, LLC. 2012 also includes net repayments of $558 million by asset management subsidiaries, $200 million by Prudential Annuities Life Assurance Corporation, $188 million by Pruco Re and $42 million by other subsidiaries, partially offset by net borrowings of $164 million by Pruco Life Insurance Company.
(3) Amounts for 2012 have been reclassified to conform to current period presentation, which excludes amounts related to our intercompany liquidity account.
(4) Represents repayments in 2012 associated with transitional financing agreements provided in connection with the sale of the real estate brokerage franchise and relocation business in 2011.
(5) 2012 primarily includes tax settlements pursuant to the tax allocation agreement between Prudential Financial and its subsidiaries, net of estimated tax payments to the Internal Revenue Service.
(6) 2013 includes capital contributions of $712 million to Prudential Insurance, of which $615 million was paid to The Hartford in connection with our acquisition of its life insurance business, $618 million to international subsidiaries, $309 million to Pruco Re, $25 million to asset management subsidiaries and $96 million to other subsidiaries. 2012 includes capital contributions of $1,431 million to Pruco Re, $406 million to international insurance subsidiaries, $31 million to asset management subsidiaries and $44 million to other subsidiaries.
(7) 2013 includes cash payments made on dividends declared in prior periods.
(8) 2013 excludes $12 million related to trades that settled in January 2014.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements for details on specific dividend restrictions.

Domestic insurance subsidiaries. Prudential Insurance is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance, or NJDOBI. Any distributions above this amount in any 12-month period are considered to be extraordinary dividends, and the approval of NJDOBI is required prior to payment. In May 2013, Prudential Insurance paid an ordinary dividend of $232 million to its parent, Prudential Holdings, LLC, which amount remained at Prudential Holdings. In June 2013, Prudential Insurance paid an ordinary dividend in the form of real property, with a value of $42 million, which was ultimately contributed to a subsidiary of Prudential Financial related to the development of a new office building located in Newark, New Jersey.

The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey s. In 2013, Prudential Annuities Life Assurance Corporation paid extraordinary dividends of $284 million to Prudential Financial. In 2013, Prudential Retirement Insurance and Annuity Company paid an ordinary dividend of $226 million and an extraordinary dividend of $89 million to its parent, Prudential Insurance. In 2013, Pruco Life Insurance Company paid ordinary dividends of $423 million to its parent, Prudential Insurance.

International insurance subsidiaries. Our international insurance subsidiaries are subject to dividend restrictions from the regulatory authorities in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. The current regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, 2014, at which time the common stock dividend amount permitted to be paid without prior approval from the FSA will be determinable.

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Although Gibraltar Life may be able to pay common stock dividends under these regulatory restrictions, we do not anticipate receiving common stock dividends for several years as Gibraltar Life may return capital to Prudential Financial through other means, such as the repayment of subordinated debt or preferred stock obligations held by Prudential Financial or other affiliates. In 2013, Prudential of Japan paid a dividend of ¥25.0 billion, or approximately $255 million, to its parent, Prudential Holdings of Japan. In 2013, Gibraltar Life repaid subordinated debt of ¥6.7 billion, or approximately $68 million, paid a dividend of ¥16.9 billion, or approximately $170 million, on its preferred stock, and redeemed a portion of its preferred stock for ¥21.8 billion, or approximately $214 million, in each case to its parent, Prudential Holdings of Japan. Additionally, Prudential of Korea paid a dividend of (Won)70.0 billion or approximately $63 million to its parent, Prudential International Insurance Holdings Ltd. Approximately $724 million of these distributions were ultimately sent to Prudential Financial.

Other subsidiaries. The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our insurance operations liquidity under various stress scenarios, including company-specific and market-wide events. We believe we have adequate liquidity in each of our insurance subsidiaries, including under these stress scenarios.

Cash Flow

The principal sources of liquidity for our insurance subsidiaries are premiums and certain annuity considerations, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims, dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, hedging activity and payments in connection with financing activities.

In each of our major insurance subsidiaries, we believe that the cash flows from operations are adequate to satisfy current liquidity requirements. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, policyholder behavior, catastrophic events and the relative safety and attractiveness of competing products, each of which could lead to reduced cash inflows or increased cash outflows. Our insurance operations cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

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Domestic insurance operations. In managing the liquidity of our domestic insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers. The following table sets forth the liabilities for future policy benefits and policyholders account balances of certain of our domestic insurance subsidiaries as of the dates indicated.

	December 31,	
	2013	2012
	(in billions)	
Prudential Insurance	$ 160.0	$ 152.6
PRIAC	24.3	24.1
Other(1)	5.5	12.7
Total future policy benefits and policyholders account balances	$ 189.8	$ 189.4

(1) Includes Prudential Annuities Life Assurance Corporation (PALAC) and Pruco Life Insurance Company (Pruco Life). Amounts are reflected net of reinsurance recoverables.

The liabilities presented above are primarily supported by invested assets in our general account. As noted above, when selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

For Prudential Insurance and other subsidiaries, the liabilities presented above primarily include annuity reserves and deposit liabilities and individual life insurance policy reserves. Individual life insurance policies are less susceptible to withdrawal than our annuity contracts because policyholders may incur surrender charges and be subject to a new underwriting process in order to obtain a new insurance policy. Prudential Insurance s reserves for group annuity contracts primarily relate to the significant pension risk transfer transactions that closed in the fourth quarter of 2012. These contracts are generally not subject to early withdrawal. For our individual annuity contracts, to encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity. The living benefit features of our variable annuities also encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

For PRIAC, the liabilities presented above primarily include reserves for group annuity contracts. Although many of these contracts are subject to discretionary withdrawal, withdrawals are typically at the market value of the underlying assets. Risk is further reduced by the high persistency of clients driven in part by our strong competitive position in our target markets and contractual provisions such as deferred payouts.

Gross account withdrawals for our domestic insurance operations products in 2013 were consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

International insurance operations. As with our domestic operations, in managing the liquidity of our international insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. The following table sets forth the total general account insurance-related liabilities (other than dividends payable to policyholders) of our international insurance subsidiaries, as of the dates indicated.

	December 31, 2013	December 31, 2012
	(in billions)	
Prudential of Japan(1)	$ 34.6	$ 36.4
Gibraltar Life(2)	91.3	103.8
All other international insurance subsidiaries(3)	10.9	9.5
Total general account insurance-related liabilities (other than dividends payable to policyholders)	$ 136.8	$ 149.7

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(1) As of December 31, 2013 and 2012, $6.5 billion and $5.7 billion, respectively, of the insurance-related liabilities for Prudential of Japan are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets.
(2) Includes Prudential Gibraltar.
(3) Represents our international insurance operations, excluding Japan.

The liabilities presented above are primarily supported by invested assets in our general account. When selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

We believe most of the longer-term recurring pay individual life insurance policies sold by our Japanese operations do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process to obtain a new insurance policy. In addition, we utilize market value adjustment features to mitigate the profitability impact and timing of withdrawals of funds by customers. As of December 31, 2013, products with a market value adjustment feature represented $20.1 billion of our Japan operations insurance-related liabilities.

Recently, Gibraltar Life has discontinued sales of its yen-denominated single premium reduced death benefit whole life product that has a greater savings component. This product is more susceptible to increased levels of surrenders if interest rates increase in Japan, which may result in losses. As of December 31, 2013, yen-denominated single premium reduced death benefit whole life products represented $9.6 billion of our Japan operations insurance-related liabilities. Gibraltar Life also sells fixed annuities denominated in U.S. and Australian dollars that may be subject to increased surrenders should these currencies appreciate in relation to the yen and interest rates in Australia and the U.S. decline relative to Japan. As of December 31, 2013, fixed annuities denominated in U.S. and Australian dollars represented $19.3 billion of our Japan operations insurance-related liabilities, of which $18.3 billion include a market value adjustment feature which mitigates the profitability impact from surrenders.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, fixed maturities that are not designated as held-to-maturity and public equity securities. In addition to access to substantial investment portfolios, our insurance companies liquidity is managed through access to a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. Our ability to utilize assets and liquidity between our subsidiaries is limited by regulatory and other constraints. We believe that ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The following table sets forth the fair value of certain of our domestic insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	December 31, 2013				
	Prudential Insurance	PRIAC	Other(1)	Total	December 31, 2012
			(in billions)		
Cash and short-term investments	$ 6.9	$ 0.8	$ 0.6	$ 8.3	$ 7.4

Fixed maturity investments:					
High or highest quality	121.9	19.0	8.3	149.2	158.6
Other than high or highest quality	8.5	1.4	0.6	10.5	10.0
Subtotal	130.4	20.4	8.9	159.7	168.6
Public equity securities	4.3	0.0	0.0	4.3	3.6
Total	$ 141.6	$ 21.2	$ 9.5	$ 172.3	$ 179.6

(1) Includes PALAC and Pruco Life.

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The following table sets forth the fair value of our international insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	December 31, 2013				
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	December 31, 2012
			(in billions)		
Cash and short-term investments	$ 0.7	$ 2.2	$ 0.4	$ 3.3	$ 5.2
Fixed maturity investments:					
High or highest quality(3)	26.5	84.7	12.3	123.5	134.9
Other than high or highest quality	0.4	2.2	0.2	2.8	2.5
Subtotal	26.9	86.9	12.5	126.3	137.4
Public equity securities	1.7	2.3	0.4	4.4	3.8
Total(4)	$ 29.3	$ 91.4	$ 13.3	$ 134.0	$ 146.4

(1) Includes Prudential Gibraltar.
(2) Represents our international insurance operations, excluding Japan.
(3) Of the $123.5 billion of fixed maturity investments that are not designated as held to-maturity and considered high or highest quality as of December 31, 2013, $86.5 billion, or 70%, were invested in government or government agency bonds.
(4) The decline in liquid assets from December 31, 2012 was driven by depreciation of the yen relative to the U.S. dollar, partly offset by business growth.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience, including policyholder withdrawals and surrenders, varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses affecting results of operations. The payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing, and financing activities, respectively, in our financial statements. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

Liquidity associated with other activities

Hedging activities associated with living benefit guarantees

As discussed in Captive Reinsurance Companies above, we reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to Pruco Re. This enables us to execute our living benefit hedging program primarily within a single legal entity. As part of the living benefit hedging program, we enter into a range of exchange-traded, cleared and other over the counter equity and interest rate derivatives to hedge optional living benefit features accounted for as embedded derivatives against changes in certain capital market conditions such as interest rates and equity index levels. For a full discussion of our living benefits hedging program, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. Pruco Re requires access to liquidity to meet its payment obligations under these hedging arrangements, such as payments for periodic settlements, purchases, maturities, terminations and breakage. Pruco Re s liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior. Currently, we fund these liquidity needs with a combination of capital contributions and loans from Prudential Financial and other affiliates.

The living benefits hedging activity in Pruco Re may also result in collateral postings on derivatives to or from counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs. In addition, certain derivatives entered into on or after June 10, 2013, are subject to mandatory clearing requirements under the Dodd-Frank Act. These cleared derivatives typically have

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additional collateral requirements. As of December 31, 2013, the living benefit hedging derivatives were in a net posting position of $0.4 billion compared to a net receive position of $4.4 billion as of December 31, 2012. The change in position was primarily driven by rising interest rates and equity market appreciation.

Additionally, in certain cases, state insurance law requires reinsurers, such as Pruco Re, to collateralize their obligations under a reinsurance agreement to permit the ceding company to claim statutory reinsurance reserve credit for the business ceded. Because our subsidiaries Pruco Life and, effective August 31, 2013, PALAC are domiciled in the State of Arizona (as is Pruco Re), they are able to claim reinsurance reserve credit for business ceded to Pruco Re without the need for Pruco Re to post collateral. However, Pruco Re must post collateral with respect to business ceded to it by our subsidiary Pruco Life Insurance Company of New Jersey. We satisfy collateral posting requirements by depositing assets into statutory reserve credit trusts. Funding needs for the statutory reserve credit trusts are separate and distinct from capital needs of Pruco Re. However, assets pledged to the statutory reserve credit trusts may include assets supporting the capital of Pruco Re provided that they meet eligibility requirements prescribed by the Arizona Department of Insurance. Reinsurance reserve credit requirements and the amount of assets required to be pledged can vary substantially due to changes in equity markets, interest rates, actuarial assumptions and other factors. As of December 31, 2013, the statutory reserve credit trusts required collateral of $7 million, a decrease of $2.2 billion from December 31, 2012, primarily due to the re-domestication of PALAC to the State of Arizona effective August 31, 2013.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the Japanese yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company s overall return on equity. For further information on our hedging strategies, see Results of Operations for Financial Services Businesses by Segment International Insurance Division. Our hedging strategies, which include both internal and external hedging programs, may impact the liquidity positions of both Prudential Financial and our international insurance subsidiaries.

The internal-only hedges are between Prudential Financial (through a subsidiary) and certain of our yen-based entities and serve to hedge changes in the market value of U.S. dollar-denominated investments held on the books of these yen-based entities attributable to changes in the yen-dollar exchange rate. These U.S. dollar-denominated investments are part of our hedging strategy to mitigate the impact of foreign currency exchange rate movements on our U.S. dollar-equivalent equity. Absent an internal hedge, changes in the market value of these U.S. dollar-denominated investments attributable to changes in the yen-dollar exchange rate would create volatility in the solvency margins of these subsidiaries. To minimize this volatility, we enter into inter-company hedges. Cash settlements from these hedging activities result in cash flows between Prudential Financial and these yen-based subsidiaries. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During 2013, Prudential Financial received $831 million of net cash settlements related to the internal hedge program, which were paid by the yen-based subsidiaries. As of December 31, 2013, the market value of the internal hedges was an asset of $867 million due from the yen-based subsidiaries. A significant yen depreciation over an extended period of time could result in additional net cash inflows to Prudential Financial. Conversely, a significant yen appreciation could result in net cash outflows from Prudential Financial.

Our external hedges primarily serve to hedge a portion of our prospective non-U.S. dollar-denominated earnings streams and, to a lesser extent, our U.S. dollar-equivalent equity. The external hedges are between a subsidiary of Prudential Financial and external parties. Cash settlements on these activities result in cash flows between the Company and the external parties and are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During 2013, the Company received $74 million of net cash settlements related to these external hedges. As of December 31, 2013, the net asset related to these external foreign currency hedges was $780 million. A significant depreciation in the yen and other foreign currencies could result in net cash inflows to the Company, while a significant appreciation in the yen and other foreign currencies could result in net cash outflows from the Company.

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Asset Management operations

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage origination and servicing fees. The principal uses of liquidity include general and administrative expenses and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee-based asset management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments and interim loans held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Funding and Prudential Financial. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There were no material changes to the liquidity position of our asset management operations during 2013.

Alternative Sources of Liquidity

In addition to the sources of liquidity discussed throughout this section, Prudential Financial and certain subsidiaries have access to the alternative sources of liquidity described below:

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments, mortgage loans and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

	December 31, 2013			December 31, 2012		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
	(in millions)					
Securities sold under agreements to repurchase	$ 4,128	$ 3,770	$ 7,898	$ 3,436	$ 2,382	$ 5,818
Cash collateral for loaned securities	4,230	810	5,040	2,864	1,077	3,941

Securities sold but not yet purchased	56	0	56	0	0	0
Total(1)	$ 8,414	$ 4,580	$ 12,994	$ 6,300	$ 3,459	$ 9,759
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	$ 6,503	$ 2,273	$ 8,776	$ 4,536	$ 1,566	$ 6,102
Weighted average maturity, in days(2)	39	71		25	67	

(1) The daily weighted average outstanding for the twelve months ended December 31, 2013 and 2012, was $7,044 million and $6,695 million, for the Financial Services Businesses and $4,219 million and $4,303 million, for the Closed Block Business, respectively.
(2) Excludes securities that may be returned to the Company overnight.

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Outstanding liabilities under these programs increased $3.2 billion during 2013, as recent growth in our portfolio of invested assets was utilized to take advantage of attractive financing and investment opportunities.

As of December 31, 2013, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of $76.8 billion, of which $10.7 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2013, we believe approximately $20.7 billion of the remaining eligible assets are readily lendable, of which approximately $14.6 billion relates to the Financial Services Businesses.

In addition, as of December 31, 2013, our Closed Block Business had outstanding mortgage dollar rolls, under which we are committed to repurchase $718 million of mortgage-backed securities, or TBA forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

Membership in the Federal Home Loan Banks

Prudential Insurance is a member of the Federal Home Loan Bank of New York, or FHLBNY. Membership allows Prudential Insurance access to the FHLBNY s financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets or U.S. Treasury securities. Based on regulatory limitations, as of December 31, 2013, Prudential Insurance had an estimated maximum borrowing capacity of $6.5 billion under the FHLBNY facility, of which $2.2 billion was outstanding.

PRIAC is a member of the Federal Home Loan Bank of Boston, or FHLBB, which provides PRIAC access to collateralized advances from the FHLBB. Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department (the CT Department), the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately $230 million, none of which was outstanding as of December 31, 2013. Previously, the CT Department provided an advance consent to PRIAC, permitting it to pledge up to $2.6 billion in assets to secure FHLBB borrowings, resulting in a maximum borrowing capacity under the facility of approximately $1.7 billion; however, this consent expired as of December 31, 2013.

Borrowings under these facilities are subject to the FHLBNY s and the FHLBB s discretion and require the availability of qualifying assets at Prudential Insurance and PRIAC. For further information, see Note 14 to our Consolidated Financial Statements.

Commercial Paper Programs

Prudential Financial and Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, have commercial paper programs with an authorized issuance capacity of $3.0 billion and $7.0 billion, respectively. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of our subsidiaries. Prudential Funding commercial paper borrowings generally have been used to fund the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with NJDOBI. Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding s positive tangible net worth at all times. Prudential Financial has also issued a subordinated guarantee covering Prudential Funding s commercial paper program. As of December 31, 2013, Prudential Financial and Prudential Funding had outstanding borrowings of $190 million and $460 million, respectively, under these commercial paper programs. For further information, see Note 14 to our Consolidated Financial Statements.

Credit Facilities

We have access to an aggregate of $3.75 billion of syndicated, unsecured committed credit facilities, which includes a $2 billion five-year facility that has Prudential Financial as borrower and a $1.75 billion three-year facility that has both Prudential Financial and Prudential Funding as borrowers. In November 2013, we agreed with the lenders to extend the expiration dates of the five-year facility to November 2018 and the three-year facility to November 2016. The facilities may be used for general corporate purposes, including as backup liquidity for our commercial paper programs. There were no outstanding borrowings under these credit facilities as of December 31, 2013 or as of the date of this filing.

Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company s operating needs. The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company s credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities require that the Company maintain at all times consolidated net worth, relating to the Financial Services Businesses only, of at least $18.985 billion (excluding AOCI and excluding equity of non-controlling interests). For further information, see Note 14 to our Consolidated Financial Statements.

Put Option Agreement for Senior Debt Issuance

In November 2013, we entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of $1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to $1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of the principal and interest strips of U.S. Treasury securities held by the trust. In return, we agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets. We will determine the use of proceeds from any exercise of the put option at the time of exercise. For example, proceeds could be used to meet general liquidity needs and/or to meet the capital requirements of our subsidiaries.

The put option described above will be exercised automatically in full upon our failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if our failure to pay is not cured within 30 days, and upon an event involving our bankruptcy. We are also required to exercise the put option if our consolidated stockholders equity, calculated in accordance with GAAP but excluding accumulated other comprehensive income (loss), falls below $7 billion, subject to adjustment in certain cases. We have a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for principal and interest strips of U.S. Treasury securities. Finally, any of the 4.419% senior notes that we issue may be redeemed by us prior to their maturity at par or, if greater, a make-whole price, following a voluntary exercise in full of the put option.

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Financing Activities

As of December 31, 2013 and 2012, total short- and long-term debt of the Company on a consolidated basis was $26.2 billion and $27.2 billion, respectively. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position and other factors.

	December 31, 2013			December 31, 2012		
	Prudential Financial	Other Subsidiaries	Consolidated	Prudential Financial	Other Subsidiaries	Consolidated
	(in millions)					
General obligation short-term debt:						
Commercial paper(1)	$ 190	$ 460	$ 650	$ 113	$ 359	$ 472
Current portion of long-term debt and other(2)(3)	1,531	413	1,944	1,734	203	1,937
Subtotal	1,721	873	2,594	1,847	562	2,409
General obligation long-term debt:						
Senior debt(3)(4)	11,462	1,466	12,928	12,404	1,916	14,320
Junior subordinated debt	4,884	0	4,884	4,594	0	4,594
Surplus notes(5)	0	4,141	4,141	0	4,140	4,140
Subtotal	16,346	5,607	21,953	16,998	6,056	23,054
Total general obligations	18,067	6,480	24,547	18,845	6,618	25,463
Limited recourse borrowing(6):						
Current portion of long-term debt	0	75	75	0	75	75
Long-term debt	0	1,600	1,600	0	1,675	1,675
Total limited recourse borrowings	0	1,675	1,675	0	1,750	1,750
Total borrowings	$ 18,067	$ 8,155	$ 26,222	$ 18,845	$ 8,368	$ 27,213

(1) See Alternative Sources of Liquidity above for a discussion on our use of commercial paper
(2) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $100 million at December 31, 2012. For additional information on these borrowings, see Note 14 to the Consolidated Financial Statements.
(3) Does not include $2,381 million and $1,780 million of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of December 31, 2013 and 2012, respectively, or $1.9 billion of collateralized funding agreements issued to the Federal Home Loan Bank of New York at both December 31, 2013 and 2012. These notes and funding agreements are included in Policyholders account balances. For additional information on these obligations, see Notes 10 and 14 to the Consolidated Financial Statements
(4) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at both December 31, 2013 and 2012. For additional information on these borrowings, see Note 14 to the Consolidated Financial Statements.
(5) Amounts are net of assets under set-off arrangements of $2,400 million and $1,000 million, as of December 31, 2013 and 2012, respectively
(6) Limited and non-recourse borrowing represents outstanding debt of Prudential Holdings, LLC that is attributable to the Closed Block Business. See Prudential Holdings, LLC Notes within Note 14 to the Consolidated Financial Statements for additional information.

As of December 31, 2013 and 2012, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on the terms of our short- and long-term debt obligations, see Note 14 to our Consolidated Financial Statements.

Based on the use of proceeds, we classify our borrowings as capital debt, investment-related debt, and debt related to specified businesses. Capital debt, which is debt utilized to meet the capital requirements of our businesses, was $10.2 billion and $10.6 billion as of December 31, 2013 and 2012, respectively. Investment-related debt of $9.9 billion and $10.5 billion as of December 31, 2013 and 2012, respectively, consists of debt issued to finance specific investment assets or portfolios of investment assets, the proceeds from which will service the debt. Specifically, this includes institutional spread lending investment portfolios, assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, as well as institutional and insurance company portfolio cash flow timing differences. Our remaining borrowings are utilized for business funding to meet specific purposes, including funding new business acquisition costs associated with our individual annuities business, operating needs associated with hedging our individual annuities products as discussed above and activities associated with our asset management business.

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Prudential Financial Borrowings

Long-term borrowings are conducted primarily by the holding company, Prudential Financial. It borrows these funds to meet its capital and other funding needs, as well as the capital and funding needs of its subsidiaries. Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a Well-Known Seasoned Issuer under SEC rules, Prudential Financial s shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity.

Prudential Financial primarily issues senior debt under its Medium-Term Note, Series D program that currently has an authorized issuance capacity of $20.0 billion, of which approximately $8.5 billion remained available as of December 31, 2013. Prudential Financial also maintains a retail medium-term notes program, including InterNotes®, that has an authorized issuance capacity of $5.0 billion, of which approximately $4.7 billion remained available as of December 31, 2013. The weighted average interest rate on Prudential Financial s senior notes, including the effect of interest rate hedging activity, was 5.39% and 5.27% for the years ended December 31, 2013 and 2012, respectively, excluding the effect of debt issued to consolidated subsidiaries.

Prudential Financial has $4.9 billion of junior subordinated notes outstanding as of December 31, 2013, that are considered hybrid securities and receive enhanced equity treatment from the rating agencies. See Note 14 to our Consolidated Financial Statements for a description of the key terms of our junior subordinated notes.

Prudential Financial borrowings of $18.1 billion decreased $0.8 billion from December 31, 2012, driven by $1.6 billion of maturities of medium-term notes, the redemption of all of our $920 million 9.0% Junior Subordinated Notes due 2068 and the repayment of $615 million aggregate principal amount of retail notes, partially offset by the issuance of $1.2 billion of junior subordinated debt and the issuance of $1.1 billion of medium-term notes. As of December 30, 2013, $292 million of retail notes remained outstanding with no option to redeem at par.

Subsidiary Borrowings

Subsidiary borrowings principally consist of surplus note issuances done within our insurance and captive reinsurance subsidiaries, commercial paper borrowings by Prudential Funding and asset-based financing.

Financing of regulatory reserves associated with domestic life insurance products

As discussed above under Capital Insurance Subsidiaries Captive Reinsurance Companies, we use captive reinsurance companies to implement reinsurance and capital management actions, including financing regulatory non-economic reserves through internal and external solutions. These activities are described below.

From 2011 through 2013, we entered into agreements with external counterparties providing for the issuance and sale of up to an aggregate of $2.0 billion of ten-year surplus notes by one of our captive reinsurance subsidiaries. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special purpose subsidiary of the Company in an aggregate principal amount equal to the surplus notes issued. The captive holds the credit-linked notes as assets supporting non-economic reserves required to be held by our domestic insurance subsidiaries under Regulation XXX in connection with the reinsurance of term life insurance policies through the captive. The principal amount of the outstanding credit-linked notes is redeemable by the captive in cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payment under the credit-linked notes in return for a fee. Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and has agreed to reimburse the external counterparties for any payments under the credit-linked notes that are funded by those counterparties. As of December 31, 2013, an aggregate of $1.5 billion of surplus notes were outstanding under these agreements and no such payments under the credit-linked notes have been required.

In December 2013, another captive reinsurance subsidiary entered into a twenty-year financing facility with external counterparties providing for the issuance and sale of a surplus note in an aggregate principal amount of up to $2.0 billion in order to finance non-economic reserves required to be held by our domestic insurance subsidiaries under Guideline AXXX. The agreements contemplate that additional external counterparties may be added to this facility in the future which could increase the size of the facility to $3.0 billion. Similar to the agreements described above, the captive receives in exchange for the surplus note one or more credit linked notes issued by a special purpose affiliate in an aggregate principal amount equal to the surplus note. As above, the principal amount of the outstanding credit-linked notes is redeemable by the captive in cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event, and the external counterparties have agreed to fund any such payment. Prudential Financial has agreed to reimburse the captive for investment losses in excess of specified amounts; however, Prudential Financial has no other reimbursement obligations to the external counterparties under this facility. As of December 31, 2013, an aggregate of $900 million of surplus notes were outstanding under the facility and no credit-linked note payments have been required.

Under each of the above transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis.

Other captive reinsurance subsidiaries have outstanding an additional $3.2 billion of surplus notes that were issued in 2006 through 2008 with unaffiliated institutions to finance non-economic reserves required under Regulation XXX and Guideline AXXX. Prudential Financial has agreed to maintain the capital of these captives at or above a prescribed minimum level and has entered into arrangements (which are accounted for as derivative instruments) that require it to make certain payments in the event of deterioration in the value of the surplus notes. As of both December 31, 2013 and 2012, there were no collateral postings made under these derivative instruments. In addition, another captive reinsurance subsidiary has issued an aggregate amount of $3.3 billion of notes to affiliates of the Company in order to finance non-economic reserves under Guideline AXXX.

The surplus notes described above are subordinated to policyholder obligations, and the payment of principal on the surplus notes may only be made with prior insurance regulatory approval. The payment of interest on the surplus notes has been approved by the regulator, subject to its ability to withdraw that approval.

As we continue to underwrite term and universal life insurance business, including through the recently-acquired Hartford Life Business, we expect to have additional borrowing needs to finance non-economic reserves required under Regulation XXX and Guideline AXXX. We believe we have sufficient financing resources in place to meet our financing needs under Guideline AXXX through 2014. We had sufficient financing resources in place to meet our financing needs under Regulation XXX in 2013, and we are currently pursuing a solution to address Regulation XXX financing needs generated by our sale of term life insurance policies during 2014 based on expected sales levels.

Ratings

Financial strength ratings (which are sometimes referred to as claims-paying ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors, or trading counterparties thereby potentially negatively affecting our profitability, liquidity, and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

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Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of the date of this filing.

	A.M. Best(1)	S&P(2)	Moody s(3)	Fitch(4)
Last review date	**5/9/2013**	**12/11/2013**	**7/11/2013**	**7/25/2013**
Current outlook	**Stable**	**Stable(5)**	**Stable**	**Stable**
Financial Strength Ratings:				
The Prudential Insurance Company of America	A+	AA-	A1	A+
Pruco Life Insurance Company	A+	AA-	A1	A+
Pruco Life Insurance Company of New Jersey	A+	AA-	NR*	A+
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	A+
Prudential Retirement Insurance and Annuity Company	A+	AA-	A1	A+
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	AA-	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	AA-	NR	NR
The Prudential Gibraltar Financial Life Insurance Co. Ltd	NR	AA-	NR	NR
Prudential Life Insurance Co. of Taiwan, Inc.(6)	NR	twAA+	NR	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F2
Long-term senior debt	a-	A	Baa1	BBB+
Junior subordinated long-term debt	bbb	BBB+	Baa2	BBB-
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	A3	A-
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-1	F1
Long-term senior debt	a+	AA-	A2	A
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	A1	A+

* NR indicates not rated.

(1) A.M. Best Company , which we refer to as A.M. Best, financial strength ratings for insurance companies currently range from A++ (superior) to S (Suspended). A.M. Best s ratings reflect its opinion of an insurance company s financial strength, operating performance and ability to meet its obligations to policyholders. An A.M. Best long-term credit rating is an opinion of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from aaa (exceptional) to d (in default), with ratings from aaa to bbb considered as investment grade. An A.M. Best short-term credit rating reflects an opinion of the issuer s fundamental credit quality. Ratings range from AMB-1+, which represents an exceptional ability to repay short-term debt obligations, to AMB-4, which correlates with a speculative (bb) long-term rating.

(2) Standard & Poor s Rating Services, which we refer to as S&P, financial strength ratings currently range from AAA (extremely strong) to R (regulatory supervision). These ratings reflect S&P s opinion of an operating insurance company s financial capacity to meet the obligations of its insurance policies in accordance with their terms. A + or - indicates relative strength within a category. An S&P credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P s long-term issue credit ratings range from AAA (extremely strong) to D (default). S&P short-term ratings range from A-1 (highest category) to D (default).

(3) Moody s Investors Service, Inc., which we refer to as Moody s, insurance financial strength ratings currently range from Aaa (exceptional) to C (lowest). Moody s insurance ratings reflect the ability of insurance companies to repay punctually senior policyholder claims and obligations. Numeric modifiers are used to refer to the ranking within the group with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody s credit ratings currently range from Aaa (highest) to C (default). Moody s credit ratings grade debt according to its investment quality. Moody s considers A1, A2 and A3 rated debt to be upper medium grade obligations, subject to low credit risk. Moody s short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from Prime-1 (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to Prime-3 (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.

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(4) Fitch Ratings Ltd., which we refer to as Fitch, financial strength ratings currently range from AAA (exceptionally strong) to C (distressed). Fitch s ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. Fitch long-term credit ratings currently range from AAA (highest credit quality), which denotes exceptionally strong capacity for timely payment of financial commitments, to D (default). Investment grade ratings range between AAA and BBB. Short-term ratings range from F1 (highest credit quality) to C (high default risk). Within long-term and short-term ratings, a + or a may be appended to a rating to denote relative status within major rating categories.
(5) S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook as part of S&P s decision to put the sovereign debt ratings of Japan on negative outlook.
(6) This rating for Prudential Life Insurance Company of Taiwan, Inc. was issued on December 18, 2013 by Taiwan Ratings Corporation, a partner of S&P.

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, there can be no assurance that we will maintain our current ratings in the future.

Rating agencies use an outlook statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12-18 months the rating agency expects ratings to remain unchanged among companies in the sector. Currently, Moody s, A.M. Best, S&P and Fitch all have the U.S. life insurance industry on stable outlook. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. Currently, Moody s, A.M. Best and Fitch have all of the Company s ratings on stable outlook; and S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook as part of S&P s decision to put the sovereign debt ratings of Japan on negative outlook.

Requirements to post collateral or make other payments as a result of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels as of December 31, 2013 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated additional collateral posting requirements or payments under such agreements of approximately $68 million. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 21 to our Consolidated Financial Statements. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.6 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate, that we estimate would result in annual cash outflows of approximately $9 million, or collateral posting in the form of cash or securities to be held in a trust. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

In view of the difficulties experienced in recent years by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

The following is a summary of the significant changes or actions in our ratings and rating outlooks that have occurred from January 1, 2013 through the date of this filing.

On May 9, 2013, A.M. Best affirmed Prudential Financial s long-term senior debt rating at a- and short-term debt rating at AMB-1 . A.M. Best also affirmed the A+ financial strength ratings of Prudential s core subsidiaries, including Prudential Insurance, Prudential Annuities Life Assurance Corporation, and Prudential Retirement Insurance and Annuity Company, with stable outlooks.

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On July 11, 2013, Moody s upgraded the long-term senior debt rating of Prudential Financial from Baa2 to Baa1 . Moody s also upgraded the financial strength ratings of our domestic subsidiaries including Prudential Insurance, Prudential Retirement Insurance and Annuity Company, and Pruco Life Insurance Company from A2 to A1 . In addition, Moody s upgraded Prudential Funding s short-term debt rating from P-2 to P-1 and long-term debt rating from A3 to A2 . All ratings were assigned stable outlooks.

On July 25, 2013, Fitch affirmed Prudential Financial s long-term senior debt rating at A- . Fitch also affirmed the financial strength ratings of our U.S. operating entities at A+ .

On December 11, 2013, S&P affirmed the long-term senior debt rating of Prudential Financial at A and the financial strength ratings of Prudential s core subsidiaries at AA- . All U.S. ratings have stable outlooks, while our Japanese subsidiaries have negative outlooks due to a negative outlook on the Japan sovereign rating.

Contractual Obligations

The table below summarizes the future estimated cash payments related to certain contractual obligations as of December 31, 2013. The estimated payments reflected in this table are based on management s estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the actual cash outflows in future periods will vary, possibly materially, from those reflected in the table. In addition, we do not believe that our cash flow requirements can be adequately assessed based solely upon an analysis of these obligations, as the table below does not contemplate all aspects of our cash inflows, such as the level of cash flow generated by certain of our investments, nor all aspects of our cash outflows.

	Estimated Payments Due by Period				
	Total	2014	2015-2016	2017-2018	2018 and thereafter
			(in millions)		
Short-term and long-term debt obligations(1)	$ 46,691	$ 3,880	$ 7,017	$ 6,171	$ 29,623
Operating lease obligations(2)	509	140	172	107	90
Purchase obligations:					
Commitments to purchase or fund investments(3)	5,461	3,704	829	455	473
Commercial mortgage loan commitments(4)	2,365	1,379	405	160	421
Other liabilities:					
Insurance liabilities(5)	1,251,950	47,928	79,721	81,810	1,042,491
Other(6)	13,018	12,976	38	4	0
Total	$ 1,319,994	$ 70,007	$ 88,182	$ 88,707	$ 1,073,098

(1) The estimated payments due by period for long-term debt reflects the contractual maturities of principal, as disclosed in Note 14 to the Consolidated Financial Statements, as well as estimated future interest payments. The payment of principal and estimated future interest for short-term debt are reflected in estimated payments due in less than one year. The estimate for future interest payments includes the effect of derivatives that qualify for hedge accounting treatment. See Note 14 to the Consolidated Financial Statements for additional information concerning our short-term and long-term debt.

(2) The estimated payments due by period for operating leases reflect the future minimum lease payments under non-cancelable operating leases, as disclosed in Note 23 to the Consolidated Financial Statements. We have no significant capital lease obligations.

(3) As discussed in Note 23 to the Consolidated Financial Statements, we have commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. The timing of the fulfillment of certain of these commitments cannot be estimated, therefore the settlement of these obligations are reflected in estimated payments due in less than one year. Commitments to purchase or fund investments include $0.274 billion that we anticipate will ultimately be funded from our separate accounts.

(4) As discussed in Note 23 to the Consolidated Financial Statements, loan commitments of our commercial mortgage operations, which are legally binding commitments to extend credit to a counterparty, have been reflected in the contractual obligations table above principally based on the expiration date of the commitment; however, it is possible these loan commitments could be funded prior to their expiration. In certain circumstances the counterparty may also extend the date of the expiration in exchange for a fee.

(5) The estimated payments due by period for insurance liabilities reflect future estimated cash payments to be made to policyholders and others for future policy benefits, policyholders account balances, policyholder s dividends, reinsurance payables and separate account liabilities, net of reinsurance recoverables. These future estimated cash outflows are based on mortality, morbidity, lapse and other assumptions comparable with our experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs and value of business acquired. These

cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of $1,252 billion exceeds the corresponding liability amounts of $636 billion included in the Consolidated Financial Statements as of December 31, 2013. Separate account liabilities are legally insulated from general account obligations, and it is generally expected these liabilities will be fully funded by separate account assets and their related cash flows. We have made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflows will differ, possibly materially, from these estimates.

(6) The estimated payments due by period for other liabilities includes securities sold under agreements to repurchase, cash collateral for loaned securities, liabilities for unrecognized tax benefits, bank customer liabilities, and other miscellaneous liabilities. Amounts presented in the table also exclude $3.302 billion of notes of consolidated VIE s which recourse for these obligations is limited to the assets of the respective VIE and do not have recourse to the general credit of the company.

We also enter into agreements to purchase goods and services in the normal course of business; however, these purchase obligations are not material to our consolidated results of operations or financial position as of December 31, 2013.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments in the future. See Commitments and Guarantees within Note 23 to the Consolidated Financial Statements for additional information.

Other Contingent Commitments

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See Commitments and Guarantees within Note 23 to the Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see Liquidity associated with other activities Asset Management operations.

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. See Liquidity and Capital Resources Alternative Sources of Liquidity for more information on this put option agreement. Other than this put option agreement, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the put option agreement referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

Risk Management

Overview

We employ a risk governance structure, overseen by senior management and our Board of Directors and managed by Enterprise Risk Management (ERM), to provide a framework for evaluating the risks embedded in and across our businesses, managing these risks and identifying current and future risk challenges and opportunities.

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Risk Governance Framework

Each of our businesses has a risk governance structure that is supported by a framework at the corporate level. Generally, our businesses are authorized to make day-to-day risk decisions that are consistent with enterprise risk policies and limits, and subject to enterprise oversight. The governance structure described in this section is designed to support this framework.

Board of Directors Role in Risk Management

Our Board of Directors oversees the Company s risk profile and management s processes for assessing and managing risk. Certain specific categories of risk are assigned to Board committees that report back to the full Board, as summarized below:

Audit Committee: oversees risks related to operational risks, financial controls, legal, regulatory and compliance risks, and the overall risk management governance structure and risk management function.

Finance Committee: oversees risks involving the Company s capital structure, including borrowing, liquidity, allocation of capital, major capital transactions and expenditures, funding of benefit plans and statutory insurance reserves. It also oversees the strength of the finance function. The Finance Committee approves the Company s annual capital plan and operating plan, as recommended by our Chief Financial Officer. The Finance Committee also receives regular updates on the sources and uses of capital relative to plan, as well as on our Capital Protection Framework.

Investment Committee: oversees investment and market risk and the strength of the investment function. The Investment Committee approves investment and market risk limits for Prudential Financial and for Prudential Insurance s general account based on asset class, issuer, credit quality and geography.

Compensation Committee: oversees our compensation programs so that incentives are aligned with appropriate risk taking.

Management Committees

Our primary risk management committee is the Enterprise Risk Committee (ERC). The ERC is chaired by our Chief Risk Officer and otherwise comprised of the Vice Chairman, Chief Operating Officers for the U.S. and International Businesses, General Counsel, Chief Financial Officer, Chief Investment Officer and Chief Actuary. The ERC s mandate is to review significant risks that impact the Company and approve our risk management policies and limits to keep the risk profile of the Company consistent with its strategy.

The ERC is supported by five Risk Oversight Committees, each of which is comprised of subject matter experts and dedicated to one of the following risk types: investment risk, market risk, insurance risk, operational risk and model risk. These Risk Oversight Committees report their activities to the ERC, and significant matters or matters where there are unresolved points of view are reviewed and brought to the ERC. The Risk Oversight Committees provide an opportunity to evaluate complex issues by subject matter experts within the various risk areas. They evaluate the adequacy and effectiveness of risk mitigation options, identify stakeholders of risks and issues, review material risk assumptions for reasonability and consistency across the Company and, working with the different risk areas, develop recommendations for risk limits, among other responsibilities.

Each of our business units and significant corporate functions maintains its own risk committee. The business unit risk committees serve as a forum for leaders within each business unit to identify, assess and resolve risk and exposure issues and to review new products and initiatives, prior to such issues being reviewed by the Risk Oversight Committees and/or the ERC as appropriate. Corporate function risk committees assess and monitor risks associated with performing the relevant corporate functions, set standards and exercise oversight over specific risks.

Risk Identification and Monitoring

Based on the array of financial and non-financial risks to which we are exposed, we have an authorization process for risk taking and requirements for risk measurement and reporting. We use a variety of tools and processes to assess risk, such as quantitative tools for measurable financial risks and qualitative assessments for non-financial risks, such as certain operational risks.

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Beginning with the development of material new products or services, we complete a risk assessment which may lead to changes in design features, terms, pricing, investment strategy or the use of other risk mitigation techniques to affect the risk/reward dynamics for the product or service. We also weigh risk decisions against the impact to our reputation and our ability to achieve our ratings objectives.

Risk Exposure

We classify our risks into five general categories: investment risk, market risk, insurance risk, operational risk (which includes legal, regulatory and technology risk) and model risk. In addition, we are exposed to reputational risk, which underlies, and is a part of, each risk assessment.

For information on risk as it relates to our capital and liquidity, see Liquidity and Capital Resources.

Investment Risk Management

We view investment risk as the risk of loss on fixed maturity investments due to default or deterioration in credit quality, or loss on equity or real estate investments due to deterioration in value. Our exposure to investment risk is primarily comprised of:

- the risk that we will not receive contractual payments on a timely basis on fixed maturity investments (*i.e.*, credit default risk);
- the risk that our fixed maturity investments lose value due to a deterioration of credit quality (for example, the probability of default rises or the likelihood of recovery on a default deteriorates);
- the risk that a counterparty on derivatives, securities lending, reinsurance or other transactions does not meet its contractual obligations to us; and
- the risk that values of our non-coupon, equity and/or real estate equity investments decline.

With general account fixed maturities of $290 billion as of December 31, 2013, Prudential Financial is exposed to significant credit risk. Our Asset Management units have long experience managing public and private fixed income asset classes for both our general account and for third party investors. To manage this risk, we have a set of risk limits in place, including enterprise-level risk limits set by the Investment Committee of the Board of Directors. These limits are delineated into formal Investment Policy Statements which set limits on asset classes, permissible instruments, individual issuer, industry/sector and geographic exposures by individual legal entities, segments and business units. Compliance with most of these limits is measured on a daily basis, with some limits measured monthly or quarterly. In addition, our credit research departments closely monitor our credit exposures and maintain watch lists of exposures where there is a risk of impairment. If we have concerns about credit for a public exposure, we may sell some or all of that exposure or hedge the exposure with credit derivatives. See General Account Investments for further information on our general account portfolio, including the composition of our fixed maturity portfolio by industry category and credit quality.

We also monitor our equity, real estate equity and other non-coupon investment exposures on an ongoing basis, and our risk and portfolio management functions review these portfolios quarterly.

Market Risk Management

Market risk is defined as the risk of loss resulting from change in the value of assets, liabilities or derivative instruments as a result of absolute or relative changes in factors affecting financial markets, such as changes in interest rates, equity prices, foreign currency exchange rates and credit spreads.

Our exposure is primarily comprised of:

Interest rate risk: our primary exposure arises within our insurance and annuities operations when changes in interest rates cause changes in asset and liability values that do not offset. For further information, see General Account Investments Management of Investments above.

Credit spread risk: our investment portfolio includes corporate debt issuance which, in addition to creating credit risk from potential default and migration, introduces risk of value loss when market spreads widen.

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- Equity price risk: our primary exposure arises within our Annuities segment when equity price changes move the value of embedded derivatives associated with variable annuities living benefit features without creating offsetting changes in the value of equity based derivatives hedging these benefits. Secondarily, we are exposed to risk from the impact of equity market price declines that are not actively hedged on guaranteed minimum death benefits and guaranteed minimum income benefits. In addition, we are subject to changes in value on equity securities held in our general account and to lost fees from separate accounts and other funds under management when equity markets decline.

- Foreign currency exchange rate risk: with significant operations outside the U.S., particularly in Japan, our primary exposure arises when changes in foreign currency rates impact our U.S. dollar-equivalent earnings and equity in these operations. For further information, see International Insurance Division Foreign Currency Exchange Rate Movements and Related Hedging Strategies above. In addition, we are subject to changes in the value of investments denominated in foreign currencies held in our general account.

We actively monitor and manage concentration risks at the enterprise level to support diversification efforts. For additional information on our exposure to market risk, including how this risk is managed, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Insurance Risk

We define insurance risk as the risk of loss due to deviations in experience compared to our assumptions. Our exposure is primarily comprised of:

- Mortality risk, or the risk that death claims are greater than expected, primarily within our Individual Life, Group Insurance and International Insurance segments;

- Longevity risk, or the risk that policyholders survive longer than expected, primarily within our Individual Annuities, Retirement and International Insurance segments;

- Morbidity risk, or the risk that health claims from sickness or disability are greater than expected, primarily within our Group Insurance and International Insurance segments as well as from long term care policies within Divested Businesses; and

- Policyholder behavior risk, or the risk that our customers persistency experience or utilization experience differs from our expectations.

Underwriting insurance risk is a fundamental part of our business. We believe our scale provides for the benefits of diversification, both within an insurance risk type (potentially enhancing predictability of experience) and across insurance risk types (for example, to some extent, mortality risk provides a natural hedge against longevity risk). Insurance risk mitigation begins with product design, as well as underwriting and pricing standards at the business unit level with corporate oversight. In some cases, the availability and/or credibility of policyholder behavior experience may be limited, which we strive to reflect in the product design and pricing of the product. We provide corporate oversight of the material insurance risk assumptions utilized in pricing and setting reserves.

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, employee actions, or as the result of external events. Operational risks are broad in scope and evident in each business unit and corporate function. We are exposed to operational risk in many ways, including, but not limited to:

- Legal and regulatory compliance
- Improper sales practices
- Fraud (internal and external)
- Reputational risk
- Employee risk

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Technology risk, including system failures and processing errors

Financial reporting errors

Extreme events, such as loss of people and/or infrastructure caused by natural disasters, terrorism, disease, etc.

Information risk

Vendor risk

Each of our businesses and corporate functions is expected to manage its operational risks in compliance with enterprise standards. Our framework for identifying, evaluating, monitoring and managing operational risk includes: risk management committees; key risk indicators; risk and control assessments; loss event data collection and analysis; scenario analysis; and resolution of control issues. We also have enterprise policies and standards, including: Legal and Regulatory/Compliance Policies, such as those relating to sales practices and supervision, fraud prevention, safeguarding of personal information, protection and use of material non-public information, personal conflicts of interest and outside business activities, anti-money laundering, and gifts and entertainment; Human Resources Policies, such as those relating to hiring, training and terminating the employment of our associates and succession planning; and Information Technology policies, including those on systems development and information security. We also maintain policies and standards to support the effective management of operational risk, including those concerning new product development, business continuation and disaster recovery, enterprise crisis management, and vendor governance. Our Internal Audit Department independently audits key operational controls on a periodic basis to assess the effectiveness of our framework.

We are also exposed to emerging risks, that is, those conditions, situations or trends that may significantly impact us in the future. By nature, these risks involve a high degree of uncertainty. ERM, together with our businesses, monitors and evaluates emerging risks on a regular basis.

Model Risk

Models are utilized by our businesses and corporate functions primarily in projecting future cash flows associated with pricing products, calculating reserves and valuing assets, as well as in evaluating risk and determining capital requirements, among other uses. As our businesses continue to grow and evolve, the number and complexity of models we utilize expands, increasing our exposure to error in the design, implementation or use of models, including the associated input data and assumptions. We are mitigating this risk by implementing our Model Risk Policy, which outlines the governance and control requirements over the implementation and use of models, and through the activities of our Model Risk Oversight Committee which provides oversight and guidance on issues relating to model risk and the management of that risk.

For further information on the risks to which the Company is exposed, see Item. 1A Risk Factors.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is defined as the risk of loss resulting from change in the value of assets, liabilities or derivative instruments as a result of absolute or relative changes in factors affecting financial markets, such as changes in interest rates, equity prices, foreign currency exchange rates and credit spreads.

To varying degrees, the investment activities supporting all of our products and services generate exposure to market risk. The primary source of our exposure to market risk is other than trading activities conducted primarily in our insurance and annuity operations. The market risk incurred and our strategies for managing this risk vary by product. The market risk associated with trading activities is immaterial.

For additional information regarding the potential impacts of interest rate and other market fluctuations, as well as general economic and market conditions on our businesses and profitability, see Item 1A. Risk Factors above. For additional information regarding the overall management of our general account investments and our asset mix strategies, see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments Management of Investments above. For additional information regarding our liquidity and capital resources, which may be impacted by changing market risks, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources above.

Market Risk Management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities. Risk range limits are established for each type of market risk, and are approved by the Investment Committee of the Board of Directors and subject to ongoing review.

Our risk management process utilizes a variety of tools and techniques, including:

- Measures of price sensitivity to market changes (e.g., interest rates, equity index prices, foreign exchange, credit spreads)
- Value-at-Risk, or VaR measures
- Asset/liability management analytics
- Stress scenario testing

Hedging programs

Risk management governance, including policies, limits and a market risk oversight committee. For additional information regarding our overall risk management framework and governance structure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management above.

Market Risk Mitigation

Risk mitigation takes three primary forms:

1. Managing assets to liability-based limits on net exposure. For example, investment policies identify target durations for assets based on liability characteristics and asset portfolios are managed to ranges around them. This mitigates potential unanticipated economic losses from interest rate movements.

2. Hedging non-strategic exposures. For example, our investment policies generally require hedging currency risk for all cash flows not offset by similarly denominated liabilities.

3. Management of portfolio concentration risk. For example, ongoing monitoring and management at the enterprise level of key rate, currency and other concentration risks support diversification efforts to mitigate exposure to individual markets and sources of liquidity strain.

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Market Risk Related to Interest Rates

Assets that subject us to interest rate risk primarily include fixed maturity securities, commercial mortgage and other loans and policy loans. Liabilities that subject us to interest rate risk primarily include policyholder account balances relating to interest-sensitive life insurance, annuity and other investment-type contracts, as well as through outstanding short-term and long-term debt. Changes in interest rates create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Derivatives that subject us to interest rate risk primarily include interest rate swaps, forwards, futures and options. Additionally, changes in interest rates may impact other items including, but not limited to, the following:

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments
- Asset-based fees earned on assets under management or contractholder account values
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs
- Net exposure to the guarantees provided under certain products
- Capital levels of our regulated entities

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by legal entity by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling duration mismatch of assets and liabilities. We have duration mismatch constraints tailored to the rate sensitivity of products in each entity. In certain markets, primarily outside the U.S. and Japan, capital market limitations that hinder our ability to acquire assets that approximate the duration of some of our liabilities are considered in setting the limits. As of December 31, 2013 and 2012, the difference between the duration of assets and the target duration of liabilities in our duration-managed portfolios was within our limits. We consider risk-based capital and tax implications as well as current market conditions in our asset/liability management strategies.

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We assess the impact of interest rate movements on the value of our financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following table sets forth the net estimated potential loss in fair value on these financial instruments from a hypothetical 100 basis point upward shift as of December 31, 2013 and 2012. This table is presented on a gross basis and excludes offsetting impacts to insurance liabilities that are not considered financial liabilities under U.S GAAP. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values do not include separate account assets.

	As of December 31, 2013			As of December 31, 2012		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Financial assets with interest rate risk:						
Fixed maturities(1)		$ 314,015	$ (25,834)		$ 326,489	$ (27,238)
Commercial mortgage and other loans		42,805	(1,850)		39,716	(1,658)
Policy loans(2)		11,766	0		14,592	(902)
Derivatives:						
Swaps	$ 150,079	(2,228)	(3,710)	$ 132,661	3,766	(4,818)
Futures	15,125	5	14	13,267	(166)	21
Options	85,249	477	344	68,099	1,330	(188)
Forwards	15,306	206	(61)	15,937	(60)	(31)
Synthetic GICs(3)	60,758	8	0	64,359	6	(2)
Variable annuity and other living benefit feature embedded derivatives(4)		(441)	3,097		(3,348)	3,295
Financial liabilities with interest rate risk(5):						
Short-term and long-term debt		(28,286)	2,392		(30,003)	2,473
Limited recourse notes issued by consolidated VIEs(6)		(39)	0		(224)	0
Investment contracts		(96,600)	3,410		(104,200)	3,730
Net estimated potential loss			$ (22,198)			$ (25,318)

(1) Includes fixed maturities classified as trading account assets supporting insurance liabilities and other fixed maturities classified as trading securities under U.S. GAAP, but are held for other than trading activities in our segments that offer insurance, retirement and annuities products.
(2) In the fourth quarter of 2013, we implemented a change in valuation methodology regarding policy loans. For additional information, see Note 20 to the Consolidated Financial Statements.
(3) Prior period s notional amount is presented on a basis consistent with the current period presentation.
(4) Reflects only the gross change on the embedded derivatives, and excludes any offsetting impact of derivative instruments purchased to hedge such changes.
(5) Excludes approximately $248 billion and $249 billion as of December 31, 2013 and December 31, 2012, respectively, of insurance reserve and deposit liabilities which are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and liabilities, including investment contracts.
(6) See Note 5 to the Consolidated Financial Statements for additional information regarding consolidated variable interest entities (VIEs).

Our net estimated potential loss in fair value as of December 31, 2013 decreased from December 31, 2012, primarily reflecting a decrease in our fixed maturity securities portfolio in 2013, driven by the translation impact of the yen weakening against the U.S. dollar and an increase in U.S. interest rates, as well as a decrease in the fair value of derivatives also driven by an increase in U.S. interest rates. For a discussion of changes in derivatives, see Derivatives below.

Under U.S. GAAP, the fair value of the embedded derivatives for certain variable annuity and other living benefit features, reflected in the table above, includes the impact of the market s perception of our own non-performance risk (NPR). The additional credit spread over LIBOR rates incorporated into the discount rate as of December 31, 2013, to reflect NPR in the valuation of these embedded derivatives, ranged from 8 to 109 basis points.

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The following table provides a demonstration of the sensitivity of these embedded derivatives to our NPR credit spread by quantifying the adjustments that would be required assuming both a 50 basis point parallel increase and decrease in our NPR credit spreads. While the information below is for illustrative purposes only and does not reflect our expectations regarding our credit spreads, it is a near-term, reasonably possible change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our credit spread on operating results due to the change in these embedded derivatives, and not changes in any other assumptions such as persistency, utilization and mortality, or the effect of these changes on DAC or other balances.

	December 31, 2013 (Increase) /Decrease in Embedded Derivative Liability	December 31, 2012 (Increase) /Decrease in Embedded Derivative Liability
	(in millions)	
Increase in credit spread by 50 basis points	$ 548	$ 933
Decrease in credit spread by 50 basis points	$ (769)	$ (1,177)

For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see Market Risk Related to Certain Variable Annuity Products below. For additional information about the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements below. For information on the impacts of a sustained low interest rate environment, see Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Industry Trends Impact of a Low Interest Rate Environment above.

Market Risk Related to Equity Prices

We have exposure to equity price risk through our investments in equity securities, equity-based derivatives and certain variable annuity and other living benefit feature embedded derivatives. Our equity-based derivatives primarily hedge the equity price risk embedded in the living benefit feature embedded derivatives, and are also part of our capital hedging program. Changes in equity prices create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Additionally, changes in equity prices may impact other items including, but not limited to, the following:

Asset-based fees earned on assets under management or contractholder account value

Estimated total gross profits and the amortization of deferred policy acquisition and other costs

Net exposure to the guarantees provided under certain products

We manage investment equity price risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the Tokyo Price Index, or TOPIX, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices.

We estimate our investment equity price risk from a hypothetical 10% decline in equity benchmark market levels and measure this risk in terms of the decline in fair market value of equity securities we hold. The following table sets forth the net estimated potential loss in fair value from such a decline as of December 31, 2013 and 2012. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near term reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, or changes in any other assumptions such as market volatility or mortality, utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger

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differences between the change in fair value of the equity-based derivatives and the related living benefit features in comparison to the scenarios above. In calculating these amounts, we exclude separate account equity securities.

	As of December 31, 2013			As of December 31, 2012		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
			(in millions)			
Equity securities(1)		$ 12,287	$ (1,229)		$ 10,754	$ (1,075)
Equity-based derivatives(2)	$ 72,953	(78)	1,170	$ 55,054	248	1,504
Variable annuity and other living benefit feature embedded derivatives(2)(3)		(441)	(852)		(3,348)	(1,052)
Net estimated potential loss			$ (911)			$ (623)

(1) Includes equity securities classified as trading account assets supporting insurance liabilities and other equity securities classified as trading securities under U.S. GAAP, but are held for other than trading activities in our segments that offer insurance, retirement and annuities products.
(2) The notional and fair value of equity-based derivatives and the fair value of variable annuity and other living benefit feature embedded derivatives are also reflected in amounts under Market Risk Related to Interest Rates above, and are not cumulative.
(3) Reflects only the gross change on the embedded derivatives, and excludes any offsetting impact of derivative instruments purchased to hedge such changes.

Net estimated potential loss increased by $288 million. The estimated equity price risk associated with the living benefit features accounted for as embedded derivatives decreased due to a decline in the value of the liability; however, this was more than offset by a corresponding change in equity-based derivatives used to hedge these features. For a discussion of changes in derivatives, see Derivatives below. For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see Market Risk Related to Certain Variable Annuity Products below. For additional information regarding our capital hedging program, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources below.

Market Risk Related to Foreign Currency Exchange Rates

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are exposed to foreign currency exchange rate risk related to these operations, as well as to our general account investment portfolio and other proprietary-investment portfolios.

For our international insurance operations, changes in foreign currency exchange rates create risk that we may experience volatility in the U.S. dollar-equivalent earnings and equity of these operations. We actively manage this risk through various hedging strategies, including the use of foreign currency hedges and through holding U.S. dollar-denominated securities in the investment portfolios of certain of these operations. Separately, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by investments in corresponding currencies. While these non-yen denominated assets are economically matched, the accounting differs for changes in the value of these assets and liabilities due to moves in foreign currency exchange rates, resulting in volatility in reported U.S. GAAP earnings. For further information, see Management s Discussion and Analysis of Financial Condition and Results of Operations International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies above.

For our domestic general account investment portfolios supporting our U.S. insurance operations and other proprietary-investment portfolios, our foreign currency exchange rate risk arises primarily from investments that are denominated in foreign currencies. We manage this risk by hedging substantially all domestic foreign currency-denominated fixed-income investments into U.S. dollars. We generally do not hedge all of the foreign currency risk of our investments in equity securities of unaffiliated foreign entities.

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We manage our foreign currency exchange rate risks within specified limits, and by using VaR-based analysis. This statistical technique estimates, at a specified confidence level, the potential pre-tax loss in portfolio market value that could occur over an assumed time horizon due to adverse market movements. For the unhedged portions of our equity investment in international subsidiaries and the foreign currency-denominated investments held in our domestic general account portfolio, we estimate the hypothetical decline in VaR, as well as the average VaR, each measured at a 95% confidence level and using a one-month time horizon. These calculations use historical price volatilities and correlation data at a 95% confidence level. The following table sets forth these measures as of the periods indicated.

	As of December 31, 2013			As of December 31, 2012		
	Fair Value	Estimated VaR	Average VaR	Fair Value	Estimated VaR	Average VaR
	(in millions)					
Unhedged portion of equity investment in international subsidiaries and foreign currency-denominated investments in domestic general account portfolio(1)	$ 5,202	$ (99)	$ (115)	$ 4,373	$ (79)	$ (101)

(1) Excludes assets and liabilities subject to the impact of foreign exchange rate movements that are hedged with externally-purchased derivatives or are economically matched, as discussed above.

The increase in VaR as of December 31, 2013 was driven by a higher level of foreign exchange rate volatility. For derivatives used to hedge the anticipated level of U.S. dollar-equivalent earnings of our international operations, the estimated hypothetical decline in VaR, measured at a 95% confidence level and using a one-month time horizon, was $68 million and $81 million as of December 31, 2013 and December 31, 2012, respectively. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments Portfolio Composition and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment International Insurance Division above.

Although VaR models are a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, VaR models should not be viewed as a predictor of future results. We may incur losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by our VaR models. A VaR model does not estimate the greatest possible loss. The results of these models and analysis thereof are subject to the judgment of our risk management personnel.

Derivatives

We use derivative financial instruments primarily to reduce market risk from changes in interest rates, equity prices and foreign currency exchange rates, including their use to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. Our derivatives primarily include swaps, futures, options and forward contracts that are exchange-traded or contracted in the over-the-counter market.

Our derivatives also include interest rate guarantees we provide on our synthetic GIC products. Synthetic GICs simulate the performance of traditional insurance-related GICs but are accounted for as derivatives under U.S. GAAP due to the fact that the policyholders own the underlying assets, and we only provide a book value wrap on the customers funds, which are held in a client-owned trust. Since these wraps provide payment of guaranteed principal and interest to the customer, changes in interest rates create risk that declines in the market value of customers funds would increase our net exposure to these guarantees; however, this risk is minimal due to several mitigating factors. Our obligation is limited to payments that are in excess of the existing customers fund value. Additionally, we have the ability to periodically reset crediting rates, subject to a 0% minimum floor, as well as the ability to increase prices. Further, our contract provisions provide that, although participants may withdraw funds at book value, contractholder withdrawals may only occur at market value immediately, or at book value over time. These factors, among others, result in these contracts experiencing minimal changes in fair value, despite a more significant notional value.

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Our derivatives also include those that are embedded in certain financial instruments, and primarily relate to certain optional living benefit features associated with our variable annuity products, as discussed in more detail in Market Risk Related to Certain Variable Annuity Products below.

The notional amount of derivative instruments increased $33 billion in 2013, from $294 billion as of December 31, 2012 to $327 billion as of December 31, 2013. The increase was primarily related to our variable annuity hedging activities and our capital hedge program. For additional information on our derivative activities, see Note 21 to the Consolidated Financial Statements below.

Market Risk Related to Certain Variable Annuity Products

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions, such as equity market returns, interest rates and market volatility and actuarial assumptions. For our capital markets assumptions, we hedge or limit our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element and inclusion of certain optional living benefits in our living benefits hedging program. Certain variable annuity optional living benefit features are accounted for as an embedded derivative and recorded at fair value. The market risk sensitivities associated with U.S. GAAP values of both the embedded derivatives and the related derivatives used to hedge the changes in fair value of these embedded derivatives are provided under Market Risk Related to Interest Rates and Market Risk Related to Equity Prices above.

For additional information regarding our risk management strategies, including our living benefit hedging program and other product design elements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment Individual Annuities above.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS

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Management s Annual Report on Internal Control Over Financial Reporting

Management of Prudential Financial, Inc. (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of the effectiveness, as of December 31, 2013, of the Company s internal control over financial reporting, based on the framework established *in Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2013.

Our internal control over financial reporting is a process designed by or under the supervision of our principal executive and principal financial officers 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. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (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 are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on our 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.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

February 27, 2014

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Prudential Financial, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Prudential Financial, Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15.2 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, 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 Annual Report on Internal Control over Financial Reporting, listed in the accompanying index. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental combining financial information is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual components. Such supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As discussed in Note 2 to the consolidated financial statements, in 2013 the Company changed, retrospectively, the manner in which it accounts for performance-based incentive fee revenue.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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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.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 27, 2014

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position

December 31, 2013 and 2012 (in millions, except share amounts)

	2013	2012
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2013 $268,727; 2012 $277,654)(1)	$ 286,866	$ 301,336
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2013 $3,553; 2012 $4,511)(1)	3,312	4,268
Trading account assets supporting insurance liabilities, at fair value(1)	20,827	20,590
Other trading account assets, at fair value(1)	6,453	6,328
Equity securities, available-for-sale, at fair value (cost: 2013 $7,003; 2012 $6,759)	9,910	8,277
Commercial mortgage and other loans (includes $158 and $162 measured at fair value under the fair value option at December 31, 2013 and December 31, 2012, respectively)(1)	41,008	36,733
Policy loans	11,766	11,575
Other long-term investments (includes $873 and $465 measured at fair value under the fair value option at December 31, 2013 and December 31, 2012, respectively)(1)	10,328	10,028
Short-term investments	7,703	6,447
Total investments	398,173	405,582
Cash and cash equivalents(1)	11,439	18,100
Accrued investment income(1)	3,089	3,127
Deferred policy acquisition costs	16,512	14,100
Value of business acquired	3,675	3,248
Other assets(1)	13,833	11,824
Separate account assets	285,060	253,254
TOTAL ASSETS	$ 731,781	$ 709,235
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 206,859	$ 216,050
Policyholders account balances(1)	136,657	134,413
Policyholders dividends	5,515	7,507
Securities sold under agreements to repurchase	7,898	5,818
Cash collateral for loaned securities	5,040	3,941
Income taxes	5,422	8,512
Short-term debt	2,669	2,484
Long-term debt	23,553	24,729
Other liabilities(1)	13,925	11,838
Notes issued by consolidated variable interest entities (includes $3,254 and $1,406 measured at fair value under the fair value option at December 31, 2013 and December 31, 2012, respectively)(1)	3,302	1,577
Separate account liabilities	285,060	253,254
Total liabilities	695,900	670,123
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 23)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,319 and 660,111,307 shares issued at December 31, 2013 and December 31, 2012, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively)	0	0
Additional paid-in capital	24,475	24,380
Common Stock held in treasury, at cost (199,056,067 and 197,077,940 shares at December 31, 2013 and December 31, 2012, respectively)	(12,415)	(12,163)

Accumulated other comprehensive income (loss)	8,681	10,214
Retained earnings	14,531	16,066
Total Prudential Financial, Inc. equity	35,278	38,503
Noncontrolling interests	603	609
Total equity	35,881	39,112
TOTAL LIABILITIES AND EQUITY	$ 731,781	$ 709,235

(1) See Note 5 for details of balances associated with variable interest entities.

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations

Years Ended December 31, 2013, 2012 and 2011 (in millions, except per share amounts)

	2013	2012	2011
REVENUES			
Premiums	$ 26,237	$ 65,354	$ 24,301
Policy charges and fee income	5,415	4,489	3,924
Net investment income	14,729	13,661	13,124
Asset management fees and other income	286	2,784	4,905
Realized investment gains (losses), net:			
Other-than-temporary impairments on fixed maturity securities	(1,055)	(1,611)	(2,202)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	856	1,274	1,667
Other realized investment gains (losses), net	(5,007)	(1,104)	3,366
Total realized investment gains (losses), net	(5,206)	(1,441)	2,831
Total revenues	41,461	84,847	49,085
BENEFITS AND EXPENSES			
Policyholders benefits	26,733	65,131	23,614
Interest credited to policyholders account balances	3,111	4,234	4,484
Dividends to policyholders	2,050	2,176	2,723
Amortization of deferred policy acquisition costs	240	1,504	2,695
General and administrative expenses	11,011	11,094	10,605
Total benefits and expenses	43,145	84,139	44,121
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(1,684)	708	4,964
Income taxes:			
Current	34	1,088	447
Deferred	(1,092)	(875)	1,068
Total income tax expense (benefit)	(1,058)	213	1,515
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(626)	495	3,449
Equity in earnings of operating joint ventures, net of taxes	59	60	182
INCOME (LOSS) FROM CONTINUING OPERATIONS	(567)	555	3,631
Income (loss) from discontinued operations, net of taxes	7	15	35
NET INCOME (LOSS)	(560)	570	3,666
Less: Income (loss) attributable to noncontrolling interests	107	50	34
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ (667)	$ 520	$ 3,632
EARNINGS PER SHARE (See Note 16)			
Financial Services Businesses			
Basic earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.57)	$ 1.02	$ 7.14

Income (loss) from discontinued operations, net of taxes	0.02	0.04	0.07
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ 1.06	$ 7.21
Diluted earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.57)	$ 1.01	$ 7.05
Income (loss) from discontinued operations, net of taxes	0.02	0.04	0.07
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ 1.05	$ 7.12
Dividends declared per share of Common Stock	$ 1.73	$ 1.60	$ 1.45
Closed Block Business			
Basic and Diluted earnings per share Class B Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 22.00	$ 11.50	$ 61.00
Income (loss) from discontinued operations, net of taxes	0.00	(1.00)	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 22.00	$ 10.50	$ 61.00
Dividends declared per share of Class B Stock	$ 9.625	$ 9.625	$ 9.625

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2013, 2012 and 2011 (in millions)

	2013	2012	2011
NET INCOME (LOSS)	$ (560)	$ 570	$ 3,666
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments for the period	(1,487)	(263)	315
Net unrealized investment gains (losses)	(1,528)	8,632	3,834
Defined benefit pension and postretirement unrecognized periodic benefit	874	(699)	(297)
Total	(2,141)	7,670	3,852
Less:Income tax expense (benefit) related to other comprehensive income (loss)	(582)	2,667	1,301
Other comprehensive income (loss), net of taxes	(1,559)	5,003	2,551
Comprehensive Income (loss)	(2,119)	5,573	6,217
Less: Comprehensive income (loss) attributable to noncontrolling interests	81	84	(10)
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ (2,200)	$ 5,489	$ 6,227

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Equity(1)

Years Ended December 31, 2013, 2012 and 2011 (in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2010	$ 6	$ 24,223	$ 13,829	$ (11,173)	$ 2,650	$ 29,535	$ 513	$ 30,048
Impact of adoption of accounting changes			(189)			(189)	(41)	(230)
Common Stock acquired				(999)		(999)		(999)
Common Stock issued								
Contributions from noncontrolling interests							9	9
Distributions to noncontrolling interests							(15)	(15)
Consolidations/(deconsolidations) of noncontrolling interests							53	53
Stock-based compensation programs		70	(58)	252		264		264
Dividends declared on Common Stock			(689)			(689)		(689)
Dividends declared on Class B Stock			(19)			(19)		(19)
Comprehensive income:								
Net income			3,632			3,632	34	3,666
Other comprehensive income, net of tax					2,595	2,595	(44)	2,551
Total comprehensive income (loss)						6,227	(10)	6,217
Balance, December 31, 2011	6	24,293	16,506	(11,920)	5,245	34,130	509	34,639
Common Stock acquired				(650)		(650)		(650)
Common Stock issued								
Contributions from noncontrolling interests							4	4
Distributions to noncontrolling interests							(85)	(85)
Consolidations/(deconsolidations) of noncontrolling interests							97	97
Stock-based compensation programs		87	(192)	407		302		302
Dividends declared on Common Stock			(749)			(749)		(749)
Dividends declared on Class B Stock			(19)			(19)		(19)
Comprehensive income:								
Net income			520			520	50	570
Other comprehensive income, net of tax					4,969	4,969	34	5,003
Total comprehensive income (loss)						5,489	84	5,573
Balance, December 31, 2012	6	24,380	16,066	(12,163)	10,214	38,503	609	39,112
Common Stock acquired				(750)		(750)		(750)
Common Stock issued								
Contributions from noncontrolling interests							4	4
Distributions to noncontrolling interests							(113)	(113)
Consolidations/(deconsolidations) of noncontrolling interests							22	22
Stock-based compensation programs		95	(39)	498		554		554
Dividends declared on Common Stock			(810)			(810)		(810)
Dividends declared on Class B Stock			(19)			(19)		(19)
Comprehensive income:								
Net income			(667)			(667)	107	(560)
Other comprehensive income, net of tax					(1,533)	(1,533)	(26)	(1,559)

Total comprehensive income (loss)						(2,200)	81	(2,119)
Balance, December 31, 2013	$ 6	$ 24,475	$ 14,531	$ (12,415)	$ 8,681	$ 35,278	$ 603	$ 35,881

(1) Class B Stock is not presented as the amounts are immaterial.

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows

Years Ended December 31, 2013, 2012 and 2011 (in millions)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (560)	$ 570	$ 3,666
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment (gains) losses, net	5,206	1,441	(2,831)
Policy charges and fee income	(1,649)	(1,412)	(1,147)
Interest credited to policyholders account balances	3,111	4,234	4,484
Depreciation and amortization	411	302	290
(Gains) losses on trading account assets supporting insurance liabilities, net	250	(613)	(235)
Change in:			
Deferred policy acquisition costs	(2,661)	(2,061)	(376)
Future policy benefits and other insurance liabilities	8,379	17,784	6,799
Other trading account assets	(33)	(33)	329
Income taxes	(1,343)	527	(83)
Other, net	(2,666)	170	1,481
Cash flows from operating activities	8,445	20,909	12,377
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	60,719	38,678	42,548
Fixed maturities, held-to-maturity	587	528	455
Trading account assets supporting insurance liabilities and other trading account assets	19,412	15,347	22,388
Equity securities, available-for-sale	4,227	4,202	3,742
Commercial mortgage and other loans	6,501	5,327	4,814
Policy loans	2,231	2,241	2,035
Other long-term investments	1,873	1,474	2,120
Short-term investments	60,002	28,123	27,098
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(67,774)	(52,212)	(52,045)
Fixed maturities, held-to-maturity	(208)	(18)	(76)
Trading account assets supporting insurance liabilities and other trading account assets	(22,552)	(16,115)	(23,684)
Equity securities, available-for-sale	(4,301)	(4,001)	(3,080)
Commercial mortgage and other loans	(10,316)	(7,066)	(6,829)
Policy loans	(1,831)	(2,012)	(1,815)
Other long-term investments	(2,850)	(1,736)	(1,865)
Short-term investments	(61,034)	(28,323)	(26,962)
Acquisitions, net of cash acquired.	(488)	0	(2,321)
Other, net	(532)	143	182
Cash flows used in investing activities	(16,334)	(15,420)	(13,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders account deposits	24,721	22,822	24,336
Policyholders account withdrawals	(24,960)	(24,014)	(22,564)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	3,200	584	1,126
Cash dividends paid on Common Stock	(828)	(749)	(685)
Cash dividends paid on Class B Stock	(19)	(19)	(19)
Net change in financing arrangements (maturities 90 days or less)	96	(583)	104
Common Stock acquired	(738)	(650)	(999)
Common Stock reissued for exercise of stock options	348	150	122
Proceeds from the issuance of debt (maturities longer than 90 days)	2,813	4,662	2,266

Repayments of debt (maturities longer than 90 days)	(3,939)	(3,391)	(1,739)
Excess tax benefits from share-based payment arrangements	32	51	20
Change in bank deposits	0	(1,730)	(22)
Other, net	1,516	1,562	153
Cash flows from (used in) financing activities	2,242	(1,305)	2,099
Effect of foreign exchange rate changes on cash balances	(1,014)	(335)	155
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,661)	3,849	1,336
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,100	14,251	12,915
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,439	$ 18,100	$ 14,251
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid, net of refunds	$ 1,279	$ 501	$ 809
Interest paid	$ 1,387	$ 1,349	$ 1,285
NON-CASH TRANSACTIONS DURING THE YEAR			
Treasury Stock shares issued for stock-based compensation programs	$ 105	$ 211	$ 77
Federal Home Loan Bank of New York debt reissued as funding agreements and reported as policyholder account balances	$ 0	$ 445	$ 0
Assets received and related liabilities recorded from two significant Pension Risk Transfer transactions	$ 0	$ 33,423	$ 0
Acquisition of The Hartford s individual life business (See Note 3):			
Assets acquired, excluding cash and cash equivalents acquired	$ 11,056	$ 0	$ 0
Liabilities assumed	$ 10,568	$ 0	$ 0
Net cash paid on acquisition	$ 488	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (Prudential Financial) and its subsidiaries (collectively, Prudential or the Company) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds, and investment management. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance. The Company s businesses that are not sufficiently material to warrant separate disclosure and divested businesses, are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 12), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Demutualization

On December 18, 2001 (the date of demutualization), The Prudential Insurance Company of America (Prudential Insurance) converted from a mutual life insurance company to a stock life insurance company and became an indirect, wholly-owned subsidiary of Prudential Financial. At the time of demutualization Prudential Financial issued two classes of common stock, both of which remain outstanding. The Common Stock, which is publicly traded, reflects the performance of the Financial Services Businesses, and the Class B Stock, which was issued through a private placement, reflects the performance of the Closed Block Business.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company s consolidated variable interest entities. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Intercompany balances and transactions have been eliminated.

The Company s Gibraltar Life Insurance Company, Ltd. (Gibraltar Life) consolidated operations, including the previously-acquired AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively the Star and Edison Businesses) use a November 30 fiscal year end for purposes of inclusion in the Company s Consolidated Financial Statements. Therefore, the Consolidated Financial Statements as of December 31, 2013 and 2012 include the assets and liabilities of Gibraltar Life as of November 30, 2013 and 2012, respectively, and for the years ended December 31, 2013, 2012 and 2011, include Gibraltar

Life s results of operations for the twelve months ended November 30, 2013, 2012 and 2011, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; value of business acquired and its amortization; amortization of sales inducements; measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments; future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

Out of Period Adjustments

As previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2012, during 2012, the Company recorded out of period adjustments resulting in an aggregate net decrease of $170 million to Income from continuing operations before income taxes and equity in earnings of operating joint ventures for the year ended December 31, 2012. These adjustments primarily resulted from 1) a decline in the value of a real estate-related investment, where, based on a review of the underlying collateral and a related guarantee, the Company determined that impairments of $75 million should be recognized, of which $61 million should have been recorded in prior years; 2) an increase of $61 million in reserves for estimated payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders which should have been reflected in the third quarter of 2011; and 3) an increase of $54 million in recorded liabilities for certain employee benefits based on a review of the consistency of recognition of such liabilities across the Company which should have been recorded in prior years. Management evaluated the adjustments and concluded they were not material to any previously reported quarterly or annual financial statements. For additional information on the impact of these adjustments to our operating segments, see Note 22.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Share-Based Payments

The Company recognizes the cost resulting from all share-based payments in accordance with the authoritative guidance on accounting for stock based compensation and applies the fair value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. The Company accounts for excess tax benefits in additional paid-in capital as a single pool available to all share-based compensation awards. The Company does not recognize excess tax benefits in additional paid-in capital until the benefits result in a reduction in taxes payable. The Company has elected the tax-law ordering methodology and has adopted a convention that considers excess tax benefits to be the last portion of a net operating loss carryforward to be utilized.

The Company accounts for non-employee stock options using the fair value method in accordance with authoritative guidance and related interpretations on accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services.

Earnings Per Share

As discussed in Note 1, the Company has outstanding two separate classes of common stock. Basic earnings per share is computed by dividing available income attributable to each of the two groups of common shareholders by the respective weighted average number of common shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

As discussed under Share-Based Payments above, the Company accounts for excess tax benefits in additional paid-in capital as a single pool available to all share-based compensation awards. The Company reflects in assumed proceeds, based on application of the treasury stock method, the excess tax benefits that would be recognized in additional paid-in capital upon exercise or release of the award.

Investments and Investment-Related Liabilities

The Company s principal investments are fixed maturities; equity securities; commercial mortgage and other loans; policy loans; other long-term investments, including joint ventures (other than operating joint ventures), limited partnerships, and real estate; and short-term investments. Investments and investment-related liabilities also include securities repurchase and resale agreements and securities lending transactions. The accounting policies related to each are as follows:

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available-for-sale are carried at fair value. See Note 20 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in Net investment income under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also vary based on other assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For mortgage-backed and asset-backed securities rated below AA, or those for which an other than temporary impairment has been recorded, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Unrealized gains and losses on fixed maturities classified as available-for-sale, net of tax, and the effect on deferred policy acquisition costs, value of business acquired, deferred sales inducements (DSI), future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss) (AOCI).

Trading account assets supporting insurance liabilities, at fair value includes invested assets that support certain products included in the Retirement segment, as well as certain products included in the International Insurance segment, which are experience rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses for these investments are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income.

Other trading account assets, at fair value consist primarily of fixed maturities, equity securities, including certain perpetual preferred stock, and certain derivatives. Realized and unrealized gains and losses on these investments are reported in Asset management fees and other income, and interest and dividend income from these investments is reported in Net investment income. Realized and unrealized gains and losses, and interest and dividend income on investments related to the Company s former global commodities group are reported in Income from discontinued operations, net of taxes. See Derivative Financial Instruments below for additional information regarding the accounting for derivatives.

Equity securities available-for-sale, at fair value are comprised of common stock, mutual fund shares and non-redeemable preferred stock, and are carried at fair value. The associated unrealized gains and losses, net of

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

tax, and the effect on deferred policy acquisition costs, value of business acquired, DSI, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in AOCI. The cost of equity securities is written down to fair value when a decline in value is considered to be other-than-temporary. See the discussion below on realized investment gains and losses for a description of the accounting for impairments. Dividends from these investments are recognized in Net investment income when earned.

Commercial mortgage and other loans consist of commercial mortgage loans, agricultural loans, loans backed by residential properties, as well as certain other collateralized and uncollateralized loans. Loans backed by residential properties primarily include recourse loans held by the Company s international insurance businesses. Uncollateralized loans primarily represent reverse dual currency loans and corporate loans held by the Company s international insurance businesses.

Commercial mortgage and other loans originated and held for investment are generally carried at unpaid principal balance, net of unamortized deferred loan origination fees and expenses, and net of an allowance for losses. Commercial mortgage loans originated within the Company s commercial mortgage operations include loans held for sale which are reported at the lower of cost or fair value; loans held for investment which are reported at amortized cost net of unamortized deferred loan origination fees and expenses, and net of an allowance for losses; and loans reported at fair value under the fair value option. Commercial mortgage and other loans acquired, including those related to the acquisition of a business, are recorded at fair value when purchased, reflecting any premiums or discounts to unpaid principal balances.

Interest income, as well as prepayment fees and the amortization of the related premiums or discounts, related to commercial mortgage and other loans, are included in Net investment income.

Impaired loans include those loans for which it is probable that amounts due will not all be collected according to the contractual terms of the loan agreement. The Company defines past due as principal or interest not collected at least 30 days past the scheduled contractual due date. Interest received on loans that are past due, including impaired and non-impaired loans as well as loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as net investment income based on the Company s assessment as to the collectability of the principal. See Note 4 for additional information about the Company s past due loans.

The Company discontinues accruing interest on loans after the loans become 90 days delinquent as to principal or interest payments, or earlier when the Company has doubts about collectability. When the Company discontinues accruing interest on a loan, any accrued but uncollectible interest on the loan and other loans backed by the same collateral, if any, is charged to interest income in the same period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, or the loan has been modified, a regular payment performance has been established.

The Company reviews the performance and credit quality of the commercial mortgage and other loan portfolio on an on-going basis. Loans are placed on watch list status based on a predefined set of criteria and are assigned one of three categories. Loans are placed on early warning status in cases where, based on the Company s analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, it is believed a loss of principal or interest could occur. Loans are classified as closely monitored when it is determined that there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where the Company has concluded that there is a high probability of loss of principal, such as when the loan is delinquent or in the process of foreclosure. As described below, in determining the allowance for losses, the Company evaluates each loan on the watch list to determine if it is probable that amounts due will not be collected according to the contractual terms of the loan agreement.

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Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property s net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan s current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments. The values utilized in calculating these ratios are developed as part of the Company s periodic review of the commercial mortgage loan and agricultural loan portfolio, which includes an internal appraisal of the underlying collateral value. The Company s periodic review also includes a quality re-rating process, whereby the internal quality rating originally assigned at underwriting is updated based on current loan, property and market information using a proprietary quality rating system. The loan-to-value ratio is the most significant of several inputs used to establish the internal credit rating of a loan which in turn drives the allowance for losses. Other key factors considered in determining the internal credit rating include debt service coverage ratios, amortization, loan term, estimated market value growth rate and volatility for the property type and region. See Note 4 for additional information related to the loan-to-value ratios and debt service coverage ratios related to the Company s commercial mortgage and agricultural loan portfolios.

Loans backed by residential properties and uncollateralized loans are also reviewed periodically. Each loan is assigned an internal or external credit rating. Internal credit ratings take into consideration various factors including financial ratios and qualitative assessments based on non-financial information. In cases where there are personal or third party guarantors, the credit quality of the guarantor is also reviewed. These factors are used in developing the allowance for losses. Based on the diversity of the loans in these categories and their immateriality, the Company has not disclosed the credit quality indicators related to these loans in Note 4.

For those loans not reported at fair value, the allowance for losses includes a loan specific reserve for each impaired loan that has a specifically identified loss and a portfolio reserve for probable incurred but not specifically identified losses. For impaired commercial mortgage and other loans the allowances for losses are determined based on the present value of expected future cash flows discounted at the loan s effective interest rate, or based upon the fair value of the collateral if the loan is collateral dependent. The portfolio reserves for probable incurred but not specifically identified losses in the commercial mortgage and agricultural loan portfolios consider the current credit composition of the portfolio based on an internal quality rating, (as described above). The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability and loss severity factors by property type. These factors are reviewed each quarter and updated as appropriate.

The allowance for losses on commercial mortgage and other loans can increase or decrease from period to period based on the factors noted above. Realized investment gains (losses), net includes changes in the allowance for losses and changes in value for loans accounted for under the fair value option. Realized investment gains (losses), net also includes gains and losses on sales, certain restructurings, and foreclosures.

When a commercial mortgage or other loan is deemed to be uncollectible, any specific valuation allowance associated with the loan is reversed and a direct write down to the carrying amount of the loan is made. The carrying amount of the loan is not adjusted for subsequent recoveries in value.

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring. These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. Additionally, the Company may accept assets in full or partial satisfaction of the debt as part of a troubled debt restructuring. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a troubled debt restructuring as defined by authoritative accounting guidance. If the

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borrower is experiencing financial difficulty and the Company has granted a concession, the restructuring, including those that involve a partial payoff or the receipt of assets in full satisfaction of the debt is deemed to be a troubled debt restructuring. Based on the Company s credit review process described above, these loans generally would have been deemed impaired prior to the troubled debt restructuring, and specific allowances for losses would have been established prior to the determination that a troubled debt restructuring has occurred.

In a troubled debt restructuring where the Company receives assets in full satisfaction of the debt, any specific valuation allowance is reversed and a direct write down of the loan is recorded for the amount of the allowance, and any additional loss, net of recoveries, or any gain is recorded for the difference between the fair value of the assets received and the recorded investment in the loan. When assets are received in partial settlement, the same process is followed, and the remaining loan is evaluated prospectively for impairment based on the credit review process noted above. When a loan is restructured in a troubled debt restructuring, the impairment of the loan is remeasured using the modified terms and the loan s original effective yield, and the allowance for loss is adjusted accordingly. Subsequent to the modification, income is recognized prospectively based on the modified terms of the loans in accordance with the income recognition policy noted above. Additionally, the loan continues to be subject to the credit review process noted above.

In situations where a loan has been restructured in a troubled debt restructuring and the loan has subsequently defaulted, this factor is considered when evaluating the loan for a specific allowance for losses in accordance with the credit review process noted above.

See Note 4 for additional information about commercial mortgage and other loans that have been restructured in a troubled debt restructuring.

Policy loans are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned. Policy loans are fully collateralized by the cash surrender value of the associated insurance policies.

Securities repurchase and resale agreements and securities loaned transactions are used primarily to earn spread income, to borrow funds, or to facilitate trading activity. As part of securities repurchase agreements or securities loaned transactions, the Company transfers U.S. and foreign debt and equity securities, as well as U.S. government and government agency securities, and receives cash as collateral. As part of securities resale agreements, the Company invests cash and receives as collateral U.S. government securities or other debt securities. For securities repurchase agreements and securities loaned transactions used to earn spread income, the cash received is typically invested in cash equivalents, short-term investments or fixed maturities.

Securities repurchase and resale agreements that satisfy certain criteria are treated as secured borrowing or secured lending arrangements. These agreements are carried at the amounts at which the securities will be subsequently resold or reacquired, as specified in the respective transactions. For securities purchased under agreements to resell, the Company s policy is to take possession or control of the securities either directly or through a third party custodian. These securities are valued daily and additional securities or cash collateral is received, or returned, when appropriate to protect against credit exposure. Securities to be resold are the same, or substantially the same, as the securities received. For securities sold under agreements to repurchase, the market value of the securities to be repurchased is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure. Securities to be repurchased are the same, or substantially the same, as those sold. Income and expenses related to these transactions executed within the insurance companies used to earn spread income are reported as Net investment income; however, for transactions used for funding purposes, the associated borrowing cost is reported as interest expense (included in General and administrative expenses). Income and expenses related to these transactions executed within the Company s derivative operations are reported in Asset management fees and other income. Income and expenses related to these transactions executed within the Company s former global commodities group are reported in Income from discontinued operations, net of taxes.

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Securities loaned transactions are treated as financing arrangements and are recorded at the amount of cash received. The Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company s securities loaned transactions are with large brokerage firms. Income and expenses associated with securities loaned transactions used to earn spread income are reported as Net investment income; however, for securities loaned transactions used for funding purposes the associated rebate is reported as interest expense (included in General and administrative expenses).

Other long-term investments consist of the Company s investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments. Joint venture and partnership interests are either accounted for using the equity method of accounting or under the cost method when the Company s partnership interest is so minor (generally less than 3%) that it exercises virtually no influence over operating and financial policies. The Company s income from investments in joint ventures and partnerships accounted for using the equity method or the cost method, other than the Company s investment in operating joint ventures, is included in Net investment income. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method or the cost method (including assessment for other-than-temporary impairment), the Company uses financial information provided by the investee, generally on a one to three month lag. The Company consolidates joint ventures and limited partnerships in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. See Note 5 for additional information about variable interest entities.

The Company s wholly-owned investment real estate consists of real estate which the Company has the intent to hold for the production of income as well as real estate held for sale. Real estate which the Company has the intent to hold for the production of income is carried at depreciated cost less any writedowns to fair value for impairment losses and is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such. An impairment loss is recognized when the carrying value of the investment real estate exceeds the estimated undiscounted future cash flows (excluding interest charges) from the investment. At that time, the carrying value of the investment real estate is written down to fair value. Decreases in the carrying value of investment real estate held for the production of income due to other-than-temporary impairments are recorded in Realized investment gains (losses), net. Depreciation on real estate held for the production of income is computed using the straight-line method over the estimated lives of the properties, and is included in Net investment income. In the period a real estate investment is deemed held for sale and meets all of the discontinued operation criteria, the Company reports all related net investment income and any resulting investment gains and losses as discontinued operations for all periods presented.

Short-term investments primarily consist of highly liquid debt instruments with a maturity of twelve months or less and greater than three months when purchased, other than those debt instruments meeting this definition that are included in Trading account assets supporting insurance liabilities, at fair value. These investments are generally carried at fair value and include certain money market investments, short-term debt securities issued by government sponsored entities and other highly liquid debt instruments. Short-term investments held in the Company s former broker-dealer operations were marked-to-market through Income from discontinued operations, net of taxes.

Realized investment gains (losses) are computed using the specific identification method with the exception of some of the Company s International Insurance businesses portfolios, where the average cost method is used. Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for net other-than-temporary impairments recognized in

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earnings. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, allowance for losses on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment. Realized investment gains and losses related to the Company s former global commodities group are reported in Income from discontinued operations, net of taxes. See Derivative Financial Instruments below for additional information regarding the accounting for derivatives.

The Company s available-for-sale and held-to-maturity securities with unrealized losses are reviewed quarterly to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, the Company considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. With regard to available-for-sale equity securities, the Company also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value. When it is determined that a decline in value of an equity security is other-than-temporary, the carrying value of the equity security is reduced to its fair value, with a corresponding charge to earnings.

An other-than-temporary impairment is recognized in earnings for a debt security in an unrealized loss position when the Company either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. For all debt securities in unrealized loss positions that do not meet either of these two criteria, the Company analyzes its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. In addition to the above mentioned circumstances, the Company also recognizes an other-than-temporary impairment in earnings when a non-functional currency denominated security in an unrealized loss position due to currency exchange rates approaches maturity.

When an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the debt security meets either of these two criteria or the unrealized losses due to changes in foreign currency exchange rates are not expected to be recovered before maturity, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and its net present value calculated as described above. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss). Unrealized gains or losses on securities for which an other-than-temporary impairment has been recognized in earnings is tracked as a separate component of AOCI.

For debt securities, the split between the amount of an other-than-temporary impairment recognized in other comprehensive income and the net amount recognized in earnings is driven principally by assumptions regarding the amount and timing of projected cash flows. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the

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asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security, such as the general payment terms of the security and the security s position within the capital structure of the issuer.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods, including increases in cash flow on a prospective basis. In certain cases where there are decreased cash flow expectations, the security is reviewed for further cash flow impairments.

Unrealized investment gains and losses are also considered in determining certain other balances, including deferred policy acquisition costs, the value of business acquired, DSI, certain future policy benefits, policyholders dividends and deferred tax assets or liabilities. These balances are adjusted, as applicable, for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. Each of these balances is discussed in greater detail below.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, certain money market investments and other debt instruments with maturities of three months or less when purchased, other than cash equivalents that are included in Trading account assets supporting insurance liabilities, at fair value.

Deferred Policy Acquisition Costs

Costs that vary with and that are directly related to the successful acquisition of new and renewal insurance and annuity business are deferred to the extent such costs are deemed recoverable from future profits. Such DAC primarily includes commissions, costs of policy issuance and underwriting, and certain other expenses that are directly related to successfully negotiated contracts. See below under Adoption of New Accounting Pronouncements for a discussion of the authoritative guidance adopted effective January 1, 2012, regarding which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. In each reporting period, capitalized DAC is amortized to Amortization of deferred policy acquisition costs, net of the accrual of imputed interest on DAC balances. DAC is subject to periodic recoverability testing. DAC, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI.

For traditional participating life insurance included in the Closed Block, DAC is amortized over the expected life of the contracts (up to 45 years) in proportion to gross margins based on historical and anticipated future experience, which is evaluated regularly. The effect of changes in estimated gross margins on unamortized DAC is reflected in Amortization of deferred policy acquisition costs in the period such estimated gross margins are revised. Deferred policy acquisition costs related to interest-sensitive and variable life products and fixed and variable deferred annuity products are generally deferred and amortized over the expected life of the contracts (periods ranging from 25 to 99 years) in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. The Company uses a reversion to the mean approach for equities to derive future equity return assumptions. However, if the projected equity return calculated using this approach is greater than the maximum equity return assumption, the maximum equity return is utilized. In addition to the gross profit components previously mentioned, the impact of the embedded derivatives associated with certain optional living benefit features of the Company s variable annuity contracts and related hedging activities are

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also included in actual gross profits used as the basis for calculating current period amortization and, in certain instances, in management s estimate of total gross profits used for setting the amortization rate. The effect of changes to total gross profits on unamortized DAC is reflected in Amortization of deferred policy acquisition costs in the period such total gross profits are revised. DAC related to non-participating traditional individual life insurance is amortized in proportion to gross premiums.

For group annuity contracts (other than single premium group annuities), acquisition costs are generally deferred and amortized over the expected life of the contracts in proportion to gross profits. For group corporate-, bank- and trust-owned life insurance contracts, acquisition costs are deferred and amortized in proportion to lives insured. For single premium immediate annuities with life contingencies, and single premium group annuities and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are received at the inception of the contract. For funding agreement notes contracts, single premium structured settlement contracts without life contingencies, and single premium immediate annuities without life contingencies, acquisition expenses are deferred and amortized over the expected life of the contracts using the interest method. For other group life and disability insurance contracts and guaranteed investment contracts, acquisition costs are expensed as incurred.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, except those that involve the addition of a nonintegrated contract feature that does not change the existing base contract, the unamortized DAC is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new terms are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies.

Value of Business Acquired

As a result of certain acquisitions and the application of purchase accounting, the Company reports a financial asset representing the value of business acquired (VOBA). VOBA includes an explicit adjustment to reflect the cost of capital attributable to the acquired insurance contracts. VOBA represents an adjustment to the stated value of inforce insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA balances are subject to recoverability testing, in the manner in which it was acquired. The Company has established a VOBA asset primarily for its acquired traditional life insurance products, accident and health products with fixed benefits, deferred annuity contracts, and defined contribution and defined benefit businesses. As of December 31, 2013, the majority of the VOBA balance relates to the 2011 acquisition of the Star and Edison Businesses and the January 2013 acquisition of The Hartford s individual life insurance business. The Company generally amortizes VOBA over the effective life of the acquired contracts in General and administrative expenses. For acquired traditional life insurance products and accident and health products with fixed benefits, VOBA is amortized in proportion to estimated gross premiums or in proportion to the face amount of insurance in force, as applicable. For acquired annuity and non-traditional life insurance contracts, VOBA is amortized in proportion to gross profits arising principally from investment margins, mortality and expense margins, and surrender charges, based on historical and anticipated future experience, which is updated periodically. For acquired defined contribution and defined benefit businesses, the majority of VOBA is amortized in proportion to estimated gross profits arising principally from investment spreads and fees in excess of actual expense based upon historical and estimated future experience, which is updated periodically. The effect of changes in total gross profits on unamortized VOBA is reflected in the period such total gross profits are revised. VOBA, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. See Note 8 for additional information regarding VOBA and Note 3 for additional information regarding the acquisition of the Star and Edison Businesses and The Hartford s individual life insurance business.

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Separate Account Assets and Liabilities

Separate account assets are reported at fair value and represent segregated funds that are invested for certain policyholders, pension funds and other customers. The assets consist primarily of equity securities, fixed maturities, real estate-related investments, real estate mortgage loans, short-term investments and derivative instruments. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. See Note 11 for additional information regarding separate account arrangements with contractual guarantees. Separate account liabilities primarily represent the contractholder s account balance in separate account assets and to a lesser extent borrowings of the separate account, and will be equal and offsetting to total separate account assets. The investment income and realized investment gains or losses from separate account assets generally accrue to the policyholders and are not included in the Company s results of operations. Mortality, policy administration and surrender charges assessed against the accounts are included in Policy charges and fee income. Asset management fees charged to the accounts are included in Asset management fees and other income. Seed money that the Company invests in separate accounts is reported in the appropriate general account asset line. Investment income and realized investment gains or losses from seed money invested in separate accounts accrues to the Company and is included in the Company s results of operations.

Other Assets and Other Liabilities

Other assets consist primarily of prepaid pension benefit costs, certain restricted assets, trade receivables, value of business acquired, goodwill and other intangible assets, DSI, the Company s investments in operating joint ventures, which include the Company s previously held indirect investment in China Pacific Insurance (Group) Co., Ltd. (China Pacific Group), property and equipment, reinsurance recoverables, and receivables resulting from sales of securities that had not yet settled at the balance sheet date. Other liabilities consist primarily of trade payables, pension and other employee benefit liabilities, derivative liabilities, reinsurance payables, and payables resulting from purchases of securities that had not yet settled at the balance sheet date.

Property and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally range from 3 to 40 years.

As a result of certain acquisitions, the Company recognizes an asset for goodwill representing the excess of cost over the net fair value of the assets acquired and liabilities assumed. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. A reporting unit is an operating segment or a unit one level below the operating segment, if discrete financial information is prepared and regularly reviewed by management at that level. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The fundamental goodwill impairment analysis is a two-step test that is performed at the reporting unit level. The first step, used to identify potential impairment, involves comparing each reporting unit s fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of a potential impairment and the second step of the test is performed to measure the amount of impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in the same manner as the

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amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill in the pro forma business combination accounting as described above exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded in General and administrative expenses for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management is required to make significant estimates in determining the fair value of a reporting unit including, but not limited to: projected earnings, comparative market multiples, and the risk rate at which future net cash flows are discounted.

In accordance with accounting guidance, the Company may first perform a qualitative goodwill assessment to determine whether events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Factors such as macroeconomic conditions; industry and market considerations; cost factors and other are used to assess the validity of goodwill. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test, as described above, is not necessary. If, however, the Company concludes otherwise, then the Company must perform the first step of the two-step impairment test by comparing the reporting unit s fair value with its carrying value including goodwill. If the carrying value exceeds fair value, then the Company must perform the second step of the goodwill impairment test to measure the impairment loss, if any.

See Note 9 for additional information regarding goodwill.

The Company offers various types of sales inducements to policyholders related to fixed and variable deferred annuity contracts. The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize DAC. Sales inducements balances are subject to periodic recoverability testing. The Company records amortization of DSI in Interest credited to policyholders account balances. DSI, for applicable products, is adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in AOCI. See Note 11 for additional information regarding sales inducements.

The majority of the Company s reinsurance recoverables and payables are receivables and corresponding payables associated with the reinsurance arrangements used to effect the Company s acquisition of the retirement businesses of CIGNA and The Hartford s individual life business. The remaining amounts relate to other reinsurance arrangements entered into by the Company. For each of its reinsurance contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. See Note 13 for additional information about the Company s reinsurance arrangements.

Identifiable intangible assets are recorded net of accumulated amortization. The Company tests identifiable intangible assets for impairment on an annual basis as of December 31 of each year or whenever events or circumstances suggest that the carrying value of an identifiable intangible asset may exceed the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If this condition exists and the carrying value of an identifiable intangible asset exceeds its fair value, the excess is recognized as an impairment and is recorded as a charge against net income. Measuring intangibles requires the use of estimates. Significant estimates include the projected net cash flow attributable to the intangible asset and the risk rate at which future net cash flows are discounted for purposes of estimating fair value, as applicable. Identifiable intangible assets primarily include customer relationships and mortgage servicing rights. See Note 9 for additional information regarding identifiable intangible assets.

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Investments in operating joint ventures are generally accounted for under the equity method. The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. See Note 7 for additional information on investments in operating joint ventures.

Future Policy Benefits

The Company s liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For individual traditional participating life insurance products, the mortality and interest rate assumptions applied are those used to calculate the policies guaranteed cash surrender values. For life insurance, other than individual traditional participating life insurance, and annuity and disability products, expected mortality and morbidity is generally based on Company experience, industry data and/or other factors. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and morbidity and interest rate assumptions are locked-in upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. Premium deficiency reserves do not include a provision for the risk of adverse deviation. In determining if a premium deficiency related to short-duration contracts exists, the Company considers, among other factors, anticipated investment income. Any adjustments to future policy benefit reserves related to net unrealized gains on securities classified as available-for-sale are included in AOCI. See Note 10 for additional information regarding future policy benefits.

The Company s liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish claim liabilities until a loss has been incurred. However, unpaid claims and claim adjustment expenses includes estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The Company s liability for future policy benefits also includes net liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 11, and certain unearned revenues.

Policyholders Account Balances

The Company s liability for policyholders account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is primarily associated with the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance. These policyholders account balances also include provision for benefits under non-life contingent payout annuities and certain unearned revenues. See Note 10 for additional information regarding policyholders account balances.

Policyholders Dividends

The Company s liability for policyholders dividends includes its dividends payable to policyholders and its policyholder dividend obligation associated with the participating policies included in the Closed Block. The dividends payable for participating policies included in the Closed Block are determined at the end of each year for the following year by the Board of Directors of Prudential Insurance based on its statutory results, capital position, ratings, and the emerging experience of the Closed Block. The policyholder dividend obligation represents amounts expected to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance . The policyholder dividend obligation also includes amounts relating to net unrealized gains on securities classified as available-for-sale. For additional information on the policyholder dividend obligation, see Note 12. The dividends payable for policies other than the participating policies included in the Closed Block include dividends payable in accordance with certain group and individual insurance policies.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Contingent Liabilities

Amounts related to contingent liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual.

Insurance Revenue and Expense Recognition

Premiums from individual life products, other than interest-sensitive and variable life contracts, and health insurance and long-term care products are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium (i.e., the portion of the gross premium required to provide for all expected future benefits and expenses) is generally deferred and recognized into revenue in a constant relationship to insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium method.

Premiums from non-participating group annuities with life contingencies, single premium structured settlements with life contingencies and single premium immediate annuities with life contingencies are recognized when due. When premiums are due over a significantly shorter period than the period over which benefits are provided, any gross premium in excess of the net premium is deferred and recognized into revenue in a constant relationship to the amount of expected future benefit payments. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net premium method.

Certain individual annuity contracts provide the holder a guarantee that the benefit received upon death or annuitization will be no less than a minimum prescribed amount. These benefits are accounted for as insurance contracts and are discussed in further detail in Note 11. The Company also provides contracts with certain living benefits which are considered embedded derivatives. These contracts are discussed in further detail in Note 11.

Amounts received as payment for interest-sensitive or variable group and individual life contracts, deferred fixed or variable annuities, structured settlements and other contracts without life contingencies, and participating group annuities are reported as deposits to Policyholders account balances and/or Separate account liabilities. Revenues from these contracts are reflected in Policy charges and fee income consisting primarily of fees assessed during the period against the policyholders account balances for mortality and other benefit charges, policy administration charges and surrender charges. In addition to fees, the Company earns investment income from the investment of deposits in the Company s general account portfolio. Fees assessed that represent compensation to the Company for services to be provided in future periods and certain other fees are generally deferred and amortized into revenue over the life of the related contracts in proportion to estimated gross profits. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited to policyholders account balances and amortization of DAC, DSI and VOBA.

For group life, other than interest-sensitive and variable group life contracts, and disability insurance, premiums are generally recognized over the period to which the premiums relate in proportion to the amount of insurance protection provided. Claim and claim adjustment expenses are recognized when incurred.

Premiums, benefits and expenses are stated net of reinsurance ceded to other companies, except for amounts associated with certain modified coinsurance contracts which are reflected in the Company s financial statements based on the application of the deposit method of accounting.

Asset Management Fees and Other Income

Asset management fees and other income principally include asset management fees and securities commission revenues, which are recognized in the period in which the services are performed. Realized and

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

unrealized gains or losses from investments classified as trading such as Trading account assets supporting insurance liabilities and Other trading account assets, short-term investments that are marked-to-market through other income, and from consolidated entities that follow specialized investment company fair value accounting are also included in Asset management fees and other income.

Asset management fees and other income also includes $(4.1) billion, $(1.8) billion and $1.0 billion for the years ended December 31, 2013, 2012 and 2011, respectively, primarily related to the remeasurement of foreign currency denominated assets and liabilities, as discussed in more detail under Foreign Currency below.

In 2013, the Company adopted retrospectively a discretionary change in accounting principle for recognition of performance based incentive fee revenue. In certain asset management fee arrangements, the Company is entitled to receive performance based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. The Company may be required to return all, or part, of such performance based incentive fee depending on future performance of these assets relative to performance benchmarks. Under the newly adopted accounting principle, the Company records performance based incentive fee revenue when the contractual terms of the asset management fee arrangement have been satisfied such that the performance fee is no longer subject to clawback or contingency. Under this principle the Company records a deferred performance based incentive fee liability to the extent it receives cash related to the performance based incentive fee prior to meeting the revenue recognition criteria delineated above.

Under the prior accounting principle, the Company accrued performance based incentive fee revenue quarterly based on measuring fund performance to date versus the performance benchmark stated in the investment management agreement, as if the contracts containing the fee arrangements were terminated as of the applicable balance sheet date. Certain performance based incentive fees were also subject to future adjustment based on cumulative fund performance in relation to these specified benchmarks.

The new method is recognized as preferable in authoritative accounting literature. In addition, the Company believes that new method improves the quality of earnings by eliminating the potential that revenue will be recognized in one quarter and reversed in a future quarter. Finally, the Company believes that the new accounting principle provides a more meaningful comparison to competitors.

The following tables present: 1) pro-forma amounts as of, or for the year ended, December 31, 2013 under the prior accounting method, the effect on those amounts of the change in account principle, and amounts as reported in the Company s Consolidated Financial Statements; and 2) amounts as of, or for the years ended December 31, 2012 and 2011, as previously reported, the effect on those amounts of the change in accounting principle, and amounts as reported in the Company s Consolidated Financial Statements.

Consolidated Statement of Financial Position:

	December 31, 2013		
	Previous Accounting Method	Effect of Change in Accounting Principle (in millions)	As Reported
ASSETS			
Other assets	$ 13,893	$ (60)	$ 13,833
TOTAL ASSETS	731,841	(60)	731,781
LIABILITIES AND EQUITY			
LIABILITIES			
Income taxes	5,462	(40)	5,422
Other liabilities	13,749	176	13,925
Total liabilities	695,764	136	695,900
EQUITY			
Retained earnings	14,602	(71)	14,531
Total Prudential Financial, Inc. equity	35,349	(71)	35,278
Noncontrolling interests	728	(125)	603
Total equity	36,077	(196)	35,881
TOTAL LIABILITIES AND EQUITY	$ 731,841	$ (60)	$ 731,781

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

	December 31, 2012		
	As Previously Reported	Effect of Change in Accounting Principle (in millions)	As Currently Reported
ASSETS			
Other assets	$ 11,887	$ (63)	$ 11,824
TOTAL ASSETS	709,298	(63)	709,235
LIABILITIES AND EQUITY			
LIABILITIES			
Income taxes	8,551	(39)	8,512
Other liabilities	11,683	155	11,838
Total liabilities	670,007	116	670,123
EQUITY			
Retained earnings	16,138	(72)	16,066
Total Prudential Financial, Inc. equity	38,575	(72)	38,503
Noncontrolling interests	716	(107)	609
Total equity	39,291	(179)	39,112
TOTAL LIABILITIES AND EQUITY	$ 709,298	$ (63)	$ 709,235

Consolidated Statement of Operations:

	Year Ended December 31, 2013		
	Previous Accounting Method	Effect of Change in Accounting Principle (in millions)	As Reported
REVENUES			
Asset management fees and other income	$ 304	$ (18)	$ 286
Total revenues	41,479	(18)	41,461
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(1,666)	(18)	(1,684)
Income taxes:			
Deferred	(1,091)	(1)	(1,092)
Income tax expense	(1,057)	(1)	(1,058)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(609)	(17)	(626)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(550)	(17)	(567)
NET INCOME (LOSS)	(543)	(17)	(560)
Less: Income (loss) attributable to noncontrolling interests	125	(18)	107
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ (668)	$ 1	$ (667)
EARNINGS PER SHARE			
Financial Services Businesses			
Basic earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.57)	$ 0.00	$ (1.57)
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ 0.00	$ (1.55)
Diluted earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.57)	$ 0.00	$ (1.57)

Net income (loss) attributable to Prudential Financial, Inc.	$ (1.55)	$ 0.00	$ (1.55)

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

	Year Ended December 31, 2012		
	As Previously Reported	Effect of Change in Accounting Principle (in millions)	As Currently Reported
REVENUES			
Asset management fees and other income	$ 2,752	$ 32	$ 2,784
Total revenues	84,815	32	84,847
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	676	32	708
Income taxes:			
Deferred	(884)	9	(875)
Income tax expense	204	9	213
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	472	23	495
INCOME (LOSS) FROM CONTINUING OPERATIONS	532	23	555
NET INCOME (LOSS)	547	23	570
Less: Income (loss) attributable to noncontrolling interests	78	(28)	50
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 469	$ 51	$ 520
EARNINGS PER SHARE			
Financial Services Businesses			
Basic earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.91	$ 0.11	$ 1.02
Net income (loss) attributable to Prudential Financial, Inc.	$ 0.95	$ 0.11	$ 1.06
Diluted earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.91	$ 0.10	$ 1.01
Net income (loss) attributable to Prudential Financial, Inc.	$ 0.94	$ 0.11	$ 1.05

	Year Ended December 31, 2011		
	As Previously Reported	Effect of Change in Accounting Principle (in millions)	As Currently Reported
REVENUES			
Asset management fees and other income	$ 4,850	$ 55	$ 4,905
Total revenues	49,030	55	49,085
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	4,909	55	4,964
Income taxes:			
Deferred	1,041	27	1,068
Income tax expense	1,488	27	1,515
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	3,421	28	3,449
INCOME (LOSS) FROM CONTINUING OPERATIONS	3,603	28	3,631
NET INCOME (LOSS)	3,638	28	3,666
Less: Income (loss) attributable to noncontrolling interests	72	(38)	34
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 3,566	$ 66	$ 3,632
EARNINGS PER SHARE			
Financial Services Businesses			
Basic earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 7.01	$ 0.13	$ 7.14
Net income (loss) attributable to Prudential Financial, Inc.	$ 7.08	$ 0.13	$ 7.21

Diluted earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 6.92	$ 0.13	$ 7.05
Net income (loss) attributable to Prudential Financial, Inc.	$ 6.99	$ 0.13	$ 7.12

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows:

	Year Ended December 31, 2013		
	Previous Accounting Method	Effect of Change in Accounting Principle (in millions)	As Reported
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (543)	$ (17)	$ (560)
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in:			
Other, net	$ (2,683)	$ 17	$ (2,666)

	Year Ended December 31, 2012		
	As Previously Reported	Effect of Change in Accounting Principle (in millions)	As Currently Reported
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 547	$ 23	$ 570
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in:			
Other, net	$ 193	$ (23)	$ 170

	Year Ended December 31, 2011		
	As Previously Reported	Effect of Change in Accounting Principle (in millions)	As Currently Reported
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 3,638	$ 28	$ 3,666
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in:			
Other, net	$ 1,509	$ (28)	$ 1,481

Foreign Currency

Assets and liabilities of foreign operations and subsidiaries reported in currencies other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. The effects of translating the statements of operations and financial position of non-U.S. entities with functional currencies other than the U.S. dollar are included, net of related qualifying hedge gains and losses and income taxes, in AOCI. Gains and losses resulting from the remeasurement of foreign currency transactions are reported in either AOCI or current earnings in Asset management fees and other income depending on the nature of the related foreign currency denominated asset or liability.

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns, and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk used in valuation models. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter (OTC) market. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models.

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Derivatives are used to manage the interest rate and currency characteristics of assets or liabilities and to mitigate volatility of expected non-U.S. earnings and net investments in foreign operations resulting from changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 21, all realized and unrealized changes in fair value of derivatives are recorded in current earnings, with the exception of the effective portion of cash flow hedges and effective hedges of net investments in foreign operations. Cash flows from derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows based on the nature and purpose of the derivative.

Derivatives were also used in a derivative broker-dealer capacity in the Company s global commodities group to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates, foreign exchange rates, indices and prices of securities and commodities. The Company s global commodities group was sold on July 1, 2011. See Note 3 for further details. Realized and unrealized changes in fair value of derivatives used in these dealer-related operations are included in Income from discontinued operations, net of taxes in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Consolidated Statements of Cash Flows.

Derivatives are recorded either as assets, within Other trading account assets, at fair value or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed.

The Company designates derivatives as either (1) a hedge of the fair value of a recognized asset or liability or unrecognized firm commitment (fair value hedge); (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (3) a foreign-currency fair value or cash flow hedge (foreign currency hedge); (4) a hedge of a net investment in a foreign operation; or (5) a derivative that does not qualify for hedge accounting.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge. Under such circumstances, the ineffective portion is recorded in Realized investment gains (losses), net.

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value, cash flow, or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation.

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are reported on a net basis in the income statement, generally in Realized investment gains (losses), net. When swaps are used in hedge accounting relationships, periodic settlements are recorded in the same income statement line as the related settlements of the hedged items.

When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded in AOCI until earnings are affected by the variability of cash flows being hedged (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). At that time, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in the income statement line item associated with the hedged item.

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When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded either in current period earnings if the hedge transaction is a fair value hedge (e.g., a hedge of a recognized foreign currency asset or liability) or in AOCI if the hedge transaction is a cash flow hedge (e.g., a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded in the cumulative translation adjustment account within AOCI.

If it is determined that a derivative no longer qualifies as an effective fair value or cash flow hedge or management removes the hedge designation, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in Realized investment gains (losses), net. In this scenario, the hedged asset or liability under a fair value hedge will no longer be adjusted for changes in fair value and the existing basis adjustment is amortized to the income statement line associated with the asset or liability. The component of AOCI related to discontinued cash flow hedges is reclassified to the income statement line associated with the hedged cash flows consistent with the earnings impact of the original hedged cash flows.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecasted transaction will not occur by the end of the specified time period, the derivative will continue to be carried on the balance sheet at its fair value, with changes in fair value recognized currently in Realized investment gains (losses), net. Any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the balance sheet and recognized currently in Realized investment gains (losses), net. Gains and losses that were in AOCI pursuant to the hedge of a forecasted transaction are recognized immediately in Realized investment gains (losses), net.

If a derivative does not qualify for hedge accounting, all changes in its fair value, including net receipts and payments, are included in Realized investment gains (losses), net without considering changes in the fair value of the economically associated assets or liabilities.

The Company is a party to financial instruments that contain derivative instruments that are embedded in the financial instruments. At inception, the Company assesses whether the economic characteristics of the embedded instrument are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded instrument possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded instrument qualifies as an embedded derivative that is separated from the host contract, carried at fair value, and changes in its fair value are included in Realized investment gains (losses), net. For certain financial instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, the Company may elect to classify the entire instrument as a trading account asset and report it within Other trading account assets, at fair value.

Short-Term and Long-Term Debt

Liabilities for short-term and long-term debt are primarily carried at an amount equal to unpaid principal balance, net of unamortized discount or premium. Original-issue discount or premium and debt-issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding, using the interest method of amortization. Short-term debt is debt coming due in the next twelve months, including that portion of debt otherwise classified as long-term. The short-term debt caption may exclude short-term debt items the Company intends to refinance on a long-term basis in the near term. See Note 14 for additional information regarding short-term and long-term debt.

Income Taxes

The Company and its includible domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. Non-includible domestic subsidiaries

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

file separate individual corporate tax returns. Subsidiaries operating outside the U.S. are taxed, and income tax expense is recorded, based on applicable foreign statutes. See Note 19 for a discussion of certain non-U.S. jurisdictions for which the Company assumes repatriation of earnings to the U.S.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to the amount expected to be realized.

Items required by tax regulations to be included in the tax return may differ from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements may be different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in the Company s tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which the Company has already recorded the tax benefit in the Company s income statement. Deferred tax liabilities generally represent tax expense recognized in the Company s financial statements for which payment has been deferred, or expenditures for which the Company has already taken a deduction in the Company s tax return but have not yet been recognized in the Company s financial statements.

The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company s deferred tax assets and establish a valuation allowance if necessary to reduce the Company s deferred tax assets to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company may consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process, the first step being recognition. The Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company s liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 19 for additional information regarding income taxes.

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Adoption of New Accounting Pronouncements

In December 2013, the FASB issued updated guidance establishing a single definition of a public entity for use in financial accounting and reporting guidance. This new guidance is effective for all current and future reporting periods and did not have a significant effect on the Company s consolidated financial position, results of operations, or financial statement disclosures.

In July 2013, the FASB issued new guidance regarding derivatives. The guidance permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting, in addition to the United States Treasury rate and London Inter-Bank Offered Rate (LIBOR). The guidance also removes the restriction on using different benchmark rates for similar hedges. The guidance is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013, and should be applied prospectively. Adoption of the guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In February 2013, the FASB issued updated guidance regarding the presentation of comprehensive income. Under the guidance, an entity is required to separately present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances by component in either the financial statements or the notes to the financial statements. The guidance does not change the items that are reported in other comprehensive income, does not change when an item of other comprehensive income must be reclassified to net income, and does not amend any existing requirements for reporting net income or other comprehensive income. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2012, and should be applied prospectively. The disclosures required by this guidance are included in Note 15.

In December 2011 and January 2013, the Financial Accounting Standards Board (FASB) issued updated guidance regarding the disclosure of recognized derivative instruments (including bifurcated embedded derivatives), repurchase agreements and securities borrowing/lending transactions that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement (irrespective of whether they are offset in the statement of financial position). This new guidance requires an entity to disclose information on both a gross and net basis about instruments and transactions within the scope of this guidance. This new guidance is effective for interim or annual reporting periods beginning on or after January 1, 2013, and should be applied retrospectively for all comparative periods presented. The disclosures required by this guidance are included in Note 21.

In December 2012, the Company adopted retrospectively a change in method of applying an accounting principle for the Company s pension plans. The change in accounting method relates to the calculation of market related value of pension plan assets, used to determine net periodic pension cost. The impact of this change in accounting method on net income for the year ended December 31, 2012, was an increase of $96 million ($0.21 diluted earnings per share of Common stock). In addition, this change resulted in a cumulative increase of $144 million in retained earnings previously reported for December 31, 2009, with a corresponding decrease in AOCI. For additional information on the change in accounting method for the Company s pension plans, see Note 18.

Effective January 1, 2012, the Company adopted, retrospectively, new authoritative guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. Under the amended guidance, acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. An entity may defer incremental direct costs of contract acquisition with independent third parties or employees that are essential to the contract transaction, as well as the portion of employee compensation, including payroll fringe benefits and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Prior period financial information presented in these financial statements has been adjusted to reflect the retrospective adoption of the amended guidance. Retained earnings and AOCI previously reported for December 31, 2009,

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were reduced $2,358 million and $90 million, respectively, as a result of this retrospective adoption. The lower level of costs now qualifying for deferral will be only partially offset by a lower level of amortization of Deferred policy acquisition costs , and, as such, will initially result in lower earnings in future periods, primarily within the International Insurance and Individual Annuities segments. The impact to the International Insurance segment largely reflects lower deferrals of allocated costs of its proprietary distribution system, while the impact to the Individual Annuities segment mainly reflects lower deferrals of its wholesaler costs. This amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and permits, but does not require, retrospective application. The Company adopted this guidance effective January 1, 2012, and applied the retrospective method of adoption. While the adoption of this amended guidance changes the timing of when certain costs are reflected in the Company s results of operations, it has no effect on the total acquisition costs to be recognized over time and has no impact on the Company s cash flows.

In September 2011, the Financial Accounting Standards Board (FASB) issued updated guidance regarding the application of the goodwill impairment test. The updated guidance allows an entity to first perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. However, if an entity concludes otherwise, then it must perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the impairment loss, if any. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and to proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company s early adoption of this guidance, as permitted, effective December 31, 2011, had no impact on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In June 2011, the FASB issued updated guidance regarding the presentation of comprehensive income. The updated guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. Under the updated guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance does not change the items that are reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company opted to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in two separate but consecutive statements. The Consolidated Financial Statements included herein reflect the adoption of this updated guidance.

In May 2011, the FASB issued updated guidance regarding the fair value measurements and disclosure requirements. The updated guidance clarifies existing guidance related to the application of fair value measurement methods and requires expanded disclosures. This new guidance is effective for the first interim or annual reporting period beginning after December 15, 2011, and should be applied prospectively. The expanded disclosures required by this guidance are included in Note 20. Adoption of this guidance did not have a significant effect on the Company s consolidated financial position or results of operations.

In April 2011, the FASB issued updated guidance regarding the assessment of effective control for repurchase agreements. This new guidance is effective for the first interim or annual reporting period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Company s adoption of this guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

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In April 2011, the FASB issued updated guidance clarifying which restructurings constitute troubled debt restructurings. It is intended to assist creditors in their evaluation of whether conditions exist that constitute a troubled debt restructuring. This new guidance is effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual reporting period of adoption. The Company s adoption of this guidance in the third quarter of 2011 did not have a significant effect on the Company s consolidated financial position, results of operations, or financial statement disclosures.

Future Adoption of New Accounting Pronouncements

In March 2013, the FASB issued updated guidance regarding the recognition in net income of the cumulative translation adjustment upon the sale or loss of control of a business or group of assets residing in a foreign subsidiary, or a loss of control of a foreign investment. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2013, and should be applied prospectively. The amendments require an entity that ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity to release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In June 2013, the FASB issued updated guidance clarifying the characteristics of an investment company and requiring new disclosures. Under the guidance, all entities regulated under the Investment Company Act of 1940 automatically qualify as investment companies, while all other entities need to consider both the fundamental and typical characteristics of an investment company in determining whether they qualify as investment companies. This new guidance is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In July 2013, the FASB issued updated guidance regarding the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This new guidance is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively, with early application permitted. This guidance is not expected to have a significant effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In January 2014, the FASB issued updated guidance regarding investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. Under the guidance, an entity is permitted to make an accounting policy election to amortize the initial cost of its investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the statement of operations as a component of income tax expense (benefit) if certain conditions are met. The new guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014, and should be applied retrospectively to all periods presented. The Company is currently assessing the impact of the guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In January 2014, the FASB issued updated guidance for troubled debt restructurings clarifying when an in substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014.

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This guidance can be elected for prospective adoption or by using a modified retrospective transition method. This guidance is not expected to have a significant impact on the Company s consolidated financial position, results of operations, or financial statement disclosures.

In January 2014, the FASB issued updated guidance specifying that an operating entity in a service concession arrangement within the scope of this guidance should not account for the service concession arrangement as a lease. The new guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and should be applied on a modified retrospective basis. This guidance is not expected to have a significant impact on the Company s consolidated financial position, results of operations, or financial statement disclosures.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of UniAsia Life Assurance

On January 2, 2014, the Company completed the acquisition of UniAsia Life Assurance Berhad, an established life insurance company in Malaysia, through the formation of a joint venture with Bank Simpanan Nasional (BSN), a bank owned by the Malaysian government. The joint venture paid cash consideration of approximately $160 million, 70% of which was provided by Prudential Insurance and 30% of which was provided by BSN. This acquisition is part of the Company s strategic initiative to further expand its business in Southeast Asian markets.

Acquisition of The Hartford s Individual Life Insurance Business

On January 2, 2013, the Company acquired The Hartford s individual life insurance business through a reinsurance transaction. Under the agreement, the Company paid The Hartford cash consideration of $615 million, primarily in the form of a ceding commission to provide reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately $141 billion. The acquisition increased the Company s scale in the U.S. individual life insurance market, particularly universal life products, and provided complementary distribution opportunities through expanded wirehouse and bank distribution channels.

The assets and liabilities assumed have been included in the Company s Consolidated Financial Statements as of the acquisition date. After adjustments, total assets assumed were $11.2 billion, which includes $1.4 billion of value of business acquired and $0.1 billion of cash, and total liabilities assumed were $10.6 billion. There is no goodwill, including tax deductible goodwill, associated with the acquisition.

Acquisition of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities from AIG

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc. (AIG) of AIG Star Life Insurance Co., Ltd. (Star), AIG Edison Life Insurance Company (Edison), AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010, between Prudential Financial and AIG. The total purchase price was $4,709 million, comprised of $4,213 million in cash and $496 million in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. The acquisition of these businesses included the purchase by the Company of all of the shares of these entities, which became indirect wholly-owned subsidiaries of the Company. All acquired entities were Japanese corporations and their businesses were in Japan, increasing the Company s scale in the Japanese insurance market. On January 1, 2012, Star and Edison were merged into Gibraltar Life. Goodwill resulting from the acquisition of the Star and Edison Businesses amounted to $173 million, none of which is tax deductible.

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The following supplemental information presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of January 1, 2011. This pro forma information does not purport to represent what the Company s actual results of operations would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods, and does not reflect the impact of future events that may occur.

	Year Ended December 31, 2011 (in millions, except per share amount)
Total revenues	$50,405
Income from continuing operations	$ 3,796
Net income attributable to Prudential Financial, Inc.	$ 3,797
Earnings per share	
Financial Services Businesses	
Basic earnings per share Common Stock:	
Income from continuing operations attributable to Prudential Financial, Inc.	$ 7.48
Net income attributable to Prudential Financial, Inc.	$ 7.56
Diluted earnings per share Common Stock:	
Income from continuing operations attributable to Prudential Financial, Inc.	$ 7.39
Net income attributable to Prudential Financial, Inc.	$ 7.46
Closed Block Business	
Basic and Diluted earnings per share Class B Stock:	
Income from continuing operations attributable to Prudential Financial, Inc.	$ 61.00
Net income attributable to Prudential Financial, Inc.	$ 61.00

Sale of Wealth Management Solutions Business

In April 2013, the Company signed a definitive agreement to sell its wealth management solutions business to Envestnet Inc. The transaction, which does not have a material impact to the Company s financial results, closed on July 1, 2013. Due to the existence of an ongoing contractual relationship between the Company and these operations, this disposition did not qualify for discontinued operations treatment under U.S. GAAP. See Note 22 for additional information.

Sale of Real Estate Brokerage Franchise and Relocation Services Business

On December 6, 2011, the Company sold its real estate brokerage franchise and relocation services business (PRERS) to Brookfield Asset Management, Inc. The Prudential Real Estate Financial Services Company of America Inc. (PREFSA), a finance subsidiary of the Company with investments in a limited number of real estate brokerage franchises, was excluded from the transaction. The proceeds from the sale, before transaction related expenses, were $108 million and resulted in a pre-tax gain of $49 million and an after tax gain of $62 million.

Under the sale agreement, the real estate brokerage franchisees may continue to use the Company s trademark, based on the terms of their respective franchise agreements. In addition, the Company had agreed to provide certain Brookfield affiliates with transitional financing for the transferred relocation services business. This transitional financing was terminated on October 26, 2012.

PRERS did not qualify for discontinued operations treatment under U.S. GAAP due to the financing provided to Brookfield and the retained equity in PREFSA.

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Discontinued Operations

Income from discontinued operations, including charges upon disposition, for the years ended December 31, are as follows:

	2013	2012 (in millions)	2011
Real estate investments sold or held for sale(1)	$ 9	$ 22	$ 37
Global commodities business(2)	1	0	16
Other	0	1	0
Income from discontinued operations before income taxes	10	23	53
Income tax expense	3	8	18
Income from discontinued operations, net of taxes	$ 7	$ 15	$ 35

(1) Reflects the income from discontinued real estate investments.

(2) In 2011, the Company completed the sale of all the issued and outstanding shares of capital stock of the subsidiaries that conduct its global commodities business (the Global Commodities Business) and certain assets that are primarily used in connection with the Global Commodities Business to Jefferies Group, Inc. (Jefferies). Subsidiaries included in the sale were Prudential Bache Commodities, LLC, Prudential Bache Securities, LLC, Bache Commodities Limited, and Bache Commodities (Hong Kong) Ltd. The Company received cash proceeds of $422 million. Included in the table above for the year ended December 31, 2011, are after-tax losses of $17 million recorded in connection with the sale of these operations, consisting of pre-tax losses of $18 million and income tax benefit of $1 million.

Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment.

The Company s Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses as follows:

	December 31, 2013	December 31, 2012
	(in millions)	
Total assets	$ 15	$ 13
Total liabilities	$ 7	$ 0

4. INVESTMENTS

Fixed Maturities and Equity Securities

The following tables provide information relating to fixed maturities and equity securities (excluding investments classified as trading) as of the dates indicated:

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 13,754	$ 1,742	$ 96	$ 15,400	$ 0
Obligations of U.S. states and their political subdivisions	3,598	274	137	3,735	0
Foreign government bonds	75,595	7,459	266	82,788	1
Corporate securities	145,091	12,095	3,408	153,778	(4)
Asset-backed securities(1)	10,691	214	316	10,589	(755)
Commercial mortgage-backed securities	13,633	403	163	13,873	0
Residential mortgage-backed securities(2)	6,365	379	41	6,703	(7)
Total fixed maturities, available-for-sale	$ 268,727	$ 22,566	$ 4,427	$ 286,866	$ (765)
Equity securities, available-for-sale	$ 7,003	$ 2,931	$ 24	$ 9,910	

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	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	$ 938	$ 117	$ 0	$ 1,055
Corporate securities(4)	904	50	24	930
Asset-backed securities(1)	693	46	0	739
Commercial mortgage-backed securities	166	18	0	184
Residential mortgage-backed securities(2)	611	34	0	645
Total fixed maturities, held-to-maturity(4)	$ 3,312	$ 265	$ 24	$ 3,553

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes $875 million of net unrealized gains on impaired available-for-sale securities and $1 million on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Excludes notes with amortized cost of $2,400 million (fair value, $2,461 million) which have been offset with the associated payables under a netting agreement.

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than-temporary Impairments in AOCI(3)
	(in millions)				
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 13,973	$ 3,448	$ 35	$ 17,386	$ 0
Obligations of U.S. states and their political subdivisions	2,952	505	5	3,452	0
Foreign government bonds	81,578	6,778	66	88,290	1
Corporate securities	146,924	13,996	1,589	159,331	(2)
Asset-backed securities(1)	11,846	221	731	11,336	(964)
Commercial mortgage-backed securities	11,228	726	17	11,937	5
Residential mortgage-backed securities(2)	9,153	484	33	9,604	(11)
Total fixed maturities, available-for-sale	$ 277,654	$ 26,158	$ 2,476	$ 301,336	$ (971)
Equity securities, available-for-sale	$ 6,759	$ 1,573	$ 55	$ 8,277	

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			

Fixed maturities, held-to-maturity				
Foreign government bonds	$ 1,142	$ 108	$ 0	$ 1,250
Corporate securities(4)	1,065	37	67	1,035
Asset-backed securities(1)	1,001	66	0	1,067
Commercial mortgage-backed securities	302	49	0	351
Residential mortgage-backed securities(2)	758	50	0	808
Total fixed maturities, held-to-maturity(4)	$ 4,268	$ 310	$ 67	$ 4,511

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

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(3) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes $778 million of net unrealized gains on impaired available-for-sale securities and $1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Excludes notes with amortized cost of $1,500 million (fair value, $1,660 million) which have been offset with the associated payables under a netting agreement.

The amortized cost and fair value of fixed maturities by contractual maturities at December 31, 2013, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Due in one year or less	$ 9,160	$ 9,591	$ 0	$ 0
Due after one year through five years	47,219	51,622	55	56
Due after five years through ten years	57,745	62,682	323	331
Due after ten years(1)	123,914	131,806	1,464	1,597
Asset-backed securities	10,691	10,589	693	739
Commercial mortgage-backed securities	13,633	13,873	166	184
Residential mortgage-backed securities	6,365	6,703	611	646
Total	$ 268,727	$ 286,866	$ 3,312	$ 3,553

(1) Excludes notes with amortized cost of $2,400 million (fair value, $2,461 million) which have been offset with the associated payables under a netting agreement.

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Asset-backed, commercial mortgage-backed, and residential mortgage-backed securities are shown separately in the table above, as they are not due at a single maturity date.

The following table depicts the sources of fixed maturity proceeds and related investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities:

	2013	2012	2011
		(in millions)	
Fixed maturities, available-for-sale			
Proceeds from sales	$ 37,248	$ 15,919	$ 24,834
Proceeds from maturities/repayments	23,573	21,897	17,660
Gross investment gains from sales, prepayments, and maturities	1,571	659	1,100
Gross investment losses from sales and maturities	(1,465)	(359)	(335)
Fixed maturities, held-to-maturity			

Gross investment gains from prepayments	$ 0	$ 0	$ 0
Proceeds from maturities/repayments	583	530	457
Equity securities, available-for-sale			
Proceeds from sales	$ 4,235	$ 4,189	$ 3,750
Gross investment gains from sales	554	422	506
Gross investment losses from sales	(94)	(273)	(249)
Fixed maturity and equity security impairments			
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (200)	$ (337)	$ (535)
Writedowns for impairments on equity securities	(15)	(125)	(112)

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

As discussed in Note 2, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are recognized in Other comprehensive income (loss) (OCI). For these securities, the net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost

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of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

Credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the OTTI loss was recognized in OCI

	Year Ended December 31, 2013	2012
	(in millions)	
Balance, beginning of period	$ 1,166	$ 1,475
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(314)	(384)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(4)	(88)
Credit loss impairment recognized in the current period on securities not previously impaired	9	33
Additional credit loss impairments recognized in the current period on securities previously impaired	74	94
Increases due to the passage of time on previously recorded credit losses	52	63
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(15)	(27)
Balance, end of period	$ 968	$ 1,166

(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security s amortized cost.

Trading Account Assets Supporting Insurance Liabilities

The following table sets forth the composition of Trading account assets supporting insurance liabilities as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 697	$ 697	$ 938	$ 938
Fixed maturities:				
Corporate securities	12,109	12,616	11,076	12,107
Commercial mortgage-backed securities	2,417	2,441	2,096	2,229
Residential mortgage-backed securities(1)	1,857	1,830	1,965	2,026

Asset-backed securities(2)	1,096	1,107	1,179	1,116
Foreign government bonds	579	596	683	708
U.S. government authorities and agencies and obligations of U.S. states	303	341	369	426
Total fixed maturities	18,361	18,931	17,368	18,612
Equity securities	913	1,199	943	1,040
Total trading account assets supporting insurance liabilities	$ 19,971	$ 20,827	$ 19,249	$ 20,590

(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

The net change in unrealized gains / (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income was $(485) million, $689 million and $209 million during the years ended December 31, 2013, 2012 and 2011, respectively.

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Other Trading Account Assets

The following table sets forth the composition of the Other trading account assets as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 105	$ 106	$ 42	$ 42
Fixed maturities	4,653	4,723	2,196	2,132
Equity securities	1,051	1,177	1,363	1,437
Other	3	7	3	6
Subtotal	$ 5,812	6,013	$ 3,604	3,617
Derivative instruments		440		2,711
Total other trading account assets		$ 6,453		$ 6,328

The net change in unrealized gains / (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within Asset management fees and other income was $188 million, $264 million and $63 million during the years ended December 31, 2013, 2012 and 2011, respectively.

Concentrations of Financial Instruments

The Company monitors its concentrations of financial instruments on an on-going basis, and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer.

As of both December 31, 2013 and 2012, the Company s exposure to concentrations of credit risk of single issuers greater than 10% of the Company s stockholders equity included securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	December 31, 2013	December 31, 2012

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$ 59,775	$ 65,389	$ 66,590	$ 70,997
Fixed maturities, held-to-maturity	916	1,032	1,118	1,223
Trading account assets supporting insurance liabilities	451	458	513	524
Other trading account assets	38	39	39	40
Short-term investments	0	0	0	0
Cash equivalents	107	107	1,637	1,637
Total	$ 61,287	$ 67,025	$ 69,897	$ 74,421
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$ 6,672	$ 7,277	$ 5,837	$ 6,883
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	61	61	62	63
Other trading account assets	0	0	2	2
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 6,733	$ 7,338	$ 5,901	$ 6,948

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Commercial Mortgage and Other Loans

The Company s commercial mortgage and other loans are comprised as follows, as of the dates indicated:

	December 31, 2013		December 31, 2012	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office	$ 7,762	19.9%	$ 6,890	20.1%
Retail	8,698	22.3	8,190	23.9
Apartments/Multi-Family	7,492	19.2	5,235	15.3
Industrial	7,390	18.9	7,636	22.3
Hospitality	2,050	5.2	1,322	3.9
Other	3,464	8.9	2,841	8.3
Total commercial mortgage loans	36,856	94.4	32,114	93.8
Agricultural property loans	2,183	5.6	2,122	6.2
Total commercial and agricultural mortgage loans by property type	39,039	100.0%	34,236	100.0%
Valuation allowance	(195)		(229)	
Total net commercial mortgage and agricultural loans by property type	38,844		34,007	
Other loans				
Uncollateralized loans	1,306		1,836	
Residential property loans	544		790	
Other collateralized loans	335		140	
Total other loans	2,185		2,766	
Valuation allowance	(21)		(40)	
Total net other loans	2,164		2,726	
Total commercial mortgage and other loans(1)	$ 41,008		$ 36,733	

(1) Includes loans held at fair value.

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (26%), New York (9%) and Texas (9%) at December 31, 2013.

Activity in the allowance for losses for all commercial mortgage and other loans, as of the dates indicated, is as follows:

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
			(in millions)			
Allowance for losses, beginning of year, 2012	$ 294	$ 19	$ 16	$ 18	$ 20	$ 367
Addition to / (release of) allowance of losses	(20)	1	(4)	(6)	(2)	(31)
Charge-offs, net of recoveries	(65)	0	0	0	0	(65)
Change in foreign exchange	0	0	(1)	0	(1)	(2)
Total Ending Balance, 2012	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
			(in millions)			
Allowance for losses, beginning of year, 2013	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Addition to / (release of) allowance of losses	12	(7)	(3)	(9)	(2)	(9)
Charge-offs, net of recoveries	(33)	(6)	0	0	0	(39)
Change in foreign exchange	0	0	(2)	0	(3)	(5)
Total Ending Balance, 2013	$ 188	$ 7	$ 6	$ 3	$ 12	$ 216

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Notes to Consolidated Financial Statements

The following tables set forth the allowance for credit losses and the recorded investment in commercial mortgage and other loans, for the years ended December 31:

	2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 16	$ 0	$ 0	$ 3	$ 0	$ 19
Ending balance: collectively evaluated for impairment	172	7	6	0	12	197
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 188	$ 7	$ 6	$ 3	$ 12	$ 216
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 429	$ 5	$ 0	$ 7	$ 2	$ 443
Ending balance gross of reserves: collectively evaluated for impairment	36,427	2,178	544	328	1,304	40,781
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 36,856	$ 2,183	$ 544	$ 335	$ 1,306	$ 41,224

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.

	2012					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 49	$ 12	$ 0	$ 12	$ 0	$ 73
Ending balance: collectively evaluated for impairment	160	8	11	0	17	196
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 1,011	$ 49	$ 0	$ 93	$ 3	$ 1,156

Ending balance gross of reserves: collectively evaluated for impairment	31,103	2,073	790	47	1,833	35,846
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 32,114	$ 2,122	$ 790	$ 140	$ 1,836	$ 37,002

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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Impaired loans include those loans for which it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Impaired commercial mortgage and other loans identified in management s specific review of probable loan losses and the related allowance for losses, for the years ended:

	2013				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
	(in millions)				
With no related allowance recorded:					
Commercial mortgage loans	$ 33	$ 33	$ 0	$ 30	$ 1
Agricultural property loans	5	5	0	2	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	$ 38	$ 40	$ 0	$ 32	$ 1
With an allowance recorded:					
Commercial mortgage loans	$ 54	$ 55	$ 16	$ 121	$ 1
Agricultural property loans	0	0	0	10	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	3	8	3
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 59	$ 60	$ 19	$ 139	$ 4
Total:					
Commercial mortgage loans	$ 87	$ 88	$ 16	$ 151	$ 2
Agricultural property loans	5	5	0	12	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	3	8	3
Uncollateralized loans	0	2	0	0	0
Total	$ 97	$ 100	$ 19	$ 171	$ 5

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.
(3) The interest income recognized is for the year-to-date income regardless of when the impairment occurred.

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	2012				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance (in millions)	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
With no related allowance recorded:					
Commercial mortgage loans(4)	$ 27	$ 166	$ 0	$ 54	$ 4
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	4	0
Total with no related allowance	$ 27	$ 168	$ 0	$ 58	$ 4
With an allowance recorded:					
Commercial mortgage loans	$ 185	$ 185	$ 50	$ 351	$ 8
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 219	$ 219	$ 73	$ 386	$ 8
Total:					
Commercial mortgage loans(4)	$ 212	$ 351	$ 50	$ 405	$ 12
Agricultural property loans	17	17	12	16	0
Residential property loans	0	0	0	0	0
Other collateralized loans	17	17	11	19	0
Uncollateralized loans	0	2	0	4	0
Total	$ 246	$ 387	$ 73	$ 444	$ 12

(1) Recorded investment reflects the balance sheet carrying value gross of related allowance.
(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.
(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.
(4) Includes the impact of loans acquired from the Star Business for which the balance sheet carrying value had been previously written down.

The net carrying value of commercial and other loans held for sale by the Company as of December 31, 2013 and 2012, was $158 million and $114 million, respectively. In all of these transactions, the Company pre-arranges that it will sell the loan to an investor. As of December 31, 2013 and 2012, all of the Company s commercial and other loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings.

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Notes to Consolidated Financial Statements

The following tables set forth the credit quality indicators as of December 31, 2013, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 19,089	$ 597	$ 179	$ 19,865
60%-69.99%	11,101	379	95	11,575
70%-79.99%	4,005	422	216	4,643
Greater than 80%	325	173	275	773
Total commercial mortgage loans	$ 34,520	$ 1,571	$ 765	$ 36,856

Agricultural property loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 2,023	$ 137	$ 0	$ 2,160
60%-69.99%	23	0	0	23
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	$ 2,046	$ 137	$ 0	$ 2,183

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 21,112	$ 734	$ 179	$ 22,025
60%-69.99%	11,124	379	95	11,598
70%-79.99%	4,005	422	216	4,643
Greater than 80%	325	173	275	773
Total commercial and agricultural mortgage loans	$ 36,566	$ 1,708	$ 765	$ 39,039

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Notes to Consolidated Financial Statements

The following tables set forth the credit quality indicators as of December 31, 2012, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 15,089	$ 487	$ 188	$ 15,764
60%-69.99%	9,263	801	36	10,100
70%-79.99%	3,689	776	217	4,682
Greater than 80%	219	770	579	1,568
Total commercial mortgage loans	$ 28,260	$ 2,834	$ 1,020	$ 32,114

Agricultural property loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 1,635	$ 186	$ 44	$ 1,865
60%-69.99%	213	0	0	213
70%-79.99%	0	0	0	0
Greater than 80%	0	0	44	44
Total agricultural property loans	$ 1,848	$ 186	$ 88	$ 2,122

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio December 31, 2012			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 16,724	$ 673	$ 232	$ 17,629
60%-69.99%	9,476	801	36	10,313
70%-79.99%	3,689	776	217	4,682
Greater than 80%	219	770	623	1,612
Total commercial and agricultural mortgage loans	$ 30,108	$ 3,020	$ 1,108	$ 34,236

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Notes to Consolidated Financial Statements

The following tables provide an aging of past due commercial mortgage and other loans as of the dates indicated, based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage loans on nonaccrual status as of the dates indicated.

	December 31, 2013							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 36,821	$ 16	$ 0	$ 0	$ 19	$ 35	$ 36,856	$ 154
Agricultural property loans	2,182	0	0	0	1	1	2,183	2
Residential property loans	520	11	3	0	10	24	544	10
Other collateralized loans	334	0	0	0	1	1	335	5
Uncollateralized loans	1,306	0	0	0	0	0	1,306	2
Total	$ 41,163	$ 27	$ 3	$ 0	$ 31	$ 61	$ 41,224	$ 173

	December 31, 2012							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 31,943	$ 43	$ 91	$ 0	$ 37	$ 171	$ 32,114	$ 190
Agricultural property loans	2,077	0	0	0	45	45	2,122	49
Residential property loans	759	12	5	0	14	31	790	14
Other collateralized loans	139	0	0	0	1	1	140	17
Uncollateralized loans	1,836	0	0	0	0	0	1,836	3
Total	$ 36,754	$ 55	$ 96	$ 0	$ 97	$ 248	$ 37,002	$ 273

See Note 2 for further discussion regarding nonaccrual status loans.

For the years ended December 31, 2013 and 2012, there were $718 million and $47 million of commercial mortgage and other loans acquired, other than those through direct origination. For the years ended December 31, 2013 and 2012, there were $93 million and $0 million of commercial mortgage and other loans sold, other than those classified as held-for-sale.

The Company s commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of both December 31, 2013 and December 31, 2012, the Company had no significant commitments to fund to borrowers that have been involved in a troubled debt restructuring. For the years ended December 31, 2013 and 2012, there was an adjusted pre-modification outstanding recorded investment of $117 million and $20 million, respectively, and post-modification outstanding recorded investment of $114 million and $18 million, respectively, related to commercial mortgage loans. No payment defaults on commercial mortgage and other loans were modified as a troubled debt restructuring within the 12 months preceding each respective period. See Note 2 for additional information relating to the accounting for troubled debt restructurings.

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Notes to Consolidated Financial Statements

Other Long-Term Investments

The following table sets forth the composition of Other long-term investments at December 31 for the years indicated.

	2013	2012
	(in millions)	
Joint ventures and limited partnerships:		
Real estate-related	$ 1,104	$ 1,250
Non-real estate-related	6,141	5,623
Total joint ventures and limited partnerships	7,245	6,873
Real estate held through direct ownership	2,051	2,108
Other	1,032	1,047
Total other long-term investments	$ 10,328	$ 10,028

In certain investment structures, the Company s asset management business invests with other co-investors in an investment fund referred to as a feeder fund. In these structures, the invested capital of several feeder funds is pooled together and used to purchase ownership interests in another fund, referred to as a master fund. The master fund utilizes this invested capital and, in certain cases, other debt financing, to purchase various classes of assets on behalf of its investors. Specialized industry accounting for investment companies calls for the feeder fund to reflect its investment in the master fund as a single net asset equal to its proportionate share of the net assets of the master fund, regardless of its level of interest in the master fund. In cases where the Company consolidates the feeder fund, it retains the feeder fund s net asset presentation and reports the consolidated feeder fund s proportionate share of the net assets of the master fund in Other long-term investments, with any unaffiliated investors noncontrolling interest in the feeder fund reported in Other liabilities or Noncontrolling interests. The consolidated feeder funds investments in these master funds, reflected on this net asset basis, totaled $52 million and $97 million as of December 31, 2013 and 2012, respectively. The unaffiliated interest in the consolidated feeder funds was $0 and $2 million as of December 31, 2013 and 2012, respectively, and the master funds had gross assets of $972 million and $1,049 million, respectively, and gross liabilities of $794 million and $791 million, respectively, which are not included on the Company s balance sheet.

Equity Method Investments

The following tables set forth summarized combined financial information for significant joint ventures and limited partnership interests accounted for under the equity method, including the Company s investments in operating joint ventures that are described in more detail in Note 7. Changes between periods in the tables below reflect changes in the activities within the joint ventures and limited partnerships, as well as changes in the Company s level of investment in such entities.

	At December 31, 2013	2012
	(in millions)	
STATEMENT OF FINANCIAL POSITION		
Total assets(1)	$ 51,588	$ 41,418
Total liabilities(2)	$ 10,868	$ 8,786
Partners capital	40,720	32,632
Total liabilities and partners capital	$ 51,588	$ 41,418
Total liabilities and partners capital included above	$ 3,765	$ 3,778
Equity in limited partnership interests not included above	350	453
Carrying value	$ 4,115	$ 4,231

(1) Assets consist primarily of investments in real estate, investments in securities and other miscellaneous assets.
(2) Liabilities consist primarily of third party-borrowed funds, securities repurchase agreements and other miscellaneous liabilities.

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	Years ended December 31,		
	2013	**2012**	**2011**
		(in millions)	
STATEMENTS OF OPERATIONS			
Total revenue(1)	$ 4,013	$ 4,556	$ 2,611
Total expenses(2)	(943)	(1,573)	(925)
Net earnings (losses)	$ 3,070	$ 2,983	$ 1,686
Equity in net earnings (losses) included above	$ 255	$ 188	$ 377
Equity in net earnings (losses) of limited partnership interests not included above	77	34	40
Total equity in net earnings (losses)	$ 332	$ 222	$ 417

(1) Revenue consists of income from investments in real estate, investments in securities and other income.
(2) Expenses consist primarily of interest expense, management fees, salary expenses and other expenses.

Net Investment Income

Net investment income for the years ended December 31, was from the following sources:

	2013	**2012**	**2011**
		(in millions)	
Fixed maturities, available-for-sale	$ 10,541	$ 9,800	$ 9,374
Fixed maturities, held-to-maturity	125	135	140
Equity securities, available-for-sale	337	332	315
Trading account assets	963	890	889
Commercial mortgage and other loans	1,985	2,014	1,926
Policy loans	611	597	598
Short-term investments and cash equivalents	40	46	58
Other long-term investments	710	320	231
Gross investment income	15,312	14,134	13,531
Less: investment expenses	(583)	(473)	(407)
Net investment income	$ 14,729	$ 13,661	$ 13,124

Carrying value for non-income producing assets included $132 million in trading account assets supporting insurance liabilities, $11 million in fixed maturities and less than $1 million in commercial mortgage and other loans as of December 31, 2013. Non-income producing assets represent investments that have not produced income for the twelve months preceding December 31, 2013.

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the years ended December 31, were from the following sources:

	2013	2012	2011
		(in millions)	
Fixed maturities	$ (93)	$ (37)	$ 230
Equity securities	444	24	145
Commercial mortgage and other loans	79	94	122
Investment real estate	2	(20)	(20)
Joint ventures and limited partnerships	34	(2)	26
Derivatives(1)	(5,688)	(1,500)	2,294
Other	16	0	34
Realized investment gains (losses), net	$ (5,206)	$ (1,441)	$ 2,831

(1) Includes embedded derivatives as well as the offset of hedged items in qualifying effective hedge relationships prior to maturity or termination.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Net Unrealized Investment Gains (Losses) on Investments by Asset Class

The table below presents net unrealized gains (losses) on investments by asset class as of the dates indicated:

	2013	2012 (in millions)	2011
Fixed maturity securities on which an OTTI loss has been recognized	$ 110	$ (194)	$ (1,003)
Fixed maturity securities, available-for-sale-all other	18,029	23,876	15,227
Equity securities, available-for-sale	2,907	1,518	613
Derivatives designated as cash flow hedges(1)	(446)	(257)	(86)
Other investments(2)	4	14	(6)
Net unrealized gains (losses) on investments	$ 20,604	$ 24,957	$ 14,745

(1) See Note 21 for more information on cash flow hedges.
(2) As of December 31, 2013, includes $18 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in Other assets.

Duration of Gross Unrealized Loss Positions for Fixed Maturities and Equity Securities

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities and equity securities have been in a continuous unrealized loss position, at December 31:

	2013					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 3,913	$ 95	$ 6	$ 1	$ 3,919	$ 96
Obligations of U.S. states and their political subdivisions	1,187	129	43	8	1,230	137
Foreign government bonds	3,260	211	438	55	3,698	266
Corporate securities	29,574	1,618	14,094	1,814	43,668	3,432
Commercial mortgage-backed securities	4,267	128	605	35	4,872	163
Asset-backed securities	3,007	42	2,556	274	5,563	316
Residential mortgage-backed securities	1,590	34	239	7	1,829	41

Total	$	46,798	$	2,257	$	17,981	$	2,194	$	64,779	$	4,451
Equity securities, available-for-sale	$	586	$	24	$	1	$	0	$	587	$	24

(1) Includes $210 million of fair value and $24 million of gross unrealized losses at December 31, 2013, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

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	2012					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 2,191	$ 33	$ 42	$ 2	$ 2,233	$ 35
Obligations of U.S. states and their political subdivisions	343	5	5	0	348	5
Foreign government bonds	5,426	55	167	11	5,593	66
Corporate securities	25,051	599	7,961	1,057	33,012	1,656
Commercial mortgage-backed securities	525	3	185	14	710	17
Asset-backed securities	911	11	3,545	720	4,456	731
Residential mortgage-backed securities	773	4	259	29	1,032	33
Total	$ 35,220	$ 710	$ 12,164	$ 1,833	$ 47,384	$ 2,543
Equity securities, available-for-sale	$ 961	$ 55	$ 0	$ 0	$ 961	$ 55

(1) Includes $526 million of fair value and $67 million of gross unrealized losses at December 31, 2012, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

The gross unrealized losses at December 31, 2013 and 2012, are composed of $4,178 million and $1,866 million related to high or highest quality securities based on NAIC or equivalent rating and $274 million and $677 million related to other than high or highest quality securities based on NAIC or equivalent rating. At December 31, 2013, the $2,194 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, utility, and capital goods sectors of the Company s corporate securities. At December 31, 2012, the $1,833 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the finance and consumer cyclical sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at either December 31, 2013 and 2012. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to foreign currency movements, credit spread widening and increased liquidity discounts. At December 31, 2013, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

At December 31, 2013, $4 million of the gross unrealized losses represented declines of greater than 20%, all of which had been in that position for less than six months. At December 31, 2012, $6 million of the gross unrealized losses represented declines of greater than 20%, $4 million of which had been in that position for less than six months. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at either December 31, 2013 and 2012.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Securities Pledged, Restricted Assets and Special Deposits

The Company pledges as collateral investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreements to repurchase, collateralized borrowings and postings of collateral with derivative counterparties. At December 31, 2013, the carrying value of investments pledged to third parties as reported in the Consolidated Statements of Financial Position included the following:

	2013	2012
	(in millions)	
Fixed maturities	$ 14,648	$ 12,134
Trading account assets supporting insurance liabilities	606	542
Other trading account assets	105	38
Separate account assets	3,488	3,435
Equity securities	174	70
Total securities pledged	$ 19,021	$ 16,219

As of December 31, 2013, the carrying amount of the associated liabilities supported by the pledged collateral was $16,822 million. Of this amount, $7,898 million was Securities sold under agreements to repurchase, $3,603 million was Separate account liabilities, $5,040 million was Cash collateral for loaned securities, and $281 million was Long-term debt. As of December 31, 2012, the carrying amount of the associated liabilities supported by the pledged collateral was $15,621 million. Of this amount, $5,818 million was Securities sold under agreements to repurchase, $3,535 million was Separate account liabilities, $3,941 million was Cash collateral for loaned securities, $280 million was Long-term debt, $100 million was Short-term debt, and $1,947 million was Policyholders account balances.

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities in customer accounts and securities purchased under agreements to resell. The fair value of this collateral was approximately $193 million and $2,996 million at December 31, 2013 and 2012, respectively, all of which, for both periods, had either been sold or repledged.

Assets of $211 million and $80 million at December 31, 2013 and 2012, respectively, were on deposit with governmental authorities or trustees, including certain restricted cash balances and securities. Additionally, assets carried at $594 million and $594 million at December 31, 2013 and 2012, were held in voluntary trusts established primarily to fund guaranteed dividends to certain policyholders and to fund certain employee benefits. Securities restricted as to sale amounted to $186 million and $183 million at December 31, 2013 and 2012, respectively. These amounts include member and activity-based stock associated with memberships in the Federal Home Loan Banks of New York and Boston. Restricted cash and securities of $162 million and $67 million at December 31, 2013 and 2012, respectively, were included in Other assets.

5. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be variable interest entities (VIEs). A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity s expected losses and the right to receive the entity s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

If the Company determines that it is the VIE s primary beneficiary it consolidates the VIE. There are currently two models for determining whether or not the Company is the primary beneficiary of a VIE. The first relates to those VIEs that have the characteristics of an investment company and for which certain other

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conditions are true. These conditions are that (1) the Company does not have the implicit or explicit obligation to fund losses of the VIE and (2) the VIE is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualified special-purpose entity. In this model the Company is the primary beneficiary if it stands to absorb a majority of the VIE s expected losses or to receive a majority of the VIE s expected residual returns.

For all other VIEs, the Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant.

Consolidated Variable Interest Entities

The Company is the investment manager of certain asset-backed investment vehicles (commonly referred to as collateralized debt obligations, or CDOs) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures in which the Company s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company sells or syndicates investments through these vehicles, principally as part of the strategic investing activity of the Company s asset management businesses. Additionally, the Company may invest in securities issued by these vehicles. CDOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company has analyzed these relationships and determined that for certain CDO s and other investment structures it is the primary beneficiary and consolidates these entities. This analysis includes a review of (1) the Company s rights and responsibilities as investment manager, (2) fees received by the Company and (3) other interests (if any) held by the Company. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. Additionally, the Company is not required to provide, and has not provided, material financial or other support to any of these VIEs.

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company s involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

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The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of these VIE do not have recourse to the Company in excess of the assets contained within the VIE.

	Consolidated VIE s for Which the Company is the Investment Manager December 31,		Other Consolidated VIE s December 31,	
	2013	2012	2013	2012
	(in millions)			
Fixed maturities, available-for-sale	$ 68	$ 87	$ 108	$ 115
Fixed maturities, held-to-maturity	0	0	871	1,059
Trading account assets supporting insurance liabilities	0	0	11	8
Other trading account assets	3,832	1,409	0	0
Commercial mortgage and other loans	23	127	300	0
Other long-term investments	0	22	87	53
Cash and cash equivalents	566	9	(3)	0
Accrued investment income	19	0	4	3
Other assets	132	1	0	0
Total assets of consolidated VIEs	$ 4,640	$ 1,655	$ 1,378	$ 1,238
Notes issued by consolidated VIEs	$ 3,302	1,577	0	0
Other liabilities	631	0	1	1
Total liabilities of consolidated VIEs	$ 3,933	$ 1,577	$ 1	$ 1

As included in the table above, notes issued by consolidated VIEs are classified in the line item on the Consolidated Statements of Financial Position titled, Notes issued by consolidated VIEs. Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential Financial. As of December 31, 2013, the maturities of these obligations were over five years.

In addition, not reflected in the table above, the Company has created a trust that is a VIE, to facilitate Prudential Insurance s Funding Agreement Notes Issuance Program (FANIP). The trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance with the proceeds of such notes. The trust is the beneficiary of an indemnity agreement with the Company that provides that the Company is responsible for costs related to the notes issued with limited exception. As a result, the Company has determined that it is the primary beneficiary of the trust, which is therefore consolidated.

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust s medium-term note liability of $2,381 million and $1,780 million at December 31, 2013 and 2012, respectively, is classified within Policyholders account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support to the trust that was not contractually required.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager, including certain CDOs and other investment structures, as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company s maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its

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investment in the VIEs, which was $489 million and $602 million at December 31, 2013 and 2012, respectively. These investments are reflected in Fixed maturities, available-for-sale, Other trading account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $9,426 million and $9,240 million as of December 31, 2013 and 2012, respectively. The Company provided a guarantee to an unconsolidated VIE under which it was exposed to potential losses in the amount of $64 as of December 31, 2012. As of July 10, 2013, the Company is no longer providing this guarantee. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company s maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as Other long-term investments and its maximum exposure to loss associated with these entities was $7,244 million and $6,873 million as of December 31, 2013 and 2012, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company s maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 4 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

During the fourth quarter of 2013, the Company sold its investments in certain structured investments consisting of asset-backed securities issued by VIEs that manage investments in the European market. The Company recognized a $34 million gain on the sale, and is no longer exposed to losses related to these investments. Prior to the fourth quarter of 2013, the Company had a variable interest in these VIEs, which represented less than 50% of the only class of variable interests issued by the VIEs. As of December 31, 2012, the market value of these VIEs was approximately $2.1 billion, and the Company s maximum exposure to loss from these interests was $314 million.

6. DEFERRED POLICY ACQUISITION COSTS

The balances of and changes in deferred policy acquisition costs as of and for the years ended December 31, are as follows:

	2013	2012	2011
		(in millions)	

Balance, beginning of year	$ 14,100	$ 12,517	$ 12,328
Capitalization of commissions, sales and issue expenses	2,902	3,565	3,070
Amortization Impact of assumption and experience unlocking and true-ups	328	328	(52)
Amortization All other	(568)	(1,832)	(2,643)
Change in unrealized investment gains and losses	492	(168)	(346)
Foreign currency translation and other	(742)	(310)	160
Balance, end of year	$ 16,512	$ 14,100	$ 12,517

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7. INVESTMENTS IN OPERATING JOINT VENTURES

The Company has made investments in certain joint ventures that are strategic in nature and made other than for the sole purpose of generating investment income. These investments are accounted for under the equity method of accounting and are included in Other assets in the Company s Consolidated Statements of Financial Position. The earnings from these investments are included on an after-tax basis in Equity in earnings of operating joint ventures, net of taxes in the Company s Consolidated Statements of Operations. The summarized financial information for the Company s operating joint ventures has been included in the summarized combined financial information for all significant equity method investments shown in Note 4.

The following table sets forth information related to the Company s investments in operating joint ventures as of and for the years ended December 31:

	2013	2012	2011
		(in millions)	
Investment in operating joint ventures	$ 361	$ 393	$ 402
Dividends received from operating joint ventures	$ 31	$ 41	$ 49
After-tax equity earnings of operating joint ventures(1)	$ 59	$ 60	$ 182

(1) Includes gains associated with sales of the Company s previous investment, through a consortium, in China Pacific Group, for which the Company s remaining shares were sold in January, 2013. For the years ended December 31, 2013, 2012 and 2011, the Company recognized pre-tax gains of $66 million, $60 million and $237 million, respectively, from sales of this investment.

The Company has made investments in operating joint ventures as part of its Asset Management and International Insurance segments and its Corporate and Other operations. The Company transacts with certain of these operating joint ventures in the normal course of business, on terms equivalent to those that prevail in arm s length transactions. For the years ended December 31, 2013, 2012 and 2011, the Company recognized $30 million, $22 million and $15 million, respectively, of asset management fee income from these transactions.

The Company holds a 26% investment in a life insurance joint venture in India. On December 18, 2013, the Company formed a new joint venture by entering into an agreement that effectively replaced our previous joint venture partner with Dewan Housing Finance Corporation, Ltd (DHFL). In accordance with the terms of the new agreement, both DHFL and the Company contributed additional assets into the joint venture.

On October 20, 2011, the Company entered into an agreement to sell its stake in Afore XXI, S.A. de C.V., a private pension fund manager in Mexico, to Banorte, a major bank based in Mexico. The transaction was completed on December 2, 2011 and resulted in a pre-tax gain of $96 million to the Asset Management segment. This gain is reflected in Asset management fees and other income of the Company s Consolidated Statements of Operations.

8. VALUE OF BUSINESS ACQUIRED

The balances of and changes in VOBA as of and for the years ended December 31, are as follows:

	2013(1)	2012	2011
		(in millions)	
Balance, beginning of year	$ 3,248	$ 3,845	$ 484
Acquisitions	1,370	0	3,769
Amortization Impact of assumption and experience unlocking and true-ups	59	(31)	(23)
Amortization All other	(509)	(520)	(555)
Change in unrealized investment gains and losses	(55)	90	(74)
Interest(2)	105	62	65
Foreign currency translation	(543)	(198)	179
Balance, end of year	$ 3,675	$ 3,248	$ 3,845

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(1) The VOBA balances at December 31, 2013 were $224 million, $44 million, $2,036 million, $0 million, and $1,373 million related to the insurance transactions associated with the CIGNA, Prudential Annuities Holding Co., Gibraltar Life Insurance Company, LTD (Gibraltar Life , representing the balances associated with the Edison Inc. and Star Inc. acquisitions), Aoba Life and The Hartford, respectively. The weighted average remaining expected life of VOBA varies by product. The weighted average remaining expected lives were approximately 13, 5, 8, 6, and 10 years for the VOBA related to CIGNA, Prudential Annuities Holding Co., Gibraltar Life., Aoba Life, and The Hartford, respectively.

(2) The interest accrual rates vary by product. The interest rates for 2013 were 6.40%, 6.14%, 1.28% to 2.87%, 2.60%, and 3.00% to 6.17% for the VOBA related to CIGNA, Prudential Annuities Holding Co., Gibraltar Life, Aoba Life, and The Hartford, respectively. The interest rates for 2012 were 6.40%, 6.18%, 1.28% to 2.87%, and 2.60% for the VOBA related to CIGNA, Prudential Annuities Holding Co., Gibraltar Life, and Aoba Life, respectively. The interest rates for 2011 were 7.10%, 4.81%, 1.28% to 2.87%, 1.28% to 2.87%, and 2.60% for the VOBA related to CIGNA, Prudential Annuities Holding Co., Edison Inc, Star Inc., and Aoba Life, respectively.

The following table provides estimated future amortization, net of interest, for the periods indicated.

	2014	2015	2016 (in millions)	2017	2018
Estimated future VOBA amortization	$ 373	$ 329	$ 296	$ 269	$ 247

9. GOODWILL AND OTHER INTANGIBLES

The changes in the book value of goodwill by area are as follows:

	Asset Management	Retirement	International Insurance	Total
		(in millions)		
Balance at December 31, 2010:				
Gross Goodwill	$ 239	$ 444	$ 24	$ 707
Accumulated Impairment Losses	0	0	0	0
Net Goodwill	239	444	24	707
2011 Activity:				
Acquisitions	0	0	184	184
Other(1)	(1)	0	(2)	(3)
Balance at December 31, 2011:				
Gross Goodwill	238	444	206	888
Accumulated Impairment Losses	0	0	0	0
Net Goodwill	238	444	206	888

2012 Activity:				
Other(1)	0	0	(15)	(15)
Balance at December 31, 2012:				
Gross Goodwill	238	444	191	873
Accumulated Impairment Losses	0	0	0	0
Net Goodwill	238	444	191	873
2013 Activity:				
Other(1)	2	0	(36)	(34)
Balance at December 31, 2013:				
Gross Goodwill	240	444	155	839
Accumulated Impairment Losses	0	0	0	0
Net Goodwill	$ 240	$ 444	$ 155	$ 839

(1) Other represents foreign currency translation and purchase price adjustments.

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The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, as discussed in further detail in Note 2.

The Company performed goodwill impairment testing for all reporting units that had goodwill at December 31, 2013 and 2012, and no impairments were recorded.

Other Intangibles

Other intangible balances at December 31, are as follows:

	2013			2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Subject to amortization:						
Mortgage servicing rights	$ 420	$ (231)	$ 189	$ 358	$ (192)	$ 166
Customer relationships	285	(188)	97	287	(173)	114
Other	43	(29)	14	51	(24)	27
Not subject to amortization	N/A	N/A	3	N/A	N/A	4
Total			$ 303			$ 311

The fair values of net mortgage servicing rights were $200 million and $170 million at December 31, 2013 and 2012, respectively. Amortization expense for other intangibles was $61 million, $56 million and $50 million for the years ending December 31, 2013, 2012 and 2011, respectively. Amortization expense for other intangibles is expected to be approximately $48 million in 2014, $45 million in 2015, $38 million in 2016, $31 million in 2017 and $26 million in 2018. The amortization expense amounts listed above for 2013, 2012 and 2011 do not include impairments recorded for mortgage servicing rights or other intangibles. See the non-recurring fair value measurements section of Note 20 for more information regarding these impairments.

10. POLICYHOLDERS LIABILITIES

Future Policy Benefits

Future policy benefits at December 31, are as follows:

	2013	2012
	(in millions)	
Life insurance(1)	$ 142,952	$ 146,378
Individual and group annuities and supplementary contracts(1)	55,445	58,477
Other contract liabilities(1)	5,490	8,275
Subtotal future policy benefits excluding unpaid claims and claim adjustment expenses	203,887	213,130
Unpaid claims and claim adjustment expenses	2,972	2,920
Total future policy benefits	$ 206,859	$ 216,050

(1) Prior period amounts have been reclassified to conform to current period presentation.

Life insurance liabilities include reserves for death and endowment policy benefits, terminal dividends and certain health benefits. Individual and group annuities and supplementary contracts liabilities include reserves for life contingent immediate annuities and life contingent group annuities. Other contract liabilities include unearned revenue and certain other reserves for group, annuities and individual life and health products.

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Future policy benefits for individual participating traditional life insurance are based on the net level premium method, calculated using the guaranteed mortality and nonforfeiture interest rates which range from 2.5% to 7.5%. Participating insurance represented 5% of direct individual life insurance in force at both December 31, 2013 and 2012, and 14%, 11% and 17% of direct individual life insurance premiums for 2013, 2012 and 2011, respectively.

Future policy benefits for individual non-participating traditional life insurance policies, group and individual long-term care policies and individual health insurance policies are generally equal to the aggregate of (1) the present value of future benefit payments and related expenses, less the present value of future net premiums, and (2) any premium deficiency reserves. Assumptions as to mortality, morbidity and persistency are based on the Company s experience, industry data, and/or other factors, when the basis of the reserve is established. Interest rates used in the determination of the present values range from 1.0% to 14.0%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for individual and group annuities and supplementary contracts are generally equal to the aggregate of (1) the present value of expected future payments, and (2) any premium deficiency reserves. Assumptions as to mortality are based on the Company s experience, industry data, and/or other factors, when the basis of the reserve is established. The interest rates used in the determination of the present values range from 0.5% to 11.3%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company s experience, except for example, certain group insurance coverages for which future policy benefits are equal to gross unearned premium reserves. The interest rates used in the determination of the present values range from 0.1% to 6.5%.

The Company s liability for future policy benefits is also inclusive of liabilities for guaranteed benefits related to certain nontraditional long-duration life and annuity contracts. Liabilities for guaranteed benefits with embedded derivative features are primarily in other contract liabilities. The remaining liabilities for guaranteed benefits are primarily reflected with the underlying contract. See Note 11 for additional information regarding liabilities for guaranteed benefits related to certain nontraditional long-duration life and annuity contracts.

Premium deficiency reserves included in Future policy benefits are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses. Premium deficiency reserves have been recorded for the group single premium annuity business, which consists of limited-payment, long duration traditional, non-participating annuities; structured settlements; single premium immediate annuities with life contingencies; long term care, and for certain individual health policies.

Unpaid claims and claim adjustment expenses primarily reflect the Company s estimate of future disability claim payments and expenses as well as estimates of claims incurred but not yet reported as of the balance sheet dates related to group disability products. Unpaid claim liabilities that are discounted use interest rates ranging from 3.0% to 6.4%.

Policyholders Account Balances

Policyholders account balances at December 31, are as follows:

	2013	2012
	(in millions)	
Individual annuities	$ 35,947	$ 41,026
Group annuities	27,294	27,782
Guaranteed investment contracts and guaranteed interest accounts	14,898	16,255
Funding agreements	4,370	3,793
Interest-sensitive life contracts	32,136	23,962
Dividend accumulation and other	22,012	21,595
Total policyholders account balances	$ 136,657	$ 134,413

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Policyholders account balances primarily represent an accumulation of account deposits plus credited interest less withdrawals, expense charges and mortality charges, if applicable. These policyholders account balances also include provisions for benefits under non-life contingent payout annuities. Included in Funding agreements at December 31, 2013 and 2012 are $2,380 million and $1,788 million, respectively, related to the Company s Funding Agreement Notes Issuance Program (FANIP). Under this program, which has a maximum authorized amount of $15 billion, a Delaware statutory trust issues medium-term notes to investors that are secured by funding agreements issued to the trust by Prudential Insurance. The outstanding notes have fixed or floating interest rates that range from 0.5% to 5.5% and original maturities ranging from two to ten years. Included in the amounts at December 31, 2013 and 2012 is the medium-term note liability, which is carried at amortized cost, of $2,381 million and $1,780 million, respectively, as well as the fair value of qualifying derivative financial instruments associated with these notes of ($1) million and $8 million, respectively. For additional details on the FANIP program, see Note 5.

Also included in Funding agreements are collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY) of $1,947 million, as of both December 31, 2013 and 2012. These obligations, which are carried at amortized cost, have fixed or floating interest rates that range from 0.7% to 3.5% and original maturities ranging from three to eight years. For additional details on the FHLBNY program, see Note 14. Included in interest-sensitive life contracts at December 31, 2013 are $8 billion related to the Company assuming universal life contracts acquired from The Hartford s individual life insurance business on January 2, 2013. Interest crediting rates range from 0% to 23.0% for interest-sensitive life contracts and from 0% to 13.4% for contracts other than interest-sensitive life. Less than 1% of policyholders account balances have interest crediting rates in excess of 8%.

11. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS

The Company issues traditional variable annuity contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issues variable annuity contracts with general and separate account options where the Company contractually guarantees to the contractholder a return of no less than total deposits made to the contract less any partial withdrawals (return of net deposits). In certain of these variable annuity contracts, the Company also contractually guarantees to the contractholder a return of no less than (1) total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return), and/or (2) the highest contract value on a specified date minus any withdrawals (contract value). These guarantees include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods. The Company also issues annuity contracts with market value adjusted investment options (MVAs), which provide for a return of principal plus a fixed rate of return if held-to-maturity, or, alternatively, a market adjusted value if surrendered prior to maturity or if funds are reallocated to other investment options. The market value adjustment may result in a gain or loss to the Company, depending on crediting rates or an indexed rate at surrender, as applicable. The Company also issues fixed deferred annuity contracts without MVA that have a guaranteed credited rate and annuity benefit.

In addition, the Company issues certain variable life, variable universal life and universal life contracts where the Company contractually guarantees to the contractholder a death benefit even when there is insufficient value to cover monthly mortality and expense charges, whereas otherwise the contract would typically lapse (no lapse guarantee). Variable life and variable universal life contracts are offered with general and separate account options.

The assets supporting the variable portion of both traditional variable annuities and certain variable contracts with guarantees are carried at fair value and reported as Separate account assets with an equivalent amount reported as Separate account liabilities. Amounts assessed against the contractholders for mortality, administration, and other services are included within revenue in Policy charges and fee income and changes in liabilities for minimum guarantees are generally included in Policyholders benefits.

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For those guarantees of benefits that are payable in the event of death, the net amount at risk is generally defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. The Company s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at annuitization, the net amount at risk is generally defined as the present value of the minimum guaranteed annuity payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. The Company s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including fixed income and equity market returns, timing of annuitization, contract lapses and contractholder mortality.

For guarantees of benefits that are payable at withdrawal, the net amount at risk is generally defined as the present value of the minimum guaranteed withdrawal payments available to the contractholder determined in accordance with the terms of the contract in excess of the current account balance. For guarantees of accumulation balances, the net amount at risk is generally defined as the guaranteed minimum accumulation balance minus the current account balance. The Company s primary risk exposures for these contracts relates to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility or contractholder behavior used in the original pricing of these products.

The Company s contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed may not be mutually exclusive. The liabilities related to the net amount at risk are reflected within Future policy benefits. As of December 31, 2013 and 2012, the Company had the following guarantees associated with these contracts, by product and guarantee type:

	December 31, 2013		December 31, 2012	
	In the Event of Death	At Annuitization/ Accumulation(1)	In the Event of Death	At Annuitization/ Accumulation(1)
	($ in millions)			
Annuity Contracts				
Return of net deposits				
Account value	$ 113,527	$ 181	$ 98,207	$ 196
Net amount at risk	$ 465	$ 0	$ 829	$ 33
Average attained age of contractholders	63 years	62 years	62 years	62 years
Minimum return or contract value				
Account value	$ 37,801	$ 127,530	$ 34,299	$ 109,845
Net amount at risk	$ 2,817	$ 2,892	$ 4,209	$ 5,072
Average attained age of contractholders	66 years	63 years	65 years	62 years
Average period remaining until earliest expected annuitization	N/A	0.33 year	N/A	0.50 year

(1) Includes income and withdrawal benefits as described herein.

	December 31, 2013	December 31, 2012
	In the Event of Death ($ in millions)	
Variable Life, Variable Universal Life and Universal Life Contracts		
No lapse guarantees		
Separate account value	$ 7,546	$ 3,406
General account value	$ 11,155	$ 4,960
Net amount at risk	$ 194,344	$ 89,881
Average attained age of contractholders	54 years	48 years

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Account balances of variable annuity contracts with guarantees were invested in separate account investment options as follows:

	2013	2012
	(in millions)	
Equity funds	$ 90,199	$ 73,813
Bond funds	46,235	40,815
Balanced funds	652	524
Money market funds	6,528	7,763
Total	$ 143,614	$ 122,915

In addition to the amounts invested in separate account investment options above, $7,714 million at December 31, 2013, and $9,590 million at December 31, 2012, of account balances of variable annuity contracts with guarantees, inclusive of contracts with MVA features, were invested in general account investment options. For the years ended December 31, 2013, 2012 and 2011, there were no transfers of assets, other than cash, from the general account to any separate account, and accordingly no gains or losses recorded.

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Liabilities For Guarantee Benefits

The table below summarizes the changes in general account liabilities for guarantees. The liabilities for guaranteed minimum death benefits (GMDB), and guaranteed minimum income benefits (GMIB) are included in Future policy benefits and the related changes in the liabilities are included in Policyholders benefits. Guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB), and guaranteed minimum income and withdrawal benefits (GMIWB) features are considered to be bifurcated embedded derivatives and are recorded at fair value within Future policy benefits . Changes in the fair value of these derivatives, including changes in the Company s own risk of non-performance, along with any fees attributed or payments made relating to the derivative, are recorded in Realized investment gains (losses), net. See Note 20 for additional information regarding the methodology used in determining the fair value of these embedded derivatives. The Company maintains a portfolio of derivative investments that serve as a partial hedge of the risks associated with these products, for which the changes in fair value are also recorded in Realized investment gains (losses), net. This portfolio of derivative investments does not qualify for hedge accounting treatment under U.S. GAAP.

	GMDB		GMIB	GMAB/ GMWB/ GMIWB
	Variable Life, Variable Universal Life and Universal Life	Annuity	Annuity	Annuity
	(in millions)			
Balance at December 31, 2010	$ 202	$ 188	$ 114	$ (204)
Incurred guarantee benefits Impact of assumption and experience unlocking and true-ups(1)	8	94	5	0
Incurred guarantee benefits All other(1)	71	147	26	3,061
Paid guarantee benefits and other	(2)	(113)	(42)	0
Other(2)	9	3	302	29
Balance at December 31, 2011	288	319	405	2,886
Incurred guarantee benefits Impact of assumption and experience unlocking and true-ups(1)	18	73	48	0
Incurred guarantee benefits All other(1)	85	199	54	463
Paid guarantee benefits and other	(14)	(104)	(32)	0
Other	(6)	1	(16)	(1)
Balance at December 31, 2012	371	488	459	3,348
Incurred guarantee benefits Impact of assumption and experience unlocking and true-ups(1)	(26)	(140)	(27)	0
Incurred guarantee benefits All other(1)	123	175	37	(2,904)
Paid guarantee benefits	(4)	(75)	(23)	0

Other(3)	1,331	13	(49)	(3)
Balance at December 31, 2013	$ 1,795	$ 461	$ 397	$ 441

(1) Incurred guarantee benefits include the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves. Also includes changes in the fair value of features considered to be derivatives.
(2) Primarily represents amounts acquired from Star and Edison.
(3) GMDB primarily includes amounts acquired from The Hartford on January 2, 2013.

The GMDB liability is determined each period end by estimating the accumulated value of a portion of the total assessments to date less the accumulated value of the guaranteed death benefits in excess of the account balance. The GMIB liability associated with variable annuities is determined each period by estimating the accumulated value of a portion of the total assessments to date less the accumulated value of the projected income benefits in excess of the account balance. The portion of assessments used is chosen such that, at issue

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the present value of expected death benefits or expected income benefits in excess of the projected account balance and the portion of the present value of total expected assessments over the lifetime of the contracts are equal. The GMIB liability associated with fixed annuities is determined each period by estimating the present value of projected income benefits in excess of the account balance. The Company regularly evaluates the estimates used and adjusts the GMDB and GMIB liability balances, with an associated charge or credit to earnings, if actual experience or other evidence suggests that earlier estimates should be revised.

The GMAB features provide the contractholder with a guaranteed return of initial account value or an enhanced value if applicable. The most significant of the Company s GMAB features are the guaranteed return option (GRO) features, which includes an automatic rebalancing element that reduces the Company s exposure to these guarantees. The GMAB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

The GMWB features provide the contractholder with access to a guaranteed remaining balance if the account value is reduced to zero through a combination of market declines and withdrawals. The guaranteed remaining balance is generally equal to the protected value under the contract, which is initially established as the greater of the account value or cumulative deposits when withdrawals commence, less cumulative withdrawals. The contractholder also has the option, after a specified time period, to reset the guaranteed remaining balance to the then-current account value, if greater. The contractholder accesses the guaranteed remaining balance through payments over time, subject to maximum annual limits. The GMWB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

The GMIWB features, taken collectively, provide a contractholder two optional methods to receive guaranteed minimum payments over time, a withdrawal option or an income option. The withdrawal option (which was available under only one of the GMIWBs the Company no longer offers) guarantees that a contractholder can withdraw an amount each year until the cumulative withdrawals reach a total guaranteed balance. The income option (which varies among the Company s GMIWBs) in general guarantees the contractholder the ability to withdraw an amount each year for life (or for joint lives, in the case of any spousal version of the benefit) where such amount is equal to a percentage of a protected value under the benefit. The contractholder also has the potential to increase this annual amount, based on certain subsequent increases in account value that may occur. The GMIWB can be elected by the contractholder upon issuance of an appropriate deferred variable annuity contract or at any time following contract issue prior to annuitization. Certain GMIWB features include an automatic rebalancing element that reduces the Company s exposure to these guarantees. The GMIWB liability is calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature.

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Sales Inducements

The Company defers sales inducements and amortizes them over the anticipated life of the policy using the same methodology and assumptions used to amortize deferred policy acquisition costs. These deferred sales inducements are included in Other assets. The Company offers various types of sales inducements including: (1) a bonus whereby the policyholder s initial account balance is increased by an amount equal to a specified percentage of the customer s initial deposit; (2) additional credits after a certain number of years a contract is held; and (3) enhanced interest crediting rates that are higher than the normal general account interest rate credited in certain product lines. Changes in deferred sales inducements, reported as Interest credited to policyholders account balances, are as follows:

	Sales Inducements (in millions)
Balance at December 31, 2010	$ 1,348
Capitalization	359
Amortization Impact of assumption and experience unlocking and true-ups	(81)
Amortization All other	(645)
Change in unrealized investment gains and losses	20
Balance at December 31, 2011	1,001
Capitalization	259
Amortization Impact of assumption and experience unlocking and true-ups	189
Amortization All other	(109)
Change in unrealized investment gains and losses	17
Balance at December 31, 2012	1,357
Capitalization	53
Amortization Impact of assumption and experience unlocking and true-ups	27
Amortization All other	340
Change in unrealized investment gains and losses and other	36
Balance at December 31, 2013	$ 1,813

12. CLOSED BLOCK

On the date of demutualization, Prudential Insurance established a Closed Block for certain individual life insurance policies and annuities issued by Prudential Insurance in the U.S. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block Business. See Note 22 for financial information on the Closed Block Business, which includes Surplus and Related Assets, the IHC debt, as discussed in Note 14, and other related liabilities.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the effective date of the Plan of Reorganization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses, and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

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The excess of Closed Block Liabilities over Closed Block Assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in AOCI) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

As of December 31, 2013 and 2012, the Company recognized a policyholder dividend obligation of $887 million and $885 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $3,624 million and $5,478 million at December 31, 2013 and 2012, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI. See the table below for changes in the components of the policyholder dividend obligation for the years ended December 31, 2013 and 2012.

On December 13, 2011 and December 11, 2012, Prudential Insurance s Board of Directors approved a continuation of the Closed Block dividend scales for 2012 and 2013, respectively. On December 5, 2013, Prudential Insurance s Board of Directors acted to increase the 2014 dividends payable on Closed Block policies. This action resulted in an approximately $33 million increase in the liability for policyholders dividends recognized for the year ended December 31, 2013.

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Closed Block Liabilities and Assets designated to the Closed Block at December 31, as well as maximum future earnings to be recognized from Closed Block Liabilities and Closed Block Assets, are as follows:

	2013	2012
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,258	$ 50,839
Policyholders dividends payable	907	887
Policyholders dividend obligation	4,511	6,363
Policyholders account balances	5,359	5,426
Other Closed Block liabilities	4,281	3,366
Total Closed Block Liabilities	65,316	66,881
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	39,169	41,980
Other trading account assets, at fair value	291	224
Equity securities, available-for-sale, at fair value	3,884	3,225
Commercial mortgage and other loans	8,762	8,747
Policy loans	5,013	5,120
Other long-term investments	2,085	2,094
Short-term investments	1,790	1,194
Total investments	60,994	62,584
Cash and cash equivalents	544	511
Accrued investment income	542	550
Other Closed Block assets	296	262
Total Closed Block Assets	62,376	63,907
Excess of reported Closed Block Liabilities over Closed Block Assets	2,940	2,974
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,615	5,467
Allocated to policyholder dividend obligation	(3,624)	(5,478)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,931	$ 2,963

Information regarding the policyholder dividend obligation is as follows:

	2013	2012
	(in millions)	
Balance, January 1	$ 6,363	$ 4,609
Impact from earnings allocable to policyholder dividend obligation	2	123
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(1,854)	1,631

Balance, December 31	$ 4,511	$ 6,363

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Closed Block revenues and benefits and expenses for the years ended December 31, were as follows:

	2013	2012 (in millions)	2011
Revenues			
Premiums	$ 2,728	$ 2,817	$ 2,918
Net investment income	2,796	2,919	2,976
Realized investment gains (losses), net	230	243	855
Other income	57	31	38
Total Closed Block revenues	5,811	6,010	6,787
Benefits and Expenses			
Policyholders benefits	3,334	3,445	3,482
Interest credited to policyholders account balances	136	137	139
Dividends to policyholders	1,910	2,021	2,571
General and administrative expenses	467	492	519
Total Closed Block benefits and expenses	5,847	6,095	6,711
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	(36)	(85)	76
Income tax expense (benefit)	(57)	(103)	67
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	21	18	9
Income (loss) from discontinued operations, net of taxes	0	(2)	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 21	$ 16	$ 9

13. REINSURANCE

The Company participates in reinsurance with third parties primarily to provide additional capacity for future growth, to limit the maximum net loss potential arising from large risks and in acquiring or disposing of businesses.

On January 2, 2013, the Company acquired The Hartford s individual life insurance business through a reinsurance transaction. Under the agreement, the Company provided reinsurance for approximately 700,000 life insurance policies with net retained face amount in force of approximately $141 billion. The Company acquired the general account business through a coinsurance arrangement and, for certain types of general account policies, a modified coinsurance arrangement. The Company acquired the separate account business through a modified coinsurance arrangement.

Since 2011, the Company has entered into several reinsurance agreements to assume pension liabilities in the United Kingdom. Under these arrangements, the Company assumes the longevity risk associated with the pension benefits of certain named beneficiaries.

In 2006, the Company acquired the variable annuity business of The Allstate Corporation (Allstate) through a reinsurance transaction. The reinsurance arrangements with Allstate include a coinsurance arrangement associated with the general account liabilities assumed and a modified coinsurance arrangement associated with the separate account liabilities assumed. The reinsurance payable, which represents the Company s obligation under the modified coinsurance arrangement, is netted with the reinsurance receivable in the Company s Consolidated Statement of Financial Position.

In 2004, the Company acquired the retirement business of CIGNA and as a result, entered into various reinsurance arrangements. The Company still has indemnity coinsurance and modified coinsurance without assumption arrangements in effect related to this acquisition.

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For the domestic business, life and disability reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term, per person excess, excess of loss, and coinsurance. The Company currently reinsures 90% of the mortality risk for most new individual life products. Placement of reinsurance is accomplished primarily on an automatic basis with some specific risks reinsured on a facultative basis. The Company has historically retained up to $30 million per life, but has reduced its retention limit to $20 million per life in 2013. In addition, the Company has reinsured 73% of the Closed Block Business with unaffiliated third parties through various modified coinsurance arrangements. The Company accounts for these modified coinsurance arrangements using the deposit method of accounting.

The international business primarily uses reinsurance to obtain experience with respect to certain new product offerings and to a lesser extent, to manage risk and volatility as necessary.

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts under coinsurance arrangements are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. Coinsurance arrangements contrast with the Company s yearly renewable term arrangements, where only mortality risk is transferred to the reinsurer and premiums are paid to the reinsurer to reinsure that risk**.** The mortality risk that is reinsured under yearly renewable term arrangements represents the difference between the stated death benefits in the underlying reinsured contracts and the corresponding reserves or account value carried by the Company on those same contracts. The premiums paid to the reinsurer are based upon negotiated amounts, not on the actual premiums paid by the underlying contract holders to the Company. As yearly renewable term arrangements are usually entered into by the Company with the expectation that the contracts will be inforce for the lives of the underlying policies, they are considered to be long-duration reinsurance contracts. The cost of reinsurance related to short-duration reinsurance contracts is accounted for over the reinsurance contract period. The tables presented below exclude amounts pertaining to the Company s discontinued operations.

Reinsurance amounts included in the Consolidated Statements of Operations for premiums, policy charges and fees and policyholders benefits for the years ended December 31, were as follows:

	2013	2012	2011
		(in millions)	
Direct premiums	$ 27,444	$ 66,566	$ 25,526
Reinsurance assumed	272	224	128
Reinsurance ceded	(1,479)	(1,436)	(1,353)
Premiums	$ 26,237	$ 65,354	$ 24,301
Direct policy charges and fees	$ 4,648	$ 4,491	$ 3,894
Reinsurance assumed	918	106	124
Reinsurance ceded	(151)	(108)	(94)
Policy charges and fees	$ 5,415	$ 4,489	$ 3,924

Direct policyholder benefits	$ 27,458	$ 66,075	$ 24,638
Reinsurance assumed	809	435	289
Reinsurance ceded	(1,534)	(1,379)	(1,313)
Policyholders benefits	$ 26,733	$ 65,131	$ 23,614

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Reinsurance recoverables at December 31, are as follows:

	2013	2012
	(in millions)	
Individual and group annuities(1)	$ 252	$ 631
Life insurance(2)	2,383	751
Other reinsurance	149	155
Total reinsurance recoverable	$ 2,784	$ 1,537

(1) Primarily represents reinsurance recoverables established under the reinsurance arrangements associated with the acquisition of the retirement business of CIGNA. The Company has recorded reinsurance payables related to the acquisition of the retirement business of CIGNA of $248 million and $628 million at December 31, 2013 and 2012, respectively.

(2) Includes $1,597 million of reinsurance recoverables established at December 31, 2013 under the reinsurance arrangements associated with the acquisition of the individual life business of The Hartford. The Company has also recorded reinsurance payables related to the individual life business of The Hartford acquisition of $1,244 million at December 31, 2013.

Excluding the reinsurance recoverable associated with the acquisition of individual life business of The Hartford and the retirement business of CIGNA, four major reinsurance companies account for approximately 64% of the reinsurance recoverable at December 31, 2013. The Company periodically reviews the financial condition of its reinsurers, amounts recoverable therefrom, and unearned reinsurance premium, in order to minimize its exposure to loss from reinsurer insolvencies. If deemed necessary, the Company would secure collateral in the form of a trust, letter of credit, or funds withheld arrangement to ensure collectability, otherwise, an allowance for uncollectible reinsurance would be recorded.

14. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

Short-term debt at December 31 is as follows:

	2013	2012
	(in millions)	
Commercial paper:		
Prudential Financial	$ 190	$ 113
Prudential Funding, LLC	460	359

Subtotal commercial paper	650	472
Other notes payable(1)	0	100
Current portion of long-term debt(2)	2,019	1,912
Total short-term debt(3)	$ 2,669	$ 2,484
<u>Supplemental short-term debt information:</u>		
Portion of commercial paper borrowings due overnight	$ 466	$ 156
Daily average commercial paper outstanding	$ 1,309	$ 1,194
Weighted average maturity of outstanding commercial paper, in days	18	21
Weighted average interest rate on outstanding short-term debt(4)	0.17%	0.28%

(1) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $100 million at December 31, 2012, discussed in more detail below.
(2) Includes limited and non-recourse borrowings of Prudential Holdings, LLC attributable to the Closed Block Business of $75 million at both December 31, 2013 and 2012.
(3) Includes Prudential Financial debt of $1,721 million and $1,847 million at December 31, 2013 and 2012, respectively.
(4) Excludes the current portion of long-term debt.

At December 31, 2013 and 2012, the Company was in compliance with all covenants related to the above debt.

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Commercial Paper

Prudential Financial has a commercial paper program with an authorized capacity of $3.0 billion. Prudential Financial commercial paper borrowings have been generally used to fund the working capital needs of Prudential Financial s subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC (Prudential Funding), a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program, with an authorized capacity of $7.0 billion. Prudential Funding commercial paper borrowings have generally served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance (NJDOBI). Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding s tangible net worth at a positive level. Additionally, Prudential Financial has issued a subordinated guarantee covering Prudential Funding s $7.0 billion commercial paper program.

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York (FHLBNY). Membership allows Prudential Insurance access to the FHLBNY s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of Prudential Insurance. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if Prudential Insurance s financial strength ratings decline below A/A2/A Stable by S&P/Moody s/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently there are no restrictions on the term of borrowings from the FHLBNY. All FHLBNY stock purchased by Prudential Insurance is classified as restricted general account investments within Other long-term investments, and the carrying value of these investments was $168 million and $170 million as of December 31, 2013 and 2012, respectively.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance s statutory net admitted assets as of December 31, 2012, the 5% limitation equates to a maximum amount of pledged assets of $8.1 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately $6.5 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY s discretion and to the availability of qualifying assets at Prudential Insurance.

As of December 31, 2013, Prudential Insurance had pledged assets with a fair value of $2.7 billion supporting aggregate outstanding collateralized advances and funding agreements of $2.2 billion. As of December 31, 2013, an outstanding advance of $280 million is in Long-term debt and matures in December 2015, and outstanding funding agreements, totaling $1,947 million are included in Policyholders account balances. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $3.1 billion as of December 31, 2013.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company (PRIAC) is a member of the Federal Home Loan Bank of Boston (FHLBB). Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC s

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membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of December 31, 2013, PRIAC had no advances outstanding under the FHLBB facility.

Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department (CTID), the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately $230 million, none of which was outstanding as of December 31, 2013. Previously, the CTID provided a temporary advance consent to PRIAC, permitting it to pledge up to $2.6 billion in qualifying assets to secure FHLBB borrowings, resulting in a maximum borrowing capacity under the facility of approximately $1.7 billion; however, this consent expired as of December 31, 2013.

Credit Facilities

The Company s syndicated, unsecured committed credit facilities at December 31 are as follows:

Borrower	Original Term	Expiration Date	Capacity	Outstanding
			(in millions)	
Prudential Financial(1)	5-year	Nov-2018	$ 2,000	$ 0
Prudential Financial and Prudential Funding(1)	3-year	Nov-2016	1,750	0
			$ 3,750	$ 0

(1) In November 2013, amendments to these facilities extended their terms by approximately 2 years. The expiration dates above reflect that extension.

The above credit facilities may be used for general corporate purposes, including as backup liquidity for the Company s commercial paper programs discussed above. As of December 31, 2013, there were no outstanding borrowings under either credit facility. Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company s operating needs.

The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company s credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities are conditioned on the continued satisfaction of other customary conditions, including the maintenance at all times of consolidated net worth, relating to the Company s Financial Services Businesses only, of at least $18.985 billion, which for this purpose is calculated as U.S. GAAP equity, excluding AOCI and excluding equity of noncontrolling interests. As of December 31, 2013 and 2012, the consolidated net worth of the Company s Financial Services Businesses exceeded the minimum amount required to borrow under the credit facilities.

In addition to the above credit facilities, the Company had access to $379 million of certain other lines of credit at December 31, 2013, of which $335 million was for the sole use of certain real estate separate accounts. The separate account facilities include loan-to-value ratio requirements and other financial covenants and recourse on obligations under these facilities is limited to the assets of the applicable separate account. At December 31, 2013, $38 million of these credit facilities were used. The Company also has access to uncommitted lines of credit from financial institutions.

Put Option Agreement for Senior Debt Issuance

In November 2013, Prudential Financial entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of $1.5 billion of trust securities by that Delaware trust in a Rule 144A private

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placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to $1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of the principal and interest strips of U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets.

The put option described above will be exercised automatically in full upon the Company s failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if the Company s failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise the put option if its consolidated stockholders equity, calculated in accordance with GAAP but excluding AOCI, falls below $7 billion, subject to adjustment in certain cases. The Company has a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for principal and interest strips of U.S. Treasury securities. Finally, any of the 4.419% senior notes that Prudential Financial issues may be redeemed prior to their maturity at par or, if greater, a make-whole price, following a voluntary exercise in full of the put option.

Long-term Debt

Long-term debt at December 31 is as follows:

	Maturity Dates	Rate(1)	December 31, 2013	2012
			(in millions)	
Fixed-rate notes:				
Surplus notes	2015-2025	5.36%-8.30%	$ 941	$ 940
Surplus notes subject to set-off arrangements	2021-2033	3.52%-5.26%	2,400	1,000
Senior notes(2)	2014-2043	2.21%-11.31%	12,151	13,537
Floating-rate notes:				
Surplus notes	2016-2052	0.51%-3.52%	3,200	3,200
USD-denominated senior notes	2014-2023	1.02%-4.91%	677	293
Foreign currency-denominated senior notes	(3)	0.84%-3.13%	100	490
Junior subordinated notes	2042-2068	5.20%-8.88%	4,884	4,594
Prudential Holdings, LLC notes (the IHC debt):				
Series A	2017(4)	1.12%-1.18%	238	285
Series B	2023(4)	7.245%	777	777
Series C	2023(4)	8.695%	585	613
Subtotal			25,953	25,729
Less: assets under set-off arrangements(5)			2,400	1,000
Total long-term debt(6)			$ 23,553	$ 24,729

(1) Range of interest rates are for the year ended December 31, 2013.
(2) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at both December 31, 2013 and 2012.
(3) Includes $61 million of perpetual debt that has no stated maturity. Maturities on the remaining debt range from 2014 to 2017.
(4) Annual scheduled repayments of principal for the Series A and Series C notes began in 2013. Annual scheduled repayments of principal for the Series B notes begin in 2018.
(5) Assets under set-off arrangements represent a reduction in the amount of fixed-rate surplus notes included in long-term debt, resulting from an arrangement where valid rights of set-off exist and it is the intent of both parties to settle on a net basis under legally enforceable arrangements.
(6) Includes Prudential Financial debt of $16,346 million and $16,998 million at December 31, 2013 and 2012, respectively.

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At December 31, 2013 and 2012, the Company was in compliance with all debt covenants related to the borrowings in the table above.

The following table presents the contractual maturities of the Company s long-term debt as of December 31, 2013:

	Calendar Year					
	2015	2016	2017	2018	2019 and thereafter	Total
	(in millions)					
Long-term debt	$ 3,457	$ 1,477	$ 1,733	$ 2,580	$ 14,306	$ 23,553

Surplus Notes

As of December 31, 2013, Prudential Insurance had $941 million of fixed-rate surplus notes outstanding. These notes are subordinated to other Prudential Insurance borrowings and policyholder obligations, and the payment of interest and principal may only be made with the prior approval of NJDOBI. NJDOBI could prohibit the payment of the interest and principal on the surplus notes if certain statutory capital requirements are not met. At December 31, 2013 and 2012, the Company met these statutory capital requirements.

Prudential Insurance s fixed-rate surplus notes include $500 million of exchangeable surplus notes issued in a private placement in 2009 with an interest rate of 5.36% per annum and due September 2019. The surplus notes are exchangeable at the option of the holder, in whole but not in part, for shares of Prudential Financial Common Stock beginning in September 2014, or earlier upon a fundamental business combination involving Prudential Financial or a continuing payment default. The initial exchange rate for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of $98.78; however, the exchange rate is subject to customary anti-dilution adjustments. The exchange rate is also subject to a make-whole decrease in the event of an exchange prior to maturity (except upon a fundamental business combination or a continuing payment default), that will result in a reduction in the number of shares issued upon exchange (per $1,000 principal amount of surplus notes) determined by dividing a prescribed cash reduction value (which will decline over the life of the surplus notes, from $102.62 for an exercise on September 18, 2014, to zero for an exercise at maturity) by the price of the Common Stock at the time of exchange. In addition, the exchange rate is subject to a customary make-whole increase in connection with an exchange of the surplus notes upon a fundamental business combination where 10% or more of the consideration in that business combination consists of cash, other property or securities that are not listed on a U.S. national securities exchange. These exchangeable surplus notes are not redeemable by Prudential Insurance prior to maturity, except in connection with a fundamental business combination involving Prudential Financial, in which case the surplus notes will be redeemable by Prudential Insurance, subject to the noteholders right to exchange the surplus notes instead, at par or, if greater, a make-whole redemption price.

From 2011 through 2013, a captive reinsurance subsidiary of Prudential Insurance entered into agreements providing for the issuance and sale of up to $2.0 billion of ten-year fixed-rate surplus notes. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special purpose subsidiary of the Company in an aggregate principal amount equal to the surplus notes issued. The captive holds the credit-linked notes as assets supporting non-economic reserves required to be held by the Company s domestic insurance subsidiaries under Regulation XXX in connection with the reinsurance of term life insurance policies through the captive. The principal amount of the outstanding credit-linked notes is redeemable by the captive in cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, external counterparties have agreed to fund any such payment under the credit-linked notes in return for a fee. Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and has agreed to reimburse the external counterparties for any payments under the credit-linked notes that are funded by those counterparties. As of December 31, 2013, an aggregate of $1,500 million of surplus notes were outstanding under these agreements and no such payments under the credit-linked notes have been required.

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In December 2013, another captive reinsurance subsidiary entered into a twenty-year financing facility with external counterparties providing for the issuance and sale of a surplus note in an aggregate principal amount of up to $2 billion in order to finance non-economic reserves required to be held by the Company s domestic insurance subsidiaries under Guideline AXXX. The agreements contemplate that additional external counterparties may be added to this facility in the future which could increase the size of the facility to $3 billion. Similar to the agreements described above, the captive receives in exchange for the surplus note one or more credit linked notes issued by a special purpose affiliate in an aggregate principal amount equal to the surplus note. As above, the principal amount of the outstanding credit-linked notes is redeemable by the captive in cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event, and the external counterparties have agreed to fund any such payment. Prudential Financial has agreed to reimburse the captive for investment losses in excess of specified amounts; however, Prudential Financial has no other reimbursement obligations to the external counterparties under this facility. As of December 31, 2013, an aggregate of $900 million of surplus notes were outstanding under the facility and no credit-linked note payments have been required.

Under each of the above transactions for the captive reinsurance subsidiaries, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis.

Other captive reinsurance subsidiaries have outstanding $3.2 billion of surplus notes that were issued in 2006 through 2008 with unaffiliated institutions to finance reserves required under Regulation XXX and Guideline AXXX. Prudential Financial has agreed to maintain the capital of these captives at or above a prescribed minimum level and has entered into arrangements (which are accounted for as derivative instruments) that require it to make certain payments in the event of deterioration in the value of the surplus notes. As of December 31, 2013 and 2012, there were no collateral postings made under these derivative instruments.

The surplus notes for the captive reinsurance subsidiaries described above are subordinated to policyholder obligations, and the payment of principal on the surplus notes may only be made with prior approval of the Arizona Department of Insurance. The payment of interest on the surplus notes has been approved by the Arizona Department of Insurance, subject to its ability to withdraw that approval.

Senior Notes

Medium-term notes. Prudential Financial maintains a Medium-Term Note, Series D program under its shelf registration statement with an authorized issuance capacity of $20 billion. As of December 31, 2013, the outstanding balance of medium-term notes under this program was $12.7 billion, a decrease of $0.5 billion from December 31, 2012, due to maturities of $1.6 billion, offset by $1.1 billion of issuances as presented in the below table.

Issue Date	**Face Value (in millions)**	**Interest Rate**	**Maturity Date**

August 15, 2013	$	350	2.300%	August 15, 2018
August 15, 2013	$	350	LIBOR + 0.78%	August 15, 2018
August 15, 2013	$	350	5.100%	August 15, 2043

Retail medium-term notes. Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of $5.0 billion. As of December 31, 2013, the outstanding balance of retail notes was $292 million. Retail notes outstanding decreased by $615 million from December 31, 2012 primarily due to the Company s redemption of $462 million of notes during 2013, with an average interest rate of approximately 6.0%.

Asset-backed notes. On March 30, 2012, Prudential Insurance sold, in a Rule 144A private placement, $1.0 billion of 2.997% asset-backed notes with a final maturity of September 30, 2015. As of December 31, 2013, the outstanding balance of these notes was $850 million due to scheduled repayments. The notes are

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secured by the assets of a trust, consisting of approximately $2.8 billion aggregate principal balance of residential mortgage-backed securities deposited into the trust by Prudential Insurance. Payments of interest and principal on the notes will be made only to the extent of funds available to the trust in accordance with a priority of payments set forth in the indenture governing the notes. Prudential Financial guaranteed to the holders of the notes the timely payment of all principal and interest due on the notes and any make-whole payments that may become due as a result of the payment of principal on the notes prior to the scheduled payment date.

Funding Agreement Notes Issuance Program. The Company maintains a Funding Agreement Notes Issuance Program in which a statutory trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance. These obligations are included in Policyholders account balances and not included in the foregoing table. See Notes 5 and 10 for further discussion of these obligations.

Junior Subordinated Notes

Prudential Financial s junior subordinated notes outstanding are considered hybrid securities that receive enhanced equity treatment from the rating agencies. Junior subordinated notes outstanding, along with their key terms, are as follows:

Issue Date	Principal Amount (in millions)	Initial Interest Rate	Investor Type	Optional Redemption Date(1)	Interest Rate Subsequent to Optional Redemption Date	Scheduled Maturity Date	Final Maturity Date
June 2008	$ 600	8.875%	Institutional	6/15/18	LIBOR + 5.00%	6/15/38	6/15/68
August 2012	$ 1,000	5.875%	Institutional	9/15/22	LIBOR + 4.175%	n/a	9/15/42
November 2012	$ 1,500	5.625%	Institutional	6/15/23	LIBOR + 3.920%	n/a	6/15/43
December 2012	$ 575	5.750%	Retail	12/4/17	5.750%	n/a	12/15/52
March 2013	$ 710	5.700%	Retail	3/15/18	5.700%	n/a	3/15/53
March 2013	$ 500	5.200%	Institutional	3/15/24	LIBOR + 3.040%	n/a	3/15/44

(1) Represents the initial date on which the notes can be redeemed at par solely at the option of the Company, subject in the case of the 8.875% notes to compliance with a replacement capital covenant.

Prudential Financial has the right to defer interest payments on these notes for specified periods, typically 5-10 years without resulting in a default, during which time interest will be compounded. On or after the optional redemption dates, Prudential Financial may redeem the notes at par plus accrued and unpaid interest. Prior to those optional redemption dates, redemptions generally are subject to a make-whole price; however, the Company may redeem the notes prior to these dates at par upon the occurrence of certain events, such as, for the notes issued in 2012 and 2013, a future change in the regulatory capital treatment of the notes with respect to the Company. In June 2013, Prudential Financial redeemed all of its $920 million 9.0% Junior Subordinated Notes due 2068.

Prudential Holdings, LLC Notes

On December 18, 2001, the date of demutualization, Prudential Holdings, LLC (PHLLC), a wholly-owned subsidiary of Prudential Financial, issued $1,750 million in senior secured notes (the IHC debt). PHLLC owns the capital stock of Prudential Insurance and does not have any operating businesses of its own. The IHC debt represents senior secured obligations of PHLLC with limited recourse; neither Prudential Financial, Prudential Insurance nor any other affiliate is an obligor or guarantor on the IHC debt. The IHC debt is collateralized by 13.8% of the outstanding common stock of Prudential Insurance and other items specified in the indenture, primarily the Debt Service Coverage Account (the DSCA) discussed below.

PHLLC s ability to meet its obligations under the IHC debt is dependent principally upon sufficient available funds being generated by the Closed Block Business and the ability of Prudential Insurance, the sole direct subsidiary of PHLLC, to dividend such funds to PHLLC. The payment of scheduled principal and interest

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on the Series A notes and the Series B notes is insured by a financial guarantee insurance policy. The payment of principal and interest on the Series C notes is not insured. The IHC debt is redeemable prior to its stated maturity at the option of PHLLC, subject to make-whole provisions, and, in the event of certain circumstances, the bond insurer can require PHLLC to redeem the IHC debt.

Net proceeds from the IHC debt amounted to $1,727 million, of which $1,218 million was distributed to Prudential Financial through a dividend on the date of demutualization for use in the Financial Services Businesses. In addition, $72 million was used to purchase a guaranteed investment contract to fund a portion of the financial guarantee insurance premium related to the IHC debt. The remainder of the net proceeds was deposited to a restricted account within PHLLC, referred to as the DSCA, and constitutes collateral for the IHC debt. The balance in the DSCA was $705 million and $658 million as of December 31, 2013 and 2012, respectively. If the DSCA balance falls below specified levels, resources from the Financial Services Businesses may be required to service the IHC debt.

Summarized consolidated financial data for PHLLC is presented below.

	As of December 31,	
	2013	2012
	(in millions)	
Consolidated Statements of Financial Position:		
Total assets	$ 514,094	$ 473,317
Total liabilities	$ 494,537	$ 452,668
Total member s equity	19,553	20,640
Noncontrolling interests	4	9
Total equity	19,557	20,649
Total liabilities and equity	$ 514,094	$ 473,317

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
Consolidated Statements of Operations:			
Total revenues	$ 23,487	$ 56,195	$ 25,241
Total benefits and expenses	22,073	55,332	24,206
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	1,414	863	1,035
Net income	1,367	883	813
Less: Income (loss) attributable to noncontrolling interests	1	(1)	(13)
Net income attributable to Prudential Holdings, LLC.	$ 1,366	$ 884	$ 826

Consolidated Statements of Cash Flows:

Cash flows from operating activities	$ 2,464	$ 2,758	$ 5,060
Cash flows used in investing activities	(8,218)	(4,620)	(4,741)
Cash flows from (used in) financing activities	5,129	1,111	603
Effect of foreign exchange in cash and cash equivalents	(6)	(7)	(15)
Net increase (decrease) in cash and cash equivalents	$ (631)	$ (758)	$ 907

Prudential Financial is a holding company and is a legal entity separate and distinct from its subsidiaries. The rights of Prudential Financial to participate in any distribution of assets of any subsidiary, including upon its liquidation or reorganization, are subject to the prior claims of creditors of that subsidiary, except to the extent that Prudential Financial may itself be a creditor of that subsidiary and its claims are recognized. PHLLC and its subsidiaries have entered into covenants and arrangements with third parties in connection with the issuance of the IHC debt which are intended to confirm their separate, bankruptcy-remote status, by assuring that the assets

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of PHLLC and its subsidiaries are not available to creditors of Prudential Financial or its other subsidiaries, except and to the extent that Prudential Financial and its other subsidiaries are, as shareholders or creditors of PHLLC and its subsidiaries, or would be, entitled to those assets.

At December 31, 2013, the Company was in compliance with all IHC debt covenants.

Interest Expense

In order to modify exposure to interest rate and currency exchange rate movements, the Company utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. The impact of these derivative instruments are not reflected in the rates presented in the tables above. For those derivative instruments that qualify for hedge accounting treatment, interest expense was increased by $23 million, $16 million and $12 million for the years ended December 31, 2013, 2012 and 2011, respectively. See Note 21 for additional information on the Company s use of derivative instruments.

Interest expense for short-term and long-term debt was $1,419 million, $1,389 million and $1,315 million for the years ended December 31, 2013, 2012 and 2011, respectively. This includes interest expense of $6 million, $8 million and $17 million for the years ended December 31, 2013, 2012 and 2011, respectively, reported in Net investment income.

15. EQUITY

The Company has outstanding two classes of common stock: the Common Stock and the Class B Stock. The changes in the number of shares issued, held in treasury and outstanding are as follows for the periods indicated:

	Common Stock			Class B Stock
	Issued	Held In Treasury	Outstanding	Issued and Outstanding
	(in millions)			
Balance, December 31, 2010	660.1	176.3	483.8	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	19.8	(19.8)	0.0
Stock-based compensation programs(1)	0.0	(4.0)	4.0	0.0
Balance, December 31, 2011	660.1	192.1	468.0	2.0
Common Stock issued	0.0	0.0	0.0	0.0

Common Stock acquired	0.0	11.5	(11.5)	0.0
Stock-based compensation programs(1)	0.0	(6.5)	6.5	0.0
Balance, December 31, 2012	660.1	197.1	463.0	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	10.0	(10.0)	0.0
Stock-based compensation programs(1)	0.0	(8.1)	8.1	0.0
Balance, December 31, 2013	660.1	199.0	461.1	2.0

(1) Represents net shares issued from treasury pursuant to the Company s stock-based compensation program.

Common Stock and Class B Stock

On the date of demutualization, Prudential Financial completed an initial public offering of its Common Stock at an initial public offering price of $27.50 per share. The shares of Common Stock issued were in addition to shares of Common Stock the Company distributed to policyholders as part of the demutualization. The Common Stock is traded on the New York Stock Exchange under the symbol PRU. Also on the date of demutualization, Prudential Financial completed the sale, through a private placement, of 2.0 million shares of Class B Stock at a price of $87.50 per share. The Class B Stock is a separate class of common stock which is not publicly traded. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

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Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses and holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

Common Stock Held in Treasury

Common Stock held in treasury is accounted for at average cost. Gains resulting from the reissuance of Common Stock held in treasury are credited to Additional paid-in capital. Losses resulting from the reissuance of Common Stock held in treasury are charged first to Additional paid-in capital to the extent the Company has previously recorded gains on treasury share transactions, then to Retained earnings.

In June 2012, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock through June 2013. Under this authorization, 6.6 million shares of the Company s Common Stock were repurchased at a total cost of $400 million, of which 3.9 million shares were repurchased in the first six months of 2013 at a total cost of $250 million.

In June 2013, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock through June 2014. As of December 31, 2013, 6.1 million shares of the Company s Common Stock were repurchased under this authorization at a total cost of $500 million.

The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Exchange Act. Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions on the segments.

Stock Conversion Rights of the Class B Stock

Prudential Financial may, at its option, at any time, exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 120% of the appraised fair market value of the outstanding shares of Class B Stock.

Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised fair market value of the outstanding shares of Class B Stock (1) in the holder s sole discretion, beginning on January 1, 2016, and (2) at any time in the event that (a) the Class B Stock is no longer treated as equity of Prudential Financial for federal income tax purposes or (b) the New Jersey Department of Banking and Insurance changes the regulation of the Closed Block, the Closed Block Business, the Class B Stock or the IHC debt in a manner that materially adversely affects the CB Distributable Cash Flow (described below); provided, however, that a holder of Class B Stock may not convert its shares if such holder would become, upon such conversion, the beneficial owner (as defined under the Securities Exchange Act of 1934) of over 9.9% of the total outstanding voting power of Prudential Financial s voting securities. In the event a holder of shares of Class B Stock requests to convert shares pursuant to clause (2)(a) in the preceding sentence, Prudential Financial may elect, instead of

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effecting such conversion, to increase the Target Dividend Amount of the Class B Stock from $9.625 to $12.6875 per share per annum, retroactively from the time of issuance of the Class B Stock.

Preferred Stock

As of December 31, 2013 and 2012, the Company had no preferred stock outstanding. The Company previously maintained a shareholder rights plan; however, the rights plan expired on December 18, 2011.

Dividends

The declaration and payment of dividends on the Common Stock is limited by New Jersey corporate law, pursuant to which Prudential Financial is prohibited from paying a Common Stock dividend if, after giving effect to that dividend, either (a) the Company would be unable to pay its debts as they become due in the usual course of its business or (b) the Company s total assets would be less than its liabilities. This limitation is applied both as if the Financial Services Businesses were a separate corporation and on a consolidated basis after taking into account dividends on the Class B Stock. In addition, the terms of the Company s outstanding junior subordinated debt include a dividend stopper provision that restricts the payment of dividends on the Common Stock and Class B Stock if interest payments are not made on the junior subordinated debt. The terms of the Class B Stock also restrict dividends on the Common Stock in certain circumstances as described below. Further, as a Designated Financial Company under Dodd-Frank, Prudential Financial is to be subject to minimum risk-based capital and leverage requirements and to the submission of annual capital plans to the Board of Governors of the Federal Reserve System. Prudential Financial s compliance with these and other requirements under the Dodd-Frank Act could limit its ability to pay Common Stock dividends in the future.

As of December 31, 2013, the Company s U.S. GAAP retained earnings were $14,531 million. Other than the above limitations, this amount is free of restrictions for the payment of Common Stock dividends. However, Common Stock dividends will be dependent upon the financial condition, results of operations, cash needs, future prospects and other factors relating to the Financial Services Businesses, including cash available to Prudential Financial, the parent holding company. The principal sources of funds available to Prudential Financial are dividends and returns of capital from its subsidiaries, repayments of operating loans from its subsidiaries and cash and short-term investments. The primary uses of funds at Prudential Financial include servicing its debt, operating expenses, capital contributions and loans to subsidiaries, the payment of declared shareholder dividends and repurchases of outstanding shares of Common Stock if executed under Board authority. As of December 31, 2013, Prudential Financial had cash and short term investments, excluding amounts held in an intercompany liquidity account, of $4,354 million.

Future cash available at Prudential Financial to support the payment of future Common Stock dividends is dependent on the receipt of dividends or other funds from its subsidiaries, the majority of which are subject to comprehensive regulation, including limitations on their payment of dividends and other transfers of funds, which are discussed below.

With respect to Prudential Insurance, the Company s primary domestic insurance subsidiary, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by Prudential Insurance may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less cumulative unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2013, Prudential Insurance s unassigned surplus was $4,439 million, and it recorded applicable adjustments for cumulative unrealized investment gains of $2,304 million. Prudential Insurance must give prior notification to the New Jersey Department of Banking and Insurance (NJDOBI) of its intent to pay any such dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of Prudential Insurance s statutory surplus as of the preceding December 31 ($938 million as of December 31, 2013) or (ii) its statutory net gain from operations excluding realized investment gains and

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losses for the twelve-month period ending on the preceding December 31 ($1,252 million for the year ended December 31, 2013), the dividend is considered to be an extraordinary dividend and requires the prior approval of NJDOBI. Under New Jersey insurance law, Prudential Insurance is permitted to pay a dividend of $1,252 million in 2014 without prior approval of NJDOBI.

The laws regulating dividends of the states where the Company s other domestic insurance subsidiaries are domiciled are similar, but not identical, to New Jersey s. Prudential Annuities Life Assurance Corporation (PALAC), an Arizona-domiciled insurer that is a direct subsidiary of Prudential Financial, is permitted to pay a dividend of $143 million in 2014 with prior notification to the Arizona Department of Insurance.

The Company s international insurance operations are subject to dividend restrictions from the regulatory authorities in the jurisdictions in which they operate. With respect to The Prudential Life Insurance Company Ltd. (Prudential of Japan) and Gibraltar Life, the Company s most significant international insurance subsidiaries, both of which are domiciled in Japan, Japan insurance law provides that common stock dividends may be paid in an amount of up to 83% of prior fiscal year statutory after-tax earnings, after certain reserving thresholds are met, including providing for policyholder dividends. If statutory retained earnings exceed 100% of statutory paid-in-capital, 100% of prior year statutory after-tax earnings may be paid, after reserving thresholds are met. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the Japan Financial Services Agency (FSA). Additionally, Prudential of Japan and Gibraltar Life must give prior notification to the FSA of their intent to pay any dividend or distribution. In 2013, Prudential of Japan paid a dividend of ¥25.0 billion, or $255 million, of which approximately $249 million was ultimately paid to Prudential Financial. Prudential of Japan has met the statutory retained earnings level necessary to dividend up to 100% of prior year statutory after-tax earnings. Prudential of Japan s and Gibraltar Life s current regulatory fiscal year will end March 31, 2014, at which time the common stock dividend amount permitted to be paid without prior approval from the FSA will be determinable. Although Gibraltar Life may be able to pay common stock dividends under applicable legal and regulatory restrictions, Gibraltar Life does not anticipate paying common stock dividends for several years as it anticipates returning capital through other means, such as the repayment of subordinated debt or preferred stock obligations held by Prudential Financial or affiliates. The prior approval of the FSA is required for such capital distributions.

In addition, although prior regulatory approval may not be required by law for the payment of dividends up to the limitations described above, in practice, the Company would typically discuss any dividend payments with the applicable regulatory authority prior to payment. Additionally, the payment of dividends by the Company s subsidiaries is subject to declaration by their Board of Directors and may be affected by market conditions and other factors.

The declaration and payment of dividends on the Class B Stock depends upon the financial performance of the Closed Block Business and, as the Closed Block matures, the holders of the Class B Stock will receive the surplus of the Closed Block Business no longer required to support the Closed Block for regulatory purposes. In addition, dividends on the Class B Stock are payable in an aggregate amount per year at least equal to the lesser of (1) a Target Dividend Amount of $19.25 million or (2) the CB Distributable Cash Flow for such year, which is a measure of the net cash flows of the Closed Block Business. Notwithstanding this formula, as with any common stock, Prudential Financial retains the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists and Prudential Financial chooses not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount for any period, then cash dividends cannot be paid on the Common Stock with respect to such period.

Statutory Net Income, Capital and Surplus

The Company s domestic insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. These subsidiaries do not utilize prescribed or permitted practices that vary materially from the

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statutory accounting practices prescribed by the National Association of Insurance Commissioners (NAIC). Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Statutory net income (loss) of Prudential Insurance amounted to $1,358 million, $1,382 million and $826 million for the years ended December 31, 2013, 2012 and 2011, respectively. Statutory capital and surplus of Prudential Insurance amounted to $9,383 million and $8,699 million at December 31, 2013 and 2012, respectively. Statutory net income (loss) of PALAC amounted to $406 million, $217 million and $177 million for the years ended December 31, 2013, 2012 and 2011, respectively. Statutory capital and surplus of PALAC amounted to $443 million and $448 million at December 31, 2013 and 2012, respectively.

The Risk Based Capital (RBC) ratio is a primary measure by which the Company and its insurance regulators evaluate the capital adequacy of Prudential Insurance and the Company s other domestic insurance subsidiaries. The RBC ratio for Prudential Insurance includes both the Financial Services Businesses and Closed Block Business. RBC is determined by NAIC- prescribed formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer s products and liabilities, interest rate risks and general business risks. If a subsidiary s Total Adjusted Capital (TAC), as calculated in a manner prescribed by the NAIC, falls below the Company Action Level RBC, corrective action is required. As of December 31, 2013, Prudential Insurance and PALAC both had Total Adjusted Capital levels in excess of 4.0 times the regulatory required minimums that would require corrective action.

The Company s international insurance subsidiaries prepare financial statements in accordance with local regulatory requirements, and they do not utilize regulatory accounting practices that vary materially from the applicable prescribed regulatory accounting practices. These statutory accounting practices differ from U.S. GAAP primarily by charging policy acquisition costs to expense as incurred and establishing future policy benefit liabilities using different actuarial assumptions, as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

The FSA utilizes a solvency margin ratio to evaluate the capital adequacy of Japanese insurance companies. The solvency margin ratio considers the level of solvency margin capital to a solvency margin risk amount, which is calculated in a similar manner to RBC. As of December 31, 2013, Prudential of Japan and Gibraltar Life both had solvency margin capital in excess of 3.5 times the regulatory required minimums that would require corrective action.

All of the Company s domestic and international insurance subsidiaries have capital and surplus levels that exceed their respective regulatory minimum requirements.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the years ended December 31, are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2010	$ 866	$ 3,245	$ (1,461)	$ 2,650
Change in other comprehensive income before reclassifications	309	4,169	(385)	4,093
Amounts reclassified from AOCI	50	(335)	88	(197)
Income tax benefit (expense)	(118)	(1,274)	91	(1,301)
Balance, December 31, 2011	1,107	5,805	(1,667)	5,245
Change in other comprehensive income before reclassifications	(303)	8,596	(800)	7,493
Amounts reclassified from AOCI	6	36	101	143
Income tax benefit (expense)	118	(3,035)	250	(2,667)
Balance, December 31, 2012	928	11,402	(2,116)	10,214
Change in other comprehensive income before reclassifications	(1,465)	(1,239)	749	(1,955)
Amounts reclassified from AOCI	4	(289)	125	(160)
Income tax benefit (expense)	420	470	(308)	582
Balance, December 31, 2013	$ (113)	$ 10,344	$ (1,550)	$ 8,681

(1) Includes cash flow hedges of ($446) million, ($257) million and ($86) million as of December 31, 2013, 2012, and 2011, respectively.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Year Ended December 31, 2013 (in millions)	Affected line item in Consolidated Statements of Operations

Amounts reclassified from AOCI(1)(2):			
Foreign currency translation adjustment:			
Foreign currency translation adjustment	$	0	Realized investment gains (losses), net
Foreign currency translation adjustment		(4)	Other income
Total foreign currency translation adjustment		(4)	
Net unrealized investment gains (losses):			
Cash flow hedges Interest Rate		(24)	(3)
Cash flow hedges Currency/Interest rate		(104)	(3)
Net unrealized investment gains (losses) on available-for-sale securities		351	
Net unrealized investment gains (losses) all other		66	
Total net unrealized investment gains (losses)		289	(4)
Amortization of defined benefit items:			
Prior service cost		22	(5)
Actuarial gain (loss)		(147)	(5)
Total amortization of defined benefit items		(125)	
Total reclassifications for the period	$	160	

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(1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(3) See Note 21 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders dividends.
(5) See Note 18 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities classified as available-for-sale and certain other long-term investments and other assets are included in the Company s Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from Other comprehensive income (loss) those items that are included as part of Net income for a period that had been part of Other comprehensive income (loss) in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

Net Unrealized Investment Gains and Losses on Fixed Maturity Securities on which an OTTI loss has been recognized

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits and Policyholders Account Balances	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2010	$ (849)	$ 18	$ (5)	$ 334	$ 175	$ (327)
Net investment gains (losses) on investments arising during the period	(474)				166	(308)
Reclassification adjustment for (gains) losses included in net income	375				(131)	244
Reclassification adjustment for OTTI losses excluded from net income(1)	(55)				19	(36)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(5)			2	(3)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			19		(7)	12
Impact of net unrealized investment (gains) losses on policyholders dividends				132	(46)	86
Balance, December 31, 2011	$ (1,003)	$ 13	$ 14	$ 466	$ 178	$ (332)

Net investment gains (losses) on investments arising during the period	590		(207)	383
Reclassification adjustment for (gains) losses included in net income	312		(109)	203
Reclassification adjustment for OTTI losses excluded from net income(1)	(93)		33	(60)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(10)	4	(6)

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	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits and Policyholders Account Balances	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(11)		5	(6)
Impact of net unrealized investment (gains) losses on policyholders dividends				(327)	114	(213)
Balance, December 31, 2012	$ (194)	$ 3	$ 3	$ 139	$ 18	$ (31)
Net investment gains (losses) on investments arising during the period	242				(85)	157
Reclassification adjustment for (gains) losses included in net income	70				(25)	45
Reclassification adjustment for OTTI losses excluded from net income(1)	(8)				3	(5)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(8)			3	(5)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			1			1
Impact of net unrealized investment (gains) losses on policyholders dividends				(75)	26	(49)
Balance, December 31, 2013	$ 110	$ (5)	$ 4	$ 64	$ (60)	$ 113

(1) Represents transfers in related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits and Policyholders Account Balances	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2010	$ 9,261	$ (766)	$ (901)	$ (2,454)	$ (1,568)	$ 3,572

Net investment gains (losses) on investments arising during the period	7,142		(2,449)	4,693
Reclassification adjustment for (gains) losses included in net income	(710)		250	(460)
Reclassification adjustment for OTTI losses excluded from net income(2)	55		(19)	36
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(413)	141	(272)

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	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Value of Business Acquired	Future Policy Benefits and Policyholders Account Balances	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(369)		129	(240)
Impact of net unrealized investment (gains) losses on policyholders dividends				(1,865)	673	(1,192)
Balance, December 31, 2011	$ 15,748	$ (1,179)	$ (1,270)	$ (4,319)	$ (2,843)	$ 6,137
Net investment gains (losses) on investments arising during the period	9,586				(3,373)	6,213
Reclassification adjustment for (gains) losses included in net income	(276)				97	(179)
Reclassification adjustment for OTTI losses excluded from net income(2)	93				(32)	61
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(49)			17	(32)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			126		(43)	83
Impact of net unrealized investment (gains) losses on policyholders dividends				(1,308)	458	(850)
Balance, December 31, 2012	$ 25,151	$ (1,228)	$ (1,144)	$ (5,627)	$ (5,719)	$ 11,433
Net investment gains (losses) on investments arising during the period	(4,306)				1,443	(2,863)
Reclassification adjustment for (gains) losses included in net income	(359)				126	(233)
Reclassification adjustment for OTTI losses excluded from net income(2)	8				(3)	5
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		509			(178)	331
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			465		(164)	301
Impact of net unrealized investment (gains) losses on policyholders dividends				1,933	(676)	1,257
Balance, December 31, 2013	$ 20,494	$ (719)	$ (679)	$ (3,694)	$ (5,171)	$ 10,231

(1) Includes cash flow hedges. See Note 21 for information on cash flow hedges.
(2) Represents transfers out related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

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16. EARNINGS PER SHARE

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock.

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with U.S. GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company s methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses. The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

Common Stock

A reconciliation of the numerators and denominators of the basic and diluted per share computations for the years ended December 31, is as follows:

	2013			2012			2011		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
Basic earnings per share									
Income (loss) from continuing operations attributable to the Financial Services Businesses	$ (613)			$ 512			$ 3,485		
Direct equity adjustment	2			20			24		
Less: Income attributable to noncontrolling interests	107			50			34		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	8			7			46		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ (726)	463.1	$ (1.57)	$ 475	465.6	$ 1.02	$ 3,429	480.2	$ 7.14
Effect of dilutive securities and compensation programs(1)									
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 8			$ 7			$ 46		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	8			7			46		
Stock options		0.0			1.9			2.9	
Deferred and long-term compensation programs		0.0			0.6			0.5	
Exchangeable Surplus Notes	0	0.0		0	0.0		17	5.1	
Diluted earnings per share(1)(2)									
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ (726)	463.1	$ (1.57)	$ 475	468.1	$ 1.01	$ 3,446	488.7	$ 7.05

(1) For the twelve months ended December 31, 2013, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a loss from continuing operations is reported. As a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment for the twelve months ended December 31, 2013, all potential stock options and compensation programs were considered antidilutive.

(2) For the twelve months ended December 31, 2012, weighted average shares used for calculating diluted earnings per share excludes the potential shares that would be issued related to the exchangeable surplus notes since the hypothetical impact of these shares was antidilutive. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued related to the exchangeable surplus notes assuming a hypothetical exchange, weighted for the period the notes are outstanding, is added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

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Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of income from continuing operations available to holders of Common Stock after direct equity adjustment, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of loss from continuing operations available to holders of Common Stock after direct equity adjustment, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the years ended December 31, 2013, 2012 and 2011, as applicable, were based on 4.4 million, 4.6 million and 6.5 million of such awards, respectively, weighted for the period they were outstanding.

Stock options and shares related to deferred and long-term compensation programs that are considered antidilutive are excluded from the computation of dilutive earnings per share. Stock options are considered antidilutive based on application of the treasury stock method or in the event of loss from continuing operations available to holders of Common Stock after direct equity adjustment. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of loss from continuing operations available to holders of Common Stock after direct equity adjustment. For the years ended December 31, the number of stock options and shares related to deferred and long-term compensation programs that were considered antidilutive and were excluded from the computation of diluted earnings per share, weighted for the portion of the period they were outstanding, are as follows:

	2013		2012		2011	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)					
Antidilutive stock options based on application of the treasury stock method	6.6	$ 73.51	13.3	$ 69.80	10.8	$ 73.01
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	12.2		0.0		0.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	5.2		0.0		0.0	
Total antidilutive stock options and shares	24.0		13.3		10.8	

In September 2009, the Company issued $500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The initial exchange rate for the surplus notes was 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of $98.78; however, the exchange rate is subject to customary anti-dilution adjustments. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, are added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

As discussed in Note 15, Prudential Financial may, at its option, at any time, subject to a notification period, exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 120% of the appraised fair market value of the outstanding shares of Class B Stock. Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised fair market value of the outstanding shares of Class B Stock in the holder s sole discretion, beginning on January 1, 2016, or earlier upon certain specified events. Any conversion may have a dilutive effect on holders of Common Stock.

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Class B Stock

Income from continuing operations per share of Class B Stock for the years ended December 31, are presented below. There are no potentially dilutive shares associated with the Class B Stock.

	2013			2012			2011		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)								
Basic earnings per share									
Income (loss) from continuing operations attributable to the Closed Block Business	$ 46			$ 43			$ 146		
Less: Direct equity adjustment	2			20			24		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 44	2.0	$ 22.00	$ 23	2.0	$ 11.50	$ 122	2.0	$ 61.00

17. SHARE-BASED PAYMENTS

Omnibus Incentive Plan

The Prudential Financial, Inc. Omnibus Incentive Plan (as subsequently amended and restated, the Omnibus Plan) provides stock based awards including stock options, stock appreciation rights, restricted stock shares, restricted stock units, stock settled performance shares, and cash settled performance units. Dividend equivalents are generally provided on restricted stock shares and restricted stock units outstanding as of the record date. Dividend equivalents are generally accrued on target performance shares and units outstanding as of the record date. These dividend equivalents are paid only on the shares and units released up to a maximum of the target number of shares and units awarded. Generally, the requisite service period is the vesting period. As of December 31, 2013, 14,220,662 authorized shares remain available for grant under the Omnibus Plan.

Compensation Costs

Compensation cost for employee stock options is based on the fair values estimated on the grant date, using the approach and assumptions described below. Compensation cost for restricted stock units, performance shares and performance units granted to employees is measured by the share price of the underlying Common Stock at the date of grant.

The fair value of each stock option award is estimated using a binomial option-pricing model on the date of grant for stock options issued to employees. The weighted average grant date assumptions used in the binomial option valuation model are as follows:

	2013	2012	2011
Expected volatility	36.44%	41.80%	39.86%
Expected dividend yield	3.00%	3.00%	2.00%
Expected term	5.52 years	5.44 years	5.28 years
Risk-free interest rate	1.01%	0.93%	2.48%

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Expected volatilities are based on historical volatility of the Company s Common Stock and implied volatilities from traded options on the Company s Common Stock. The Company uses historical data and expectations of future exercise patterns to estimate option exercises and employee terminations within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods associated with the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following chart summarizes the compensation cost recognized and the related income tax benefit for stock options, restricted stock units, performance shares and performance units for the years ended December 31:

	2013		2012		2011	
	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit	Total Compensation Cost Recognized	Income Tax Benefit
			(in millions)			
Employee stock options	$ 43	$ 15	$ 45	$ 16	$ 44	$ 16
Employee restricted stock units	88	32	84	30	83	30
Employee performance shares and performance units	86	31	26	9	14	5
Total	$ 217	$ 78	$ 155	$ 55	$ 141	$ 51

Compensation costs for all stock based compensation plans capitalized in deferred acquisition costs for the years ended December 31, 2013, 2012 and 2011 were de minimis.

Stock Options

Each stock option granted has an exercise price no less than the fair market value of the Company s Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years.

A summary of the status of the Company s stock option grants is as follows:

	Employee Stock Options	
	Shares	Weighted Average Exercise Price

Outstanding at December 31, 2012	18,617,380	$	60.59
Granted	3,094,117		57.16
Exercised	(5,662,522)		50.82
Forfeited	(83,243)		58.83
Expired	(971,283)		72.81
Outstanding at December 31, 2013	14,994,449	$	62.79
Vested and expected to vest at December 31, 2013	14,782,007	$	62.87
Exercisable at December 31, 2013	9,491,924	$	65.16

The weighted average grant date fair value of employee stock options granted during the years ended December 31, 2013, 2012 and 2011 was $13.72, $16.36 and $20.21, respectively.

The total intrinsic value (i.e., market price of the stock less the option exercise price) of employee stock options exercised during the years ended December 31, 2013, 2012 and 2011 was $146 million, $66 million, and $49 million, respectively.

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The weighted average remaining contractual term and the aggregate intrinsic value of stock options outstanding, vested and expected to vest and exercisable as of December 31, 2013 is as follows:

	December 31, 2013 Employee Stock Options	
	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding	5.61	$ 441
Vested and expected to vest	5.56	$ 434
Exercisable	4.08	$ 257

Restricted Stock Units, Performance Share Awards and Performance Unit Awards

A restricted stock unit is an unfunded, unsecured right to receive a share of Common Stock at the end of a specified period of time, which is subject to forfeiture and transfer restrictions. Generally, the restrictions will lapse on the third anniversary of the date of grant. Performance shares and performance units are awards denominated in Common Stock. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals. Performance share awards are payable in Common Stock. Performance unit awards are payable in cash.

A summary of the Company s restricted stock units and performance shares and performance unit awards is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value	Performance Share and Performance Unit Awards(1)	Weighted Average Grant Date Fair Value
Restricted at December 31, 2012(2)	4,367,161	$ 56.87	933,372	$ 53.33
Granted(2)	1,613,079	57.94	392,220	92.22
Forfeited	(124,883)	58.69	(15,438)	63.77
Performance adjustment(3)			38,370	57.00
Released	(1,491,251)	48.92	(335,534)	57.00
Restricted at December 31, 2013(2)	4,364,106	$ 59.93	1,012,990	$ 92.22

(1) Performance share and performance unit awards reflect the target awarded, reduced for cancellations and releases to date. The actual number of units to be awarded at the end of each performance period will range between 0% and 150% of the target number of awards granted, based upon a measure of the reported performance for the Company s Financial Services Businesses relative to stated goals.
(2) For performance share and performance unit awards issued after January 1, 2010, the grant date is the same as the date the grant vests. The features of the grant are such that a mutual understanding of the key terms and conditions of the award between the employee and employer have not been reached until the grant is vested. Consequently, the weighted average grant date fair value as of December 31, 2013 and December 31, 2012 is the year end closing stock price of Prudential Financial s common stock.
(3) Represents the change in shares issued based upon the attainment of performance goals for the Company s Financial Services Businesses.

The fair market value of restricted stock units, performance shares and performance units released for the years ended December 31, 2013, 2012 and 2011 was $106 million, $196 million and $75 million, respectively.

The weighted average grant date fair value for restricted stock units granted during the years ended December 31, 2013, 2012 and 2011 was $57.94, $58.89 and $63.39, respectively. The weighted average grant date fair value for performance shares and performance units granted during the years ended December 31, 2013, 2012 and 2011 was $92.22, $53.33 and $50.12, respectively.

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The number of restricted stock units, performance shares and performance units expected to vest at December 31, 2013 is 5,346,669.

Unrecognized Compensation Cost

Unrecognized compensation cost for stock options as of December 31, 2013 was $17 million with a weighted average recognition period of 1.61 years. Unrecognized compensation cost for restricted stock units, performance shares and performance units as of December 31, 2013 was $84 million with a weighted average recognition period of 1.66 years.

Tax Benefits Realized

The tax benefit realized for exercises of stock options during the years ended December 31, 2013, 2012 and 2011 was $51 million, $21 million and $18 million, respectively.

The tax benefit realized upon vesting of restricted stock units, performance shares and performance units for the years ended December 31, 2013, 2012 and 2011 was $38 million, $69 million and $26 million, respectively.

Settlement of Awards

The Company s policy is to issue shares from Common Stock held in treasury upon exercise of stock options, the release of restricted stock units and performance shares. The Company began settling performance units in cash beginning in 2013. The amount of cash used to settle performance units in 2013 was $10 million.

18. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans, which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service, while benefits for other employees are based on an account balance that takes into consideration age, service and earnings during their career.

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (other postretirement benefits). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company s U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service. The Company has elected to amortize its transition obligation for other postretirement benefits over 20 years.

On December 6, 2013, the Company transferred $340 million of assets within the qualified pension plan under Section 420 of the Internal Revenue Code from assets supporting pension benefits to assets supporting retiree medical and life benefits. The transfer resulted in a reduction to the prepaid benefit cost for the qualified pension plan and an offsetting decrease in the accrued benefit liability for the postretirement plan with no net effect on stockholders equity on the Company s consolidated financial position. The transfer had no impact on the Company s consolidated results of operations, but will reduce the future cash contributions required to be made to the postretirement plan.

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Prepaid benefits costs and accrued benefit liabilities are included in Other assets and Other liabilities, respectively, in the Company s Consolidated Statements of Financial Position. The status of these plans as of December 31, 2013 and 2012 is summarized below:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(in millions)			
Change in benefit obligation				
Benefit obligation at the beginning of period	$ (12,042)	$ (11,113)	$ (2,372)	$ (2,277)
Acquisition/Divestiture	0	0	(3)	0
Service cost	(252)	(243)	(17)	(14)
Interest cost	(437)	(474)	(89)	(101)
Plan participants contributions	0	0	(28)	(27)
Medicare Part D subsidy receipts	0	0	(12)	(18)
Amendments	(2)	62	0	0
Annuity purchase	1	1	0	0
Actuarial gains/(losses), net	844	(1,098)	220	(134)
Settlements	5	120	0	0
Special termination benefits	(2)	(8)	0	0
Benefits paid	691	599	200	200
Foreign currency changes and other	308	112	(1)	(1)
Benefit obligation at end of period	$ (10,886)	$ (12,042)	$ (2,102)	$ (2,372)
Change in plan assets				
Fair value of plan assets at beginning of period	$ 12,686	$ 11,812	$ 1,329	$ 1,344
Actual return on plan assets	266	1,097	244	140
Annuity purchase	(1)	(1)	0	0
Employer contributions	206	496	18	18
Plan participants contributions	0	0	28	27
Disbursement for settlements	(5)	(120)	0	0
Benefits paid	(691)	(599)	(200)	(200)
Foreign currency changes and other	(52)	1	(14)	0
Effect of Section 420 transfer	(340)	0	340	0
Fair value of plan assets at end of period	$ 12,069	$ 12,686	$ 1,745	$ 1,329
Funded status at end of period	$ 1,183	$ 644	$ (357)	$ (1,043)
Amounts recognized in the Statements of Financial Position				
Prepaid benefit cost	$ 3,354	$ 3,130	$ 0	$ 0
Accrued benefit liability	(2,171)	(2,486)	(357)	(1,043)
Net amount recognized	$ 1,183	$ 644	$ (357)	$ (1,043)
Items recorded in Accumulated other comprehensive income (loss) not yet recognized as a component of net periodic (benefit) cost:				
Transition obligation	$ 0	$ 0	$ 0	$ 0

Prior service cost	(56)	(81)	(19)	(30)
Net actuarial loss	2,065	2,548	463	893
Net amount not recognized	$ 2,009	$ 2,467	$ 444	$ 863
Accumulated benefit obligation	$ (10,374)	$ (11,502)	$ (2,102)	$ (2,372)

In addition to the plan assets above, the Company in 2007 established an irrevocable trust, commonly referred to as a rabbi trust, for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans ($918 million and $998 million benefit obligation at December 31, 2013 and 2012, respectively). Assets held in the rabbi trust are available to the general creditors of the Company in the event of insolvency or bankruptcy. The Company may from time to time in its discretion

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make contributions to the trust to fund accrued benefits payable to participants in one or more of the plans, and, in the case of a change in control of the Company, as defined in the trust agreement, the Company will be required to make contributions to the trust to fund the accrued benefits, vested and unvested, payable on a pretax basis to participants in the plans. The Company made a discretionary payment of $95 million and $0 million to the trust in 2013 and 2012, respectively. As of December 31, 2013 and 2012, the assets in the trust had a carrying value of $561 million and $445 million, respectively.

The Company also maintains a separate rabbi trust for the purpose of holding assets of the Company to be used to satisfy its obligations with respect to certain other non-qualified retirement plans ($73 million and $80 million benefit obligation at December 31, 2013 and 2012, respectively), as well as certain cash-based deferred compensation arrangements. As of December 31, 2013 and 2012, the assets in the trust had a carrying value of $116 million and $135 million, respectively.

Pension benefits for foreign plans comprised 16% of the ending benefit obligation for both 2013 and 2012, respectively. Foreign pension plans comprised 5% of the ending fair value of plan assets for both 2013 and 2012. There are no material foreign postretirement plans.

Information for pension plans with a projected benefit obligation in excess of plan assets

	2013	2012
	(in millions)	
Projected benefit obligation	$ 2,457	$ 2,820
Fair value of plan assets	$ 286	$ 334

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	2013	2012
	(in millions)	
Accumulated benefit obligation	$ 2,258	$ 2,603
Fair value of plan assets	$ 258	$ 311

In 2013 and 2012 the pension plans purchased annuity contracts from Prudential Insurance for $1 million. The approximate future annual benefit payment payable by Prudential Insurance for all annuity contracts was $21 million and $18 million as of December 31, 2013 and 2012, respectively.

There were pension plan amendments in 2013 and 2012. In 2013 the benefit obligation for pension benefits increased $2 million for immediately vesting employees due to the Section 420 transfer. In 2012 the benefit obligation for pension benefits decreased $62 million to reduce future pension benefits associated with the cash balance feature of certain domestic plans and changes in benefit structures for Japanese plans. There were no postretirement plan amendments in 2013 and 2012.

Components of Net Periodic Benefit Cost

The Company uses market related value to determine components of net periodic (benefit) cost. Market related value recognizes certain changes in fair value of plan assets over a period of five years. Changes in the fair value of U.S Equities, International Equities, Real Estate and Other Assets are recognized over a five year period. However, the fair value for Fixed Maturity assets (including short term investments) are recognized immediately for the purposes of market related value.

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Net periodic (benefit) cost included in General and administrative expenses in the Company s Consolidated Statements of Operations for the years ended December 31, includes the following components:

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
	(in millions)					
Service cost	$ 252	$ 243	$ 218	$ 17	$ 14	$ 11
Interest cost	437	474	486	89	101	110
Expected return on plan assets	(769)	(809)	(756)	(87)	(87)	(98)
Amortization of transition obligation	0	0	0	0	1	1
Amortization of prior service cost	(10)	13	23	(12)	(12)	(12)
Amortization of actuarial (gain) loss, net	91	45	40	56	54	36
Settlements	0	9	5	0	0	0
Curtailments	0	0	(18)	0	0	0
Special termination benefits(1)	2	7	4	0	0	0
Net periodic (benefit) cost(2)	$ 3	$ (18)	$ 2	$ 63	$ 71	$ 48

(1) Certain employees were provided special termination benefits under non-qualified plans in the form of unreduced early retirement benefits as a result of their involuntary termination.
(2) Includes net periodic (benefit) cost for pensions of $0 million, $0 million and ($18) million for 2013, 2012 and 2011, respectively, that have been classified as discontinued operations.

Changes in Accumulated Other Comprehensive Income

The amounts recorded in Accumulated other comprehensive income (loss) as of the end of the period, which have not yet been recognized as a component of net periodic (benefit) cost, and the related changes in these items during the period that are recognized in Other Comprehensive Income are as follows:

	Pension Benefits			Other Postretirement Benefits		
	Transition Obligation	Prior Service Cost	Net Actuarial (Gain) Loss	Transition Obligation	Prior Service Cost	Net Actuarial (Gain) Loss
	(in millions)					
Balance, December 31, 2010	$ 0	$ 87	$ 1,674	$ 1	$ (54)	$ 622
Amortization for the period	0	(23)	(40)	(1)	12	(36)
Deferrals for the period	0	(72)	187	0	0	277
Impact of foreign currency changes and other	0	(1)	(6)	1	0	(2)

Balance, December 31, 2011	0	(9)	1,815	1	(42)	861
Amortization for the period	0	(13)	(45)	(1)	12	(54)
Deferrals for the period	0	(62)	810	0	0	81
Impact of foreign currency changes and other	0	3	(32)	0	0	5
Balance, December 31, 2012	0	(81)	2,548	0	(30)	893
Amortization for the period	0	10	(91)	0	12	(56)
Deferrals for the period	0	2	(341)	0	0	(377)
Impact of foreign currency changes and other	0	13	(51)	0	(1)	3
Balance, December 31, 2013	$ 0	$ (56)	$ 2,065	$ 0	$ (19)	$ 463

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The amounts included in Accumulated other comprehensive income (loss) expected to be recognized as components of net periodic (benefit) cost in 2014 are as follows:

	Pension Benefits	Other Postretirement Benefits
	(in millions)	
Amortization of prior service cost	$ (10)	$ (11)
Amortization of actuarial (gain) loss, net	86	25
Total	$ 76	$ 14

The Company s assumptions related to the calculation of the domestic benefit obligation (end of period) and the determination of net periodic (benefit) cost (beginning of period) are presented in the table below:

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Weighted-average assumptions						
Discount rate (beginning of period)	4.05%	4.85%	5.60%	3.85%	4.60%	5.35%
Discount rate (end of period)	4.95%	4.05%	4.85%	4.75%	3.85%	4.60%
Rate of increase in compensation levels (beginning of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Rate of increase in compensation levels (end of period)	4.50%	4.50%	4.50%	N/A	N/A	N/A
Expected return on plan assets (beginning of period)	6.25%	6.75%	7.00%	7.00%	7.00%	7.00%
Health care cost trend rates (beginning of period)	N/A	N/A	N/A	5.00-7.50%	5.00-7.50%	5.00-7.50%
Health care cost trend rates (end of period)	N/A	N/A	N/A	5.00-7.08%	5.00-7.50%	5.00-7.50%
For 2013, 2012 and 2011, the ultimate health care cost trend rate after gradual decrease until: 2019, 2017, 2017, (beginning of period)	N/A	N/A	N/A	5.00%	5.00%	5.00%
For 2013, 2012 and 2011, the ultimate health care cost trend rate after gradual decrease until: 2019, 2019, 2017 (end of period)	N/A	N/A	N/A	5.00%	5.00%	5.00%

The domestic discount rate used to value the pension and postretirement obligations at December 31, 2013 and December 31, 2012 is based upon the value of a portfolio of Aa investments whose cash flows would be available to pay the benefit obligation s cash flows when due. The portfolio is selected from a compilation of approximately 515 Aa-rated bonds across the full range of maturities. Since yields can vary widely at each maturity point, the Company generally avoids using the highest and lowest yielding bonds at the maturity points, so as to avoid relying on bonds that might be mispriced or misrated. This refinement process generally results in having a distribution from the 10th to 90th percentile. The Aa portfolio is then selected and, accordingly, its value is a measure of the benefit obligation at December 31, 2013 and December 31, 2012. A single equivalent discount rate is calculated to equate the value of the Aa portfolio to the cash flows for the benefit obligation. The result is rounded to the nearest 5 basis points and the benefit obligation is recalculated using the rounded discount rate.

The pension and postretirement expected long-term rates of return on plan assets for 2013 were determined based upon an approach that considered an expectation of the allocation of plan assets during the measurement period of 2013. Expected returns are estimated by asset class as noted in the discussion of investment policies and strategies below. Expected returns on asset classes are developed using a building-block approach that is forward looking and are not strictly based upon historical returns. The building blocks for equity returns include inflation, real return, a term premium, an equity risk premium, capital appreciation, effect of active management, expenses and the effect of rebalancing. The building blocks for fixed maturity returns include inflation, real return, a term premium, credit spread, capital appreciation, effect of active management, expenses and the effect of rebalancing.

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The Company applied the same approach to the determination of the expected rate of return on plan assets in 2014. The expected rate of return for 2014 is 6.25% and 7.00% for pension and postretirement, respectively.

The assumptions for foreign pension plans are based on local markets. There are no material foreign postretirement plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point increase and decrease in assumed health care cost trend rates would have the following effects:

	Other Postretirement Benefits (in millions)
One percentage point increase	
Increase in total service and interest costs	$ 8
Increase in postretirement benefit obligation	151
One percentage point decrease	
Decrease in total service and interest costs	$ 6
Decrease in postretirement benefit obligation	121

Plan Assets

The investment goal of the domestic pension plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds and other investments. The cash requirements of the pension obligation, which include a traditional formula principally representing payments to annuitants and a cash balance formula that allows lump sum payments and annuity payments, are designed to be met by the bonds and short term investments in the portfolio. The pension plan risk management practices include guidelines for asset concentration, credit rating and liquidity. The pension plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps and futures are used to adjust duration.

The investment goal of the domestic postretirement plan assets is to generate an above benchmark return on a diversified portfolio of stocks, bonds, and other investments, while meeting the cash requirements for the postretirement obligation that includes a medical benefit including prescription drugs, a dental benefit, and a life benefit. The postretirement plans risk management practices include guidelines for asset concentration, credit rating, liquidity, and tax efficiency. The postretirement plan does not invest in leveraged derivatives. Derivatives such as futures contracts are used to reduce transaction costs and change asset concentration, while interest rate swaps and futures are used to adjust duration.

The plan fiduciaries for the Company s pension and postretirement plans have developed guidelines for asset allocations reflecting a percentage of total assets by asset class, which are reviewed on an annual basis. Asset allocation targets as of December 31, 2013 are as follows:

	Pension		Postretirement	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Asset Category				
U.S. Equities	4%	19%	42%	55%
International Equities	4%	20%	1%	9%
Fixed Maturities	51%	70%	1%	46%
Short-term Investments	0%	14%	0%	51%
Real Estate	2%	11%	0%	0%
Other	0%	14%	0%	0%

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To implement the investment strategy, plan assets are invested in funds that primarily invest in securities that correspond to one of the asset categories under the investment guidelines. However, at any point in time, some of the assets in a fund may be of a different nature than the specified asset category.

Assets held with Prudential Insurance are in either pooled separate accounts or single client separate accounts. Pooled separate accounts hold assets for multiple investors. Each investor owns a unit of account. Single client separate accounts hold assets for only one investor, the domestic qualified pension plan and each security in the fund is treated as individually owned. Assets held with a bank are either in common/collective trusts or single client trusts. Common or collective trusts hold assets for more than one investor. Each investor owns a unit of account. Single client trusts hold assets for only one investor, the domestic qualified pension plan and each security in the fund is treated as individually owned.

There were no investments in Prudential Financial Common Stock as of December 31, 2013 and December 31, 2012 for either the pension or postretirement plans.

The authoritative guidance around fair value established a framework for measuring fair value. Fair value is disclosed using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as described in Note 20.

The following describes the valuation methodologies used for pension and postretirement plans assets measured at fair value.

Insurance Company Pooled Separate Accounts, Common or Collective Trusts, and United Kingdom Insurance Pooled Funds Insurance company pooled separate accounts are invested via group annuity contracts issued by Prudential Insurance. Assets are represented by a unit of account. The redemption value of those units is based on a per unit value whose value is the result of the accumulated values of underlying investments. The underlying investments are valued in accordance with the corresponding valuation method for the investments held.

Equities See Note 20 for a discussion of the valuation methodologies for equity securities.

U.S. Government Securities (both Federal and State & Other), Non U.S. Government Securities, *and Corporate Debt* - See Note 20 for a discussion of the valuation methodologies for fixed maturity securities.

Interest Rate Swaps See Note 20 for a discussion of the valuation methodologies for derivative instruments.

Guaranteed Investment Contract The value is based on contract cash flows and available market rates for similar investments.

Registered Investment Companies (Mutual Funds) Securities are priced at the net asset value (NAV) of shares.

Unrealized Gain (Loss) on Investment of Securities Lending Collateral This value is the contractual position relative to the investment of securities lending collateral.

Real Estate The values are determined through an independent appraisal process. The estimate of fair value is based on three approaches; (1) current cost of reproducing the property less deterioration and functional/economic obsolescence; (2) discounting a series of income streams and reversion at a specific yield or by directly capitalizing a single year income estimate by an appropriate factor; and (3) value indicated by recent sales of comparable properties in the market. Each approach requires the exercise of subjective judgment.

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Short-term Investments Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium (i.e., amortized cost). Amortized cost approximates fair value.

Partnerships The value of interests owned in partnerships is based on valuations of the underlying investments that include private placements, structured debt, real estate, equities, fixed maturities, commodities and other investments.

Hedge Funds The value of interests in hedge funds is based on the underlying investments that include equities, debt and other investments.

Variable Life Insurance Policies These assets are held in group and individual variable life insurance policies issued by Prudential Insurance. Group policies are invested in Insurance Company Pooled Separate Accounts. Individual policies are invested in Registered Investment Companies (Mutual Funds). The value of interest in these policies is the cash surrender value of the policies based on the underlying investments.

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Pension plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Pooled separate accounts(1)	$ 0	$ 1,170	$ 0	$ 1,170
Common/collective trusts(1)	0	81	0	81
Subtotal				1,251
International Equities:				
Pooled separate accounts(2)	0	349	0	349
Common/collective trusts(3)	0	40	0	40
United Kingdom insurance pooled funds(4)	0	50	0	50
Subtotal				439
Fixed Maturities:				
Pooled separate accounts(5)	0	1,085	32	1,117
Common/collective trusts(6)	0	506	0	506
U.S. government securities (federal):				
Mortgage-backed	0	2	0	2
Other U.S. government securities	0	1,005	0	1,005
U.S. government securities (state & other)	0	636	0	636
Non-U.S. government securities	0	17	0	17
United Kingdom insurance pooled funds(7)	0	266	0	266
Corporate Debt:				
Corporate bonds(8)	0	3,660	16	3,676
Asset-backed	0	24	0	24
Collateralized Mortgage Obligations(9)	0	137	0	137
Interest rate swaps (Notional amount: $623)	0	(3)	0	(3)
Guaranteed investment contract	0	28	0	28
Other(10)	717	0	66	783
Unrealized gain (loss) on investment of securities lending collateral(11)	0	(39)	0	(39)
Subtotal				8,155
Short-term Investments:				
Pooled separate accounts	0	78	0	78
United Kingdom insurance pooled funds	0	1	0	1
Subtotal				79
Real Estate:				
Pooled separate accounts(12)	0	0	356	356
Partnerships	0	0	320	320

Subtotal				676
Other:				
Partnerships	0	0	374	374
Hedge funds	0	0	1,095	1,095
Subtotal				1,469
Total	$ 717	$ 9,093	$ 2,259	$ 12,069

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	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Pooled separate accounts(1)	$ 0	$ 1,143	$ 0	$ 1,143
Common/collective trusts(1)	0	82	0	82
Subtotal				1,225
International Equities:				
Pooled separate accounts(2)	0	278	0	278
Common/collective trusts(3)	0	103	0	103
United Kingdom insurance pooled funds(4)	0	69	0	69
Subtotal				450
Fixed Maturities:				
Pooled separate accounts(5)	0	1,076	32	1,108
Common/collective trusts(6)	0	567	0	567
U.S. government securities (federal):				
Mortgage-backed	0	3	0	3
Other U.S. government securities	0	1,154	0	1,154
U.S. government securities (state & other)	0	747	0	747
Non-U.S. government securities	0	14	0	14
United Kingdom insurance pooled funds(7)	0	221	0	221
Corporate Debt:				
Corporate bonds(8)	0	3,882	12	3,894
Asset-backed	0	17	0	17
Collateralized Mortgage Obligations(9)	0	293	0	293
Interest rate swaps (Notional amount: $978)	0	(4)	0	(4)
Guaranteed investment contract	0	22	0	22
Other(10)	735	(4)	58	789
Unrealized gain (loss) on investment of securities lending collateral(13)	0	(44)	0	(44)
Subtotal				8,781
Short-term Investments:				
Pooled separate accounts	0	418	0	418
United Kingdom insurance pooled funds	0	0	0	0
Subtotal				418
Real Estate:				
Pooled separate accounts(12)	0	0	322	322
Partnerships	0	0	185	185
Subtotal				507
Other:				
Partnerships	0	0	598	598
Hedge funds	0	0	707	707
Subtotal				1,305
Total	$ 735	$ 10,037	$ 1,914	$ 12,686

(1) These categories invest in U.S. equity funds whose objective is to track or outperform various indexes.
(2) This category invests in a large cap international equity funds whose objective is to track an index.
(3) This category invests in international equity funds, primarily large cap, whose objective is to outperform various indexes.
(4) This category invests in an international equity fund whose objective is to track an index.
(5) This category invests in bond funds, primarily highly rated private placement securities.
(6) This category invests in bond funds, primarily highly rated public securities whose objective is to outperform an index.
(7) This category invests in bond funds, primarily highly rated corporate securities.
(8) This category invests in highly rated corporate securities.
(9) This category invests in highly rated Collateralized Mortgage Obligations.

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(10) Primarily cash and cash equivalents, short term investments, payables and receivables, and open future contract positions (including fixed income collateral).
(11) The contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $701 million and the liability for securities lending collateral is $740 million.
(12) This category invests in commercial real estate and real estate securities funds, whose objective is to outperform an index.
(13) The contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $682 million and the liability for securities lending collateral is $726 million.

Changes in Fair Value of Level 3 Pension Assets

	Year Ended December 31, 2013			
	Fixed Maturities Pooled Separate Accounts	Fixed Maturities Corporate Debt Corporate Bonds	Fixed Maturities Other	Real Estate Pooled Separate Accounts
	(in millions)			
Fair Value, beginning of period	$ 32	$ 12	$ 58	$ 322
Actual Return on Assets:				
Relating to assets still held at the reporting date	0	0	0	46
Relating to assets sold during the period	0	0	0	0
Purchases, sales and settlements	0	4	8	(12)
Transfers in and /or out of Level 3	0	0	0	0
Fair Value, end of period	$ 32	$ 16	$ 66	$ 356

	Year Ended December 31, 2013		
	Real Estate Partnerships	Other Partnerships	Other Hedge Fund
	(in millions)		
Fair Value, beginning of period	$ 185	$ 598	$ 707
Actual Return on Assets:			
Relating to assets still held at the reporting date	35	48	106
Relating to assets sold during the period	0	0	4
Purchases, sales and settlements	100	7	(1)
Transfers in and /or out of Level 3(1)	0	(279)	279
Fair Value, end of period	$ 320	$ 374	$ 1,095

	Year Ended December 31, 2012			
	Fixed Maturities Pooled	Fixed Maturities Corporate	Fixed Maturities Other	Real Estate Pooled Separate

	Separate Accounts	Debt Corporate Bonds		Accounts
			(in millions)	
Fair Value, beginning of period	$ 20	$ 12	$ 62	$ 318
Actual Return on Assets:				
Relating to assets still held at the reporting date	2	(1)	0	40
Relating to assets sold during the period	0	0	0	(1)
Purchases, sales and settlements	10	0	(4)	(35)
Transfers in and /or out of Level 3	0	1	0	0
Fair Value, end of period	$ 32	$ 12	$ 58	$ 322

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	Year Ended December 31, 2012		
	Real Estate Partnerships	Other Partnerships (in millions)	Other Hedge Fund
Fair Value, beginning of period	$ 105	$ 552	$ 678
Actual Return on Assets:			
Relating to assets still held at the reporting date	5	32	57
Relating to assets sold during the period	0	0	0
Purchases, sales and settlements	75	14	(28)
Transfers in and /or out of Level 3	0	0	0
Fair Value, end of period	$ 185	$ 598	$ 707

(1) The transfers in and out of Level 3 represent a reclassification of certain fund assets from Partnerships to Hedge Funds.

Postretirement plan asset allocations in accordance with the investment guidelines are as follows:

	As of December 31, 2013			
	Level 1	Level 2 (in millions)	Level 3	Total
U.S. Equities:				
Variable Life Insurance Policies(1)	$ 0	$ 634	$ 0	$ 634
Common trusts(2)	0	136	0	136
Equities	110	0	0	110
Subtotal				880
International Equities:				
Variable Life Insurance Policies(3)	0	64	0	64
Common trusts(4)	0	23	0	23
Subtotal				87
Fixed Maturities:				
Common trusts(5)	0	29	0	29
U.S. government securities (federal):				
Mortgage-Backed	0	7	0	7
Other U.S. government securities	0	289	0	289
U.S. government securities (state & other)	0	3	0	3
Non-U.S. government securities	0	4	0	4
Corporate Debt:				
Corporate bonds(6)	0	235	1	236
Asset-Backed	0	56	5	61
Collateralized Mortgage Obligations(7)	0	35	0	35
Interest rate swaps (Notional amount: $861)	0	(7)	0	(7)
Other(8)	74	0	(6)	68

Unrealized gain (loss) on investment of securities lending collateral(9)	0	0	0	0
Subtotal				725
Short-term Investments:				
Variable Life Insurance Policies	0	0	0	0
Registered investment companies	53	0	0	53
Subtotal				53
Total	$ 237	$ 1,508	$ 0	$ 1,745

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	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in millions)			
U.S. Equities:				
Variable Life Insurance Policies(1)	$ 0	$ 493	$ 0	$ 493
Common trusts(2)	0	100	0	100
Equities	104	0	0	104
Subtotal				697
International Equities:				
Variable Life Insurance Policies(3)	0	52	0	52
Common trusts(4)	0	18	0	18
Subtotal				70
Fixed Maturities:				
Common trusts(5)	0	29	0	29
U.S. government securities (federal):				
Mortgage-Backed	0	12	0	12
Other U.S. government securities	0	138	0	138
U.S. government securities (state & other)	0	3	0	3
Non-U.S. government securities	0	8	0	8
Corporate Debt:				
Corporate bonds(6)	0	195	2	197
Asset-Backed	0	57	0	57
Collateralized Mortgage Obligations(7)	0	70	0	70
Interest rate swaps (Notional amount: $681)	0	(8)	0	(8)
Other(8)	47	0	(4)	43
Unrealized gain (loss) on investment of securities lending collateral(10)	0	0	0	0
Subtotal				549
Short-term Investments:				
Variable Life Insurance Policies	0	1	0	1
Registered investment companies	12	0	0	12
Subtotal				13
Total	$ 163	$ 1,168	$ (2)	$ 1,329

(1) This category invests in U.S. equity funds, primarily large cap equities whose objective is to track an index via pooled separate accounts and registered investment companies.
(2) This category invests in U.S. equity funds, primarily large cap equities.
(3) This category invests in international equity funds, primarily large cap international equities whose objective is to track an index.
(4) This category fund invests in large cap international equity fund whose objective is to outperform an index.
(5) This category invests in U.S. bonds funds.
(6) This category invests in highly rated corporate bonds.
(7) This category invests in highly rated Collateralized Mortgage Obligations.
(8) Cash and cash equivalents, short term investments, payables and receivables and open future contract positions (including fixed income collateral).
(9) In 2013 the contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $16 million and the liability for securities lending collateral is $16 million.

(10) In 2012 the contractual net value of the investment of securities lending collateral invested in primarily short-term bond funds is $44 million and the liability for securities lending collateral is $44 million.

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Changes in Fair Value of Level 3 Postretirement Assets

	Year Ended December 31, 2013		
	Fixed Maturities Corporate Debt Corporate Bonds	Fixed Maturities Corporate Debt Asset Backed	Fixed Maturities Other
	(in millions)		
Fair Value, beginning of period	$ 2	$ 0	$ (4)
Actual Return on Assets:			
Relating to assets still held at the reporting date	0	0	0
Relating to assets sold during the period	0	0	0
Purchases, sales and settlements	(1)	5	(2)
Transfers in and /or out of Level 3	0	0	0
Fair Value, end of period	$ 1	$ 5	$ (6)

	Year Ended December 31, 2012	
	Fixed Maturities Corporate Debt Corporate Bonds	Fixed Maturities Other
	(in millions)	
Fair Value, beginning of period	$ 2	$ 2
Actual Return on Assets:		
Relating to assets still held at the reporting date	0	0
Relating to assets sold during the period	0	0
Purchases, sales and settlements	0	(6)
Transfers in and /or out of Level 3	0	0
Fair Value, end of period	$ 2	$ (4)

A summary of pension and postretirement plan asset allocation as of the year ended December 31, are as follows:

	Pension Percentage of Plan Assets		Postretirement Percentage of Plan Assets	
	2013	2012	2013	2012
Asset Category				
U.S. Equities	10%	10%	50%	52%
International Equities	4	4	5	5
Fixed Maturities	67	69	39	40

Short-term Investments	1	3	6	3
Real Estate	6	4	0	0
Other	12	10	0	0
Total	100%	100%	100%	100%

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The expected benefit payments for the Company s pension and postretirement plans, as well as the expected Medicare Part D subsidy receipts related to the Company s postretirement plan, for the years indicated are as follows:

	Pension Benefit Payments	Other Postretirement Benefit Payments	Other Postretirement Benefits Medicare Part D Subsidy Receipts
		(in millions)	
2014	$ 617	$ 186	$ 15
2015	627	185	15
2016	648	184	16
2017	665	183	16
2018	687	182	16
2019-2023	3,754	872	82
Total	$ 6,998	$ 1,792	$ 160

The Company anticipates that it will make cash contributions in 2014 of approximately $130 million to the pension plans and approximately $10 million to the postretirement plans.

Postemployment Benefits

The Company accrues postemployment benefits for income continuance and health and life benefits provided to former or inactive employees who are not retirees. The net accumulated liability for these benefits at December 31, 2013 and 2012 was $68 million and $41 million, respectively, and is included in Other liabilities.

Other Employee Benefits

The Company sponsors voluntary savings plans for employees (401(k) plans). The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The matching contributions by the Company included in General and administrative expenses were $57 million, $54 million and $54 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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19. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31 were as follows:

	2013	2012	2011
		(in millions)	
Current tax expense (benefit)			
U.S.	$ (292)	$ 674	$ 73
State and local	16	27	2
Foreign	310	387	372
Total	34	1,088	447
Deferred tax expense (benefit)			
U.S.	44	(437)	771
State and local	0	(5)	12
Foreign	(1,136)	(433)	285
Total	(1,092)	(875)	1,068
Total income tax expense (benefit) on continuing operations before equity in earnings of operating joint ventures	(1,058)	213	1,515
Income tax expense on equity in earnings of operating joint ventures	19	19	79
Income tax expense on discontinued operations	3	8	18
Income tax expense (benefit) reported in equity related to:			
Other comprehensive income	(582)	2,667	1,301
Stock-based compensation programs	(32)	(56)	(19)
Total income taxes	$ (1,650)	$ 2,851	$ 2,894

The Company s actual income tax expense on continuing operations before equity in earnings of operating joint ventures for the years ended December 31 differs from the expected amount computed by applying the statutory federal income tax rate of 35% to income from continuing operations before income taxes and equity in earnings of operating joint ventures for the following reasons:

	2013	2012	2011
		(in millions)	
Expected federal income tax expense (benefit)	$ (589)	$ 248	$ 1,737
Non-taxable investment income	(319)	(302)	(247)
Low income housing and other tax credits	(105)	(78)	(80)
Reversal of acquisition opening balance sheet deferred tax items	55	384	221
Medicare Part D	(43)	(1)	(2)
Minority interest	(37)	(17)	(11)
Foreign taxes at other than U.S. rate	(36)	(51)	(37)

State taxes	10	15	0
Other	6	15	(66)
Total income tax expense (benefit) on continuing operations before equity in earnings of operating joint ventures	$ (1,058)	$ 213	$ 1,515

The dividends received deduction (DRD) reduces the amount of dividend income subject to U.S. tax and is the primary component of the non-taxable investment income shown in the table above, and, as such, is a significant component of the difference between the Company s effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2012 and current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

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In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new guidance the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. In May 2010, the IRS issued an Industry Director Directive (IDD) confirming that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. In February 2014, the IRS released Revenue Ruling 2014-7, which modified and superseded Revenue Ruling 2007-54, by removing the provisions of Revenue Ruling 2007-54 related to the methodology to be followed in calculating the DRD and obsoleting Revenue Ruling 2007-61. However, there remains the possibility that the IRS and the U.S. Treasury will address, through subsequent guidance, the issues related to the calculation of the DRD. For the last several years, the revenue proposals included in the Obama Administration s budgets included a proposal that would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company s consolidated net income. These activities had no impact on the Company s 2011, 2012 or 2013 results.

The Medicare Part D subsidy provided by the government is not subject to tax. However, the amount a company can otherwise deduct for retiree health care expenses must be reduced by the amount of the Medicare Part D subsidy received and not taxed in that year, effectively making the subsidy taxable. During 2013, the Company transferred $340 million of assets within the qualified pension plan under Section 420 of the Internal Revenue Code from assets supporting pension benefits to assets supporting retiree medical and life benefits. As a result, the Company reduced the projected amount of retiree health care payments that would not be deductible related to future receipts by the Company of the Medicare Part D subsidy and recognized a $43 million tax benefit in Income from continuing operations before equity in earnings of operating joint ventures.

Total income tax expense includes additional tax expense related to the realization of deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar and the Star and Edison Businesses. As of December 31, 2013, additional U.S. GAAP tax expense related to the utilization of opening balance sheet deferred tax assets has been fully recognized between the Statement of Operations and Other Comprehensive Income as follows:

	Prudential Gibraltar	Star and Edison Businesses	Total
		(in millions)	
Opening balance sheet deferred tax assets after valuation allowance that will result in additional tax expense	$ 56	$ 678	$ 734
Additional tax expense (benefit) recognized in the Statement of Operations:			
2009	13	0	13
2010	6	0	6
2011	(29)	252	223
2012	51	333	384
2013	15	40	55
Subtotal	56	625	681
Additional tax expense recognized in Other Comprehensive Income	0	53	53

Unrecognized balance of additional tax expense	$ 0	$ 0	$ 0

On January 1, 2012, the Star and Edison Businesses merged into Gibraltar Life. The majority of additional U.S. tax expense recognized in 2012 is a result of the merger. During the first quarter of 2013, the Company changed its repatriation assumption for Gibraltar Life and Prudential Gibraltar. As a result, the Company

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recorded an additional U.S. tax expense of $108 million in the first quarter of 2013. Future losses in pre-tax income of Gibraltar Life, such as that caused by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities, may reduce the amount of additional tax expense recognized in the Consolidated Statements of Operations and increase the amount of additional tax expense recognized in Other Comprehensive Income.

Deferred tax assets and liabilities at December 31 resulted from the items listed in the following table:

	2013	2012
	(in millions)	
Deferred tax assets		
Insurance reserves	$ 2,760	$ 3,952
Policyholders dividends	1,797	2,433
Net operating and capital loss carryforwards	358	866
Employee benefits	477	718
Investments	1,510	0
Other	472	343
Deferred tax assets before valuation allowance	7,374	8,312
Valuation allowance	(235)	(280)
Deferred tax assets after valuation allowance	7,139	8,032
Deferred tax liabilities		
Net unrealized investment gains	7,147	8,451
Deferred policy acquisition costs	4,208	3,559
Investments	0	1,753
Unremitted foreign earnings	679	1,216
Value of business acquired	1,204	1,029
Deferred tax liabilities	13,238	16,008
Net deferred tax liability	$ (6,099)	$ (7,976)

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

A valuation allowance has been recorded related to tax benefits associated with state and local and foreign deferred tax assets. Adjustments to the valuation allowance are made to reflect changes in management s assessment of the amount of the deferred tax asset that is realizable and the amount of deferred tax asset actually realized during the year. The valuation allowance includes amounts recorded in connection with deferred tax assets at December 31 as follows:

	2013	2012
	(in millions)	
Valuation allowance related to state and local deferred tax assets	$ 208	$ 250
Valuation allowance related to foreign operations deferred tax assets	$ 27	$ 30

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The following table sets forth the federal, state and foreign operating and capital loss carryforwards for tax purposes, at December 31:

	2013	2012
	(in millions)	
Federal net operating and capital loss carryforwards	$ 0	$ 274
State net operating and capital loss carryforwards(1)	$ 3,945	$ 4,574
Foreign operating loss carryforwards(2)	$ 505	$ 1,731

(1) Expires between 2014 and 2033.
(2) $481 million expires between 2018 and 2022 and $24 million has an unlimited carryforward.

The Company provides for U.S. income taxes on unremitted foreign earnings of its operations in Japan, and certain operations in India, Germany, and Taiwan. In addition, beginning in 2012, the Company provides for U.S. income taxes on a portion of current year foreign earnings for its insurance operations in Korea. Unremitted foreign earnings from operations in other foreign jurisdictions are considered to be permanently reinvested. In 2011 the Company sold various foreign entities that were a part of the global commodities group and the relocation business. Consequently, their earnings were no longer considered permanently reinvested and the Company recognized an income tax expense of $6 million related to the sale of global commodities group in Income from discontinued operations, net of taxes and income tax benefit of $11 million related to the sale of the relocation business. Except for the change in repatriation assumption with respect to a portion of current year foreign earnings for insurance operations in Korea, the Company made no material changes with respect to its repatriation assumptions during 2012. During the first quarter of 2013, we determined that in addition to U.S. GAAP earnings, we would repatriate an additional amount from Gibraltar Life and Prudential Gibraltar, but that such additional amount would not exceed the deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar and the Star and Edison Businesses. Consequently we recognized an additional U.S. tax expense of $108 million in Income from continuing operations before equity in earnings of operating joint ventures during 2013.

The following table sets forth the undistributed earnings of foreign subsidiaries, where the Company assumes permanent reinvestment of such and for which U.S. deferred taxes have not been provided, as of the periods indicated. Determining the tax liability that would arise if these earnings were remitted is not practicable.

	At December 31,		
	2013	2012	2011
	(in millions)		
Undistributed earnings of foreign subsidiaries (assuming permanent reinvestment)	$ 1,973	$ 1,747	$ 2,145

The Company s income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures includes income from domestic operations of $1,274 million, $1,138 million and $1,919 million, and income (loss) from foreign operations of $(2,958) million, $(430) million and $3,045 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company s liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing authorities. The completion of review or the expiration of the Federal statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

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The Company s unrecognized tax benefits for the years ended December 31 are as follows:

	2013	2012	2011
		(in millions)	
Balance at January 1,	$ 19	$ 90	$ 552
Increases in unrecognized tax benefits prior years	0	16	96
(Decreases) in unrecognized tax benefits prior years	(7)	(4)	(152)
Increases in unrecognized tax benefits current year	0	0	0
(Decreases) in unrecognized tax benefits current year	0	0	0
Settlements with taxing authorities	(1)	(83)	(406)
Balance at December 31,	$ 11	$ 19	$ 90
Unrecognized tax benefits that, if recognized, would favorably impact the effective rate	$ 11	$ 19	$ 38

The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The Company classifies all interest and penalties related to tax uncertainties as income tax expense (benefit). The amounts recognized in the consolidated financial statements for tax-related interest and penalties for the years ended December 31 are as follows:

	2013	2012	2011
		(in millions)	
Interest and penalties recognized in the consolidated statements of operations	$ 1	$ 4	$ 13

	2013	2012
	(in millions)	
Interest and penalties recognized in liabilities in the consolidated statements of financial position	$ 6	$ 8

Listed below are the tax years that remain subject to examination by major tax jurisdiction, at December 31, 2013:

Major Tax Jurisdiction	Open Tax Years
United States	2004 2013
Japan	Fiscal years ended March 31, 2009 2013
Korea	Fiscal years ended March 31, 2009 2013 and the period ended December 31, 2013

During 2004 through 2006, the Company entered into two transactions that involved, among other things, the payment of foreign income taxes that were credited against the Company s U.S. tax liability. On May 23, 2011, the IRS issued notices of proposed adjustments disallowing the foreign tax credits claimed and related transaction expenses. The total amount of the proposed adjustments for the transactions was approximately $200 million of tax and penalties. During the fourth quarter of 2011, the Company reached agreement with the IRS on the resolution of the proposed foreign tax credits disallowance. The impact to the 2011 results attributable to the settlement was an increase to tax expense of approximately $93 million. The settlement of the foreign tax credit transactions for 2004 through 2006 marked the conclusion of the IRS audits for those years. As a result, all unrecognized tax positions plus interest relating to tax years prior to 2007 were recognized in 2011. As such, 2011 benefited from a reduction to the liability for unrecognized tax benefits of $70 million, including the impact from the foreign tax credit disallowance.

For tax years 2007 through 2013, the Company is participating in the IRS s Compliance Assurance Program (CAP). Under CAP, the IRS assigns an examination team to review completed transactions contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management s expectation this program will shorten the time period between the filing of the Company s federal income tax returns and the IRS s completion of its examination of the returns.

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Certain of the Company s affiliates in Japan file a consolidated tax return, while others file separate tax returns. The Company s affiliates in Japan are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2011, the Tokyo Regional Taxation Bureau concluded a routine tax audit of the tax returns of Edison Life Insurance Company Ltd. for its tax years ended March 31, 2009 to March 31, 2010. During 2013 the Tokyo Regional Taxation Bureau conducted a routine tax audit of the tax returns of the Company s affiliates in Japan for their tax years ended March 31, 2009 to March 31, 2012. These activities had no material impact on the Company s 2011, 2012 or 2013 results.

The Company s affiliates in South Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed.

20. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Measurement Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company s Level 1 assets and liabilities primarily include certain cash equivalents and short term investments, equity securities and derivative contracts that trade on an active exchange market.

Level 2 Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company s Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not actively trade and are priced based on a net asset value), certain commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives.

Level 3 Fair value is based on at least one or more significant unobservable inputs for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company s Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits.

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Assets and Liabilities by Hierarchy Level The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of the dates indicated.

	As of December 31, 2013				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 15,400	$ 0	$	$ 15,400
Obligations of U.S. states and their political subdivisions	0	3,735	0		3,735
Foreign government bonds	0	82,787	1		82,788
Corporate securities	0	152,449	1,329		153,778
Asset-backed securities	0	7,147	3,442		10,589
Commercial mortgage-backed securities	0	13,708	165		13,873
Residential mortgage-backed securities	0	6,695	8		6,703
Subtotal	0	281,921	4,945		286,866
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	266	0		266
Obligations of U.S. states and their political subdivisions	0	190	0		190
Foreign government bonds	0	643	0		643
Corporate securities	0	16,865	115		16,980
Asset-backed securities	0	876	403		1,279
Commercial mortgage-backed securities	0	2,466	0		2,466
Residential mortgage-backed securities	0	1,828	2		1,830
Equity securities	1,309	225	842		2,376
All other(3)	591	7,899	6	(7,246)	1,250
Subtotal	1,900	31,258	1,368	(7,246)	27,280
Equity securities, available-for-sale	6,938	2,668	304		9,910
Commercial mortgage and other loans	0	158	0		158
Other long-term investments	19	109	1,396	5	1,529
Short-term investments	6,139	1,046	0		7,185
Cash equivalents	2,461	4,521	0		6,982
Other assets	3	209	4		216
Subtotal excluding separate account assets	17,460	321,890	8,017	(7,241)	340,126
Separate account assets(4)	49,182	213,275	22,603		285,060
Total assets	$ 66,642	$ 535,165	$ 30,620	$ (7,241)	$ 625,186
Future policy benefits(5)	$ 0	$ 0	$ 441	$	$ 441
Other liabilities	1	9,458	5	(7,257)	2,207
Notes of consolidated VIEs	0	0	3,254		3,254
Total liabilities	$ 1	$ 9,458	$ 3,700	$ (7,257)	$ 5,902

PRUDENTIAL FINANCIAL, INC.

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	As of December 31, 2012				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 17,386	$ 0	$	$ 17,386
Obligations of U.S. states and their political subdivisions	0	3,452	0		3,452
Foreign government bonds	0	88,290	0		88,290
Corporate securities	0	157,701	1,630		159,331
Asset-backed securities	0	7,633	3,703		11,336
Commercial mortgage-backed securities	0	11,813	124		11,937
Residential mortgage-backed securities	0	9,593	11		9,604
Subtotal	0	295,868	5,468		301,336
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	287	0		287
Obligations of U.S. states and their political subdivisions	0	259	0		259
Foreign government bonds	2	767	0		769
Corporate securities	0	13,609	134		13,743
Asset-backed securities	0	923	431		1,354
Commercial mortgage-backed securities	0	2,298	8		2,306
Residential mortgage-backed securities	0	2,024	2		2,026
Equity securities	1,198	181	1,098		2,477
All other(3)	664	13,371	25	(10,363)	3,697
Subtotal	1,864	33,719	1,698	(10,363)	26,918
Equity securities, available-for-sale	5,518	2,429	330		8,277
Commercial mortgage and other loans	0	114	48		162
Other long-term investments	(57)	141	1,053	246	1,383
Short-term investments	3,519	2,871	0		6,390
Cash equivalents	3,105	10,495	0		13,600
Other assets	78	109	8		195
Subtotal excluding separate account assets	14,027	345,746	8,605	(10,117)	358,261
Separate account assets(4)	39,362	192,760	21,132		253,254
Total assets	$ 53,389	$ 538,506	$ 29,737	$ (10,117)	$ 611,515
Future policy benefits(5)	$ 0	$ 0	$ 3,348	$	$ 3,348
Other liabilities	0	8,121	0	(8,031)	90
Notes of consolidated VIEs	0	0	1,406		1,406
Total liabilities	$ 0	$ 8,121	$ 4,754	$ (8,031)	$ 4,844

(1) Netting amounts represent cash collateral of ($16) million and $2,086 million as of December 31, 2013 and December 31, 2012, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.
(2) Includes Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets.
(3) Level 1 represents cash equivalents and short term investments. All other amounts primarily represent derivative assets.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at

contract value and not fair value in the Company s Consolidated Statement of Financial Position.

(5) For the year ended December 31, 2013, the net embedded derivative liability position of $0.4 billion includes $1.5 billion of embedded derivatives in an asset position and $1.9 billion of embedded derivatives in a liability position. For the year ended December 31, 2012, the net embedded derivative liability position of $3.3 billion includes $0.5 billion of embedded derivatives in an asset position and $3.8 billion of embedded derivatives in a liability position.

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The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities The fair values of the Company s public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information with an internally-developed valuation. As of December 31, 2013 and December 31, 2012, over-rides on a net basis were not material. Pricing service over-rides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The fair value of private fixed maturities, which are comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using a discounted cash flow model. If the fair value is determined using pricing inputs that are observable in the market, the securities have been reflected within Level 2; otherwise a Level 3 classification is used.

Trading Account Assets Trading account assets consist primarily of fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments.

Equity Securities Equity securities consist principally of investments in common and preferred stock of publicly traded companies, perpetual preferred stock, privately traded securities, as well as mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of perpetual preferred stock are based on inputs obtained from independent pricing services that are primarily based on indicative broker quotes. As a result, the fair values of perpetual preferred stock are classified as Level 3.

Commercial Mortgage and Other Loans The fair value of commercial mortgage loans held for investment and accounted for using the fair value option are determined based on the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for similar quality loans. The quality ratings for these loans, a primary determinant of the appropriate credit spread and a significant component of the pricing input, are based on internally-developed estimates. As a result, these loans are included in Level 3 in the fair value hierarchy.

The fair value of other loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a pre-

PRUDENTIAL FINANCIAL, INC.

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determined price, which is considered the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the existence of pre-determined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

Other Long-Term Investments Other long-term investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are considered investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. The fair value is determined by reference to the underlying direct investments, with publicly traded equity securities based on quoted prices in active markets reflected in Level 1, and public fixed maturities and mutual funds priced via quotes from pricing services or observable data reflected in Level 2. The fair value of investments in funds that are subject to significant liquidity restrictions are reflected in Level 3.

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, supplemented with replacement cost estimates and comparable recent sales data when available. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in the fair value hierarchy.

The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have been included within Level 3 in the fair value hierarchy.

Derivative Instruments Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk, liquidity and other factors. Liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position.

The Company s exchange-traded futures and options include Treasury futures, Eurodollar futures, commodity futures, Eurodollar options and commodity options. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

The majority of the Company s derivative positions are traded in the over-the-counter (OTC) derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company s policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and to-be-announced (or TBA) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, non-performance risk, volatility and other factors.

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The Company s cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including Overnight Indexed Swap discount rates, obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

The vast majority of the Company s derivative agreements are with highly rated major international financial institutions. To reflect the market s perception of its own and the counterparty s non-performance risk, the Company incorporates additional spreads over LIBOR into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

Derivatives classified as Level 3 include look-back equity options and other structured products. These derivatives are valued based upon models, such as Monte Carlo simulation models and other techniques that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company s fair values to external broker-dealer values.

Cash Equivalents and Short-Term Investments Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Certain money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in this category are generally fair valued based on market observable inputs and these investments have primarily been classified within Level 2.

Separate Account Assets Separate Account Assets include fixed maturity securities, treasuries, equity securities and real estate investments for which values are determined consistent with similar instruments described above under Fixed Maturity Securities, Equity Securities and Other Long-Term Investments.

Notes of Consolidated VIEs The fair values of these notes are based on broker quotes and classified within Level 3. See Note 5 and the Fair Value Option section below for additional information.

Other Liabilities Other liabilities include certain derivative instruments, the fair values of which are determined consistent with similar derivative instruments described above under Derivative Instruments.

Future Policy Benefits The liability for future policy benefits primarily includes general account liabilities for the optional living benefit features of the Company s variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB), accounted for as embedded derivatives. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management judgment.

The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company s market-perceived risk of its own non-performance (NPR), as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy**.**

Capital market inputs and actual policyholders account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk

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neutral valuation, the initial swap curve drives the total return used to grow the policyholders account values. The Company s discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread relative to LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry studies or market transactions such as acquisitions and reinsurance transactions. These assumptions are generally updated in the third quarter of each year unless a material change that the Company feels is indicative of a long term trend is observed in an interim period.

Transfers between Levels 1 and 2 Periodically there are transfers between Level 1 and Level 2 for assets held in the Company s Separate Account. The fair value of foreign common stock held in the Company s Separate Account may reflect differences in market levels between the close of foreign trading markets and the close of U.S. trading markets for the respective day. Dependent on the existence of such a timing difference, the asset may move between Level 1 and Level 2. In addition, the classification of Separate Account funds may vary dependent on the availability of information to the public. Should a fund s net asset value become publicly observable, the fund would be transferred from Level 2 to Level 1. During the year ended December 31, 2013, $4.0 billion were transferred from Level 1 to Level 2 and $5.0 billion were transferred from Level 2 to Level 1. During the year ended December 31, 2012, $5.0 billion were transferred from Level 1 to Level 2 and $2.1 billion were transferred from Level 2 to Level 1.

Level 3 Assets and Liabilities by Price Source The table below presents the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources.

	As of December 31, 2013		
	Internal(1)	External(2)	Total
		(in millions)	
Foreign government bonds	$ 0	$ 1	$ 1
Corporate securities	660	784	1,444
Asset-backed securities	283	3,562	3,845
Commercial mortgage-backed securities	14	151	165
Residential mortgage-backed securities	3	7	10
Equity securities	141	1,005	1,146
Other long-term investments	9	1,387	1,396
Other assets	10	0	10
Subtotal excluding separate account assets(3)	1,120	6,897	8,017
Separate account assets	21,665	938	22,603
Total assets	$ 22,785	$ 7,835	$ 30,620
Future policy benefits	$ 441	$ 0	$ 441
Other liabilities	5	0	5
Notes of consolidated VIEs	0	3,254	3,254

Total liabilities	$ 446	$ 3,254	$ 3,700

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	As of December 31, 2012		
	Internal(1)	External(2) (in millions)	Total
Corporate securities	$ 889	$ 875	$ 1,764
Asset-backed securities	338	3,796	4,134
Commercial mortgage-backed securities	68	64	132
Residential mortgage-backed securities	3	10	13
Equity securities	101	1,327	1,428
Commercial mortgage and other loans	48	0	48
Other long-term investments	9	1,044	1,053
Other assets	33	0	33
Subtotal excluding separate account assets(3)	1,489	7,116	8,605
Separate account assets	20,422	710	21,132
Total assets	$ 21,911	$ 7,826	$ 29,737
Future policy benefits	$ 3,348	$ 0	$ 3,348
Notes of consolidated VIEs	0	1,406	1,406
Total liabilities	$ 3,348	$ 1,406	$ 4,754

(1) Represents valuations which could incorporate internally-derived and market inputs. See below for additional information related to internally-developed valuation for significant items in the above table.
(2) Represents unadjusted prices from independent pricing services and independent non-binding broker quotes where pricing inputs are not readily available.
(3) Includes assets classified as fixed maturities available-for-sale, trading account assets supporting insurance liabilities and other trading account assets.

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities The table below represents quantitative information on significant internally-priced Level 3 assets and liabilities.

	As of December 31, 2013						
	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:							
Corporate securities	$ 660	Discounted cash flow	Discount rate	1.25%	15%	8.52%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	8.0X	6.0X	Increase
		Liquidation	Liquidation value	11.61%	100.0%	59.17%	Increase
Asset backed securities	$ 283	Discounted cash flow	Prepayment rate(3)	2.82%	27.41%	10.23%	Increase
			Default rate(3)	0.49%	31.85%	2.62%	Decrease
			Loss severity(3)	15.06%	45.00%	33.00%	Decrease
			Liquidity premium	1.00%	2.00%	1.90%	Decrease
			Average life (years)	0.16	14.76	5.05	Increase

			Comparable spreads	0.19%	45.19%	3.65%	Decrease
			Comparable security yields	0.61%	10.00%	6.52%	Decrease
Liabilities:							
Future policy benefits(4)	$ 441	Discounted cash flow	Lapse rate(5)	0%	11%		Decrease
			NPR spread(6)	0.08%	1.09%		Decrease
			Utilization rate(7)	70%	94%		Increase
			Withdrawal rate(8)	86%	100%		Increase
			Mortality rate(9)	0%	13%		Decrease
			Equity volatility curve	15%	28%		Increase

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	As of December 31, 2012						
	Fair Value (in millions)	**Valuation Techniques**	**Unobservable Inputs**	**Minimum**	**Maximum**	**Weighted Average**	**Impact of Increase in Input on Fair Value(1)**
Assets:							
Corporate securities	$ 889	Discounted cash flow	Discount rate	1.7%	17.5%	9.92%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	8.5X	6.2X	Increase
		Cap at call price	Call price	100%	101%	100.24%	Increase
		Liquidation	Liquidation value	49%	100.0%	83.06%	Increase
Asset-backed securities	$ 338	Discounted cash flow	Prepayment rate(3)	2.8%	29.0%	9.84%	Increase
			Default rate(3)	0.5%	2.52%	0.84%	Decrease
			Loss severity(3)	35%	43.88%	35.76%	Decrease
			Liquidity premium	1.0%	2.50%	1.83%	Decrease
			Average life (years)	0.1	15	5.61	Increase
			Comparable spreads	0.1%	20%	2.81%	Decrease
			Comparable security yields	0.4%	15%	7.59%	Decrease
Liabilities:							
Future policy benefits(4)	$ 3,348	Discounted cash flow	Lapse rate(5)	0%	14%		Decrease
			NPR spread(6)	0.20%	1.60%		Decrease
			Utilization rate(7)	70%	94%		Increase
			Withdrawal rate(8)	85%	100%		Increase
			Mortality rate(9)	0%	13%		Decrease
			Equity volatility curve	19%	34%		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact for the fair value as that presented in the table.

(2) EBITDA multiples represent multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.

(3) In isolation, an increase in prepayment rate or a decrease in default rate or loss severity would generally result in an increase in fair value, although the interrelationships between these inputs depend on specific market conditions.

(4) Future policy benefits primarily represent general account liabilities for the optional living benefit features of the Company s variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(5) Base lapse rates are adjusted at the contract level based on a comparison of the benefit amount and the policyholder account value and reflect other factors, such as the applicability of any surrender charges. A dynamic lapse adjustment reduces the base lapse rate when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

(6) To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of individual living benefit contracts in a liability position and generally not to those in a contra-liability position. In determining the NPR spread, the Company reflects the financial strength ratings of the Company s insurance subsidiaries as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium.

(7) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. These assumptions vary based on the product type, the age of the contractholder and the age of the contract. The impact of changes in these assumptions is highly dependent on the contract type and age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal.

(8) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. The fair value of the liability will generally increase the closer the withdrawal rate is to 100%.

(9) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.

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Interrelationships Between Unobservable Inputs In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another or multiple inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities The rate used to discount future cash flows reflects current risk-free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term, and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors.

Asset-Backed Securities Interrelationships may exist between the prepayment rate, the default rate and/or loss severity, depending on specific market conditions. In stronger business cycles, prepayment rates are generally driven by overall market interest rates, and accompanied by lower default rates and loss severity. During weaker cycles, prepayments may decline, as default rates and loss severity increase. Additionally, the impact of these factors on average life varies with the structure and subordination.

Future Policy Benefits The unobservable contractholder behavior inputs related to the liability for the optional living benefit features of the Company s variable annuity contracts included in future policy benefits are generally based on emerging experience, future expectations and other data. While experience for these products is still emerging, the Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. The dynamic lapse adjustment assumes lower lapses when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Therefore, to the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, the dynamic lapse function will reduce lapse rates for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, the dynamic lapse function will lower overall lapse rates as contracts become more in-the-money.

Separate Account Assets In addition to the significant internally-priced Level 3 assets and liabilities presented and described above, the Company also has internally-priced separate account assets reported within Level 3. Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company s Consolidated Statement of Financial Position. As a result, changes in value associated with these investments do not impact the Company s Consolidated Statement of Operations. In addition, fees earned by the Company related to the management of most separate account assets classified as Level 3 do not change due to changes in the fair value of these investments. Quantitative information about significant internally-priced Level 3 separate account assets is as follows:

Real Estate and Other Invested Assets Separate account assets include $20,806 million and $19,518 million of investments in real estate as of December 31, 2013 and December 31, 2012, respectively, that are classified as Level 3 and reported at fair value. In general, these fair value estimates are based on property appraisal reports prepared by independent real estate appraisers. Key inputs and assumptions to the appraisal process include rental income and expense amounts, related growth rates, discount rates and capitalization rates. In cases where real estate investments are made through indirect investments, fair value is generally determined by the Company s equity in net assets of the entities. The debt associated with real estate, other invested assets and the Company s equity position in entities are externally valued. Because of the subjective nature of inputs and the judgment involved in the appraisal process, real estate investments and their corresponding debt are typically included in the Level 3 classification. Key unobservable inputs to real estate valuation include capitalization rates, which ranged from 4.15% to 11.00% (6.35% weighted average) as of December 31, 2013, and 4.75% to 10.50% (6.49% weighted average) as of December 31, 2012, and discount rates, which ranged from 6.00% to 15.00% (7.71% weighted average) as of December 31, 2013, and 6.25% to 15.00% (7.92% weighted average) as of December 31, 2012. Key unobservable inputs to real estate debt valuation include yield to

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maturity, which ranged from 1.13% to 6.85% (4.17% weighted average) as of December 31, 2013, and 3.59% to 7.62% (4.74% weighted average) as of December 31, 2012, and market spread over base rate, which ranged from 1.60% to 4.75% (2.87% weighted average) as of December 31, 2013, and 1.67% to 4.48% (3.22% weighted average) as of December 31, 2012.

Commercial Mortgage Loans Separate account assets include $793 million and $833 million of commercial mortgage loans as of December 31, 2013 and December 31, 2012, respectively, that are classified as Level 3 and reported at fair value. Commercial mortgage loans are primarily valued internally using discounted cash flow techniques, as described further under Fair Value of Financial Instruments. The primary unobservable input used is the spread to discount cash flows, which ranged from 1.25% to 1.98% (1.47% weighted average) as of December 31, 2013, and 1.65% to 4.15% (1.87% weighted average) as of December 31, 2012. In isolation, an increase (decrease) in the value of this input would result in a lower (higher) fair value measurement.

Valuation Process for Fair Value Measurements Categorized within Level 3 The Company has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by its various Business Groups. These management control functions are segregated from the trading and investing functions. For invested assets, the Company has established oversight teams, often in the form of Pricing Committees within each asset management group. The teams, which typically include representation from investment, accounting, operations, legal and other disciplines are responsible for overseeing and monitoring the pricing of the Company s investments and performing periodic due diligence reviews of independent pricing services. An actuarial valuation team oversees the valuation of optional living benefit features of the Company s variable annuity contracts.

The Company has also established policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of investment prices against market activity or indicators of reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. For optional living benefit features of the Company s variable annuity products, the actuarial valuation unit periodically performs baseline testing of contract input data and actuarial assumptions are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry studies. The valuation policies and guidelines are reviewed and updated as appropriate.

Within the trading and investing functions, the Company has established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources and fair value hierarchy coding within the financial reporting system. For variable annuity product changes or new launches of optional living benefit features, the actuarial valuation unit validates input logic and new product features and agrees new input data directly to source documents.

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Changes in Level 3 assets and liabilities The following tables provide summaries of the changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods.

	Year Ended December 31, 2013 Fixed Maturities Available-For-Sale (in millions)						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
Fair Value, beginning of period	$ 0	$ 0	$ 0	$ 1,630	$ 3,703	$ 124	$ 11
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(30)	29	37	0
Included in other comprehensive income (loss)	0	0	(1)	(18)	(8)	(19)	0
Net investment income	0	0	0	(4)	35	0	0
Purchases	0	0	4	477	2,412	438	0
Sales	0	0	(1)	(126)	(320)	(51)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	(2)	(579)	(1,227)	(41)	(3)
Foreign currency translation	0	0	0	(127)	(110)	(9)	0
Other(1)	0	0	0	0	(170)	0	0
Transfers into Level 3(2)	0	0	13	573	10	0	0
Transfers out of Level 3(2)	0	0	(12)	(467)	(912)	(314)	0
Fair Value, end of period	$ 0	$ 0	$ 1	$ 1,329	$ 3,442	$ 165	$ 8
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (53)	$ 13	$ 0	$ 0

	Year Ended December 31, 2013 Trading Account Assets (in millions)						
	U.S Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
Fair Value, beginning of period	$ 0	$ 134	$ 431	$ 8	$ 2	$ 1,098	$ 25
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(16)
Asset management fees and other income	0	(8)	8	0	0	63	2
Net investment income	0	0	5	1	0	0	0
Purchases	0	23	319	75	0	17	0
Sales	0	(13)	(3)	(1)	0	(140)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(49)	(231)	(2)	0	(43)	(5)
Foreign currency translation	0	0	(8)	(1)	0	(153)	0
Other(1)	0	0	(75)	0	0	0	0
Transfers into Level 3(2)	0	52	4	0	0	0	0

Transfers out of Level 3(2)	0	(24)	(47)	(80)	0	0	0
Fair Value, end of period	$ 0	$ 115	$ 403	$ 0	$ 2	$ 842	$ 6
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (16)
Asset management fees and other income	$ 0	$ (7)	$ 7	$ 0	$ 0	$ 50	$ 2

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

	Year Ended December 31, 2013			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 330	$ 48	$ 1,053	$ 8
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	13	5	0	(4)
Asset management fees and other income	0	0	160	0
Included in other comprehensive income (loss)	58	0	0	0
Purchases	37	0	439	0
Sales	(65)	0	0	0
Issuances	0	0	0	0
Settlements	(3)	(53)	(134)	0
Foreign currency translation	(53)	0	(13)	0
Other(1)	(18)	0	(109)	0
Transfers into Level 3(2)	6	0	0	0
Transfers out of Level 3(2)	(1)	0	0	0
Fair Value, end of period	$ 304	$ 0	$ 1,396	$ 4
Unrealized gains (losses) for assets still held (3):				
Included in earnings:				
Realized investment gains (losses), net	$ (5)	$ 0	$ (2)	$ (3)
Asset management fees and other income	$ 0	$ 0	$ 155	$ 0

	Year Ended December 31, 2013			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 21,132	$ (3,348)	$ 0	$ (1,406)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	2	3,741	(3)	17
Interest credited to policyholders account balances	2,649	0	0	0
Net investment income	20	0	0	0
Purchases	1,653	0	0	0
Sales	(832)	0	0	0
Issuances	0	(836)	0	(1,834)
Settlements	(2,120)	0	0	(31)
Foreign currency translation	0	2	0	0
Other(1)	140	0	(2)	0
Transfers into Level 3(2)	89	0	0	0
Transfers out of Level 3(2)	(130)	0	0	0
Fair Value, end of period	$ 22,603	$ (441)	$ (5)	$ (3,254)
Unrealized gains (losses) for assets/liabilities still held (3):				
Included in earnings:				

Realized investment gains (losses), net	$ 0	$ 3,647	$ (3)	$ 17
Interest credited to policyholders account	$ 1,652	$ 0	$ 0	$ 0

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	Year Ended December 31, 2012 Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
				(in millions)			
Fair Value, beginning of period	$ 66	$ 0	$ 25	$ 1,450	$ 2,528	$ 145	$ 16
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(35)	21	25	0
Included in other comprehensive income (loss)	0	0	0	195	102	11	0
Net investment income	0	0	0	8	30	(1)	1
Purchases	0	10	0	375	2,640	44	0
Sales	0	0	0	(165)	(426)	(28)	0
Issuances	0	0	0	0	0	0	0
Settlements	(2)	0	0	(325)	(673)	(14)	(6)
Foreign currency translation	0	0	0	(38)	(41)	(5)	0
Other(1)	(64)	0	(8)	71	0	0	0
Transfers into Level 3(2)	0	0	8	306	60	37	0
Transfers out of Level 3(2)	0	(10)	(25)	(212)	(538)	(90)	0
Fair Value, end of period	$ 0	$ 0	$ 0	$ 1,630	$ 3,703	$ 124	$ 11
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (1)	$ 9	$ 0	$ 0

	Year Ended December 31, 2012 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
				(in millions)			
Fair Value, beginning of period	$ 9	$ 148	$ 416	$ 35	$ 4	$ 1,296	$ 93
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(73)
Asset management fees and other income	0	(7)	17	2	1	88	2
Net investment income	0	0	6	1	0	0	0
Purchases	0	22	182	16	2	21	0
Sales	0	(12)	(12)	(5)	(3)	(170)	0
Issuances	0	0	0	0	0	0	0
Settlements	(2)	(25)	(112)	(4)	(1)	(89)	6
Foreign currency translation	0	0	(4)	(1)	0	(70)	0
Other(1)	(7)	7	1	0	(1)	3	(3)
Transfers into Level 3(2)	0	5	4	82	0	20	0
Transfers out of Level 3(2)	0	(4)	(67)	(118)	0	(1)	0
Fair Value, end of period	$ 0	$ 134	$ 431	$ 8	$ 2	$ 1,098	$ 25
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							

Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (73)
Asset management fees and other income	$ 0	$ (10)	$ 14	$ 2	$ 0	$ 78	$ 2

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

	Year Ended December 31, 2012			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Short-term Investments
	(in millions)			
Fair Value, beginning of period	$ 360	$ 86	$ 1,110	$ 0
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(1)	2	1	(9)
Asset management fees and other income	0	0	126	0
Included in other comprehensive income (loss)	29	0	0	0
Net investment income	0	0	6	0
Purchases	69	0	186	9
Sales	(22)	0	(25)	0
Issuances	0	0	0	0
Settlements	0	(40)	(296)	0
Foreign currency translation	(18)	0	2	0
Other(1)	0	0	7	0
Transfers into Level 3(2)	5	0	0	0
Transfers out of Level 3(2)	(92)	0	(64)	0
Fair Value, end of period	$ 330	$ 48	$ 1,053	$ 0
Unrealized gains (losses) for assets/liabilities still held (3):				
Included in earnings:				
Realized investment gains (losses), net	$ (1)	$ 1	$ 1	$ (9)
Asset management fees and other income	$ 0	$ 0	$ 56	$ 0

	Year Ended December 31, 2012				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)				
Fair Value, beginning of period	$ 9	$ 19,358	$ (2,886)	$ (3)	$ (282)
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	231	(23)	(4)
Asset management fees and other income	2	0	0	0	0
Interest credited to policyholders account balances	0	1,932	0	0	0
Purchases	0	4,230	0	0	0
Sales	(3)	(1,697)	0	0	0
Issuances	0	0	(694)	0	(1,412)
Settlements	0	(2,272)	0	26	0
Foreign currency translation	0	0	1	0	0
Other(1)	0	0	0	0	292
Transfers into Level 3(2)	0	326	0	0	0
Transfers out of Level 3(2)	0	(745)	0	0	0
Fair Value, end of period	$ 8	$ 21,132	$ (3,348)	$ 0	$ (1,406)

Unrealized gains (losses) for assets/liabilities still held (3):

Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 146	$ (23)	$ (4)
Asset management fees and other income	$ 2	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders account	$ 0	$ 1,013	$ 0	$ 0	$ 0

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Notes to Consolidated Financial Statements

	Year Ended December 31, 2011 Fixed Maturities Available-For-Sale					
	U.S. Government	Foreign Government	Corporate	Asset-Backed (in millions)	Commercial Mortgage-Backed	Residential Mortgage-Backed
Fair Value, beginning of period	$ 0	$ 27	$ 1,187	$ 1,753	$ 130	$ 23
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	(31)	38	(41)	0
Included in other comprehensive income (loss)	0	2	(139)	(14)	8	(1)
Net investment income	0	0	9	24	(1)	0
Purchases	66	0	556	1,473	5	1
Sales	0	(1)	(144)	(558)	(30)	(1)
Issuances	0	0	33	0	0	0
Settlements	0	0	(387)	(373)	(36)	(5)
Foreign currency translation	0	0	7	54	8	0
Other(1)	0	0	143	502	31	(1)
Transfers into Level 3(2)	0	0	893	252	76	0
Transfers out of Level 3(2)	0	(3)	(677)	(623)	(5)	0
Fair Value, end of period	$ 66	$ 25	$ 1,450	$ 2,528	$ 145	$ 16
Unrealized gains (losses) for assets still held (3):						
Included in earnings:						
Realized investment gains (losses), net	$ 0	$ 0	$ (39)	$ 7	$ (55)	$ 0

	Year Ended December 31, 2011 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed (in millions)	Residential Mortgage-Backed	Equity Securities	All Other Activity
Fair Value, beginning of period	$ 0	$ 117	$ 280	$ 24	$ 36	$ 30	$ 134
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(31)
Asset management fees and other income	0	7	(3)	2	0	(69)	3
Net investment income	0	0	5	2	0	0	0
Purchases	9	82	305	10	0	39	0
Sales	0	(18)	(41)	(13)	(2)	(107)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(39)	(106)	(5)	(2)	(126)	(18)
Foreign currency translation	0	0	5	1	1	25	0
Other(1)	0	(1)	17	13	(29)	1,302	0
Transfers into Level 3(2)	0	44	39	24	0	202	5
Transfers out of Level 3(2)	0	(44)	(85)	(23)	0	0	0
Fair Value, end of period	$ 9	$ 148	$ 416	$ 35	$ 4	$ 1,296	$ 93
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							

Realized investment gains (losses), net	$ 0	$	0	$	0	$	0	$	0	$	0	$	(31)
Asset management fees and other income	$ 0	$	5	$	(7)	$	(1)	$	0	$	(80)	$	3

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Notes to Consolidated Financial Statements

	Year Ended December 31, 2011						
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities and notes of consolidated VIEs(5)
				(in millions)			
Fair Value, beginning of period	$ 355	$ 212	$ 768	$ 9	$ 15,792	$ 204	$ (3)
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	(16)	15	2	0	0	(2,554)	(16)
Asset management fees and other income	0	0	(1)	0	0	0	0
Interest credited to policyholders account balance	0	0	0	0	2,868	0	0
Included in other comprehensive income (loss)	27	0	0	0	0	0	0
Net investment income	0	0	(27)	0	0	0	0
Purchases	63	0	280	0	3,111	0	0
Sales	(66)	0	(25)	0	(1,462)	0	0
Issuances	0	0	0	0	3	(506)	(284)
Settlements	(46)	(141)	(168)	0	(1,156)	(1)	18
Foreign currency translation	75	0	14	0	0	1	0
Other(1)	(853)	0	267	0	0	(30)	0
Transfers into Level 3(2)	823	0	0	0	864	0	0
Transfers out of Level 3(2)	(2)	0	0	0	(662)	0	0
Fair Value, end of period	$ 360	$ 86	$ 1,110	$ 9	$ 19,358	$ (2,886)	$ (285)
Unrealized gains (losses) for assets still held (3):							
Included in earnings:							
Realized investment gains (losses), net	$ (25)	$ 15	$ 2	$ 0	$ 0	$ (2,566)	$ (17)
Asset management fees and other income	$ 0	$ 0	$ 24	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders account balances	$ 0	$ 0	$ 0	$ 0	$ 1,823	$ 0	$ 0

(1) Other primarily represents reclassifications of certain assets between reporting categories.
(2) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.
(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Consolidated Statement of Financial Position.
(5) Issuances primarily relate to notes of consolidated VIEs.

Transfers Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company is able to validate.

For the year ended December 31, 2012, the majority of the Equity Securities Available-for-Sale transfers out of Level 3 were due to the determination that the pricing inputs for certain equity securities did not have a material liquidity discount and therefore, should be classified as Level 1, not Level 3.

For the year ended December 31, 2011, the majority of Equity Securities Available-for-Sale and Trading Account Assets Equity Securities transfers into Level 3 were due to the determination that the pricing inputs for perpetual preferred stocks provided by third party pricing services were primarily based on indicative broker quotes which could not always be verified against directly observable market information.

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Derivative Fair Value Information

The following tables present the balance of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying. These tables exclude embedded derivatives which are typically recorded with the associated host contract. The derivative assets and liabilities shown below are included in Other trading account assets, Other long-term investments or Other liabilities in the tables presented previously in this note, under the headings Assets and Liabilities by Hierarchy Level and Changes in Level 3 Assets and Liabilities.

	As of December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 10	$ 6,122	$ 8	$ 0	$ 6,140
Currency	0	593	0	0	593
Credit	0	3	0	0	3
Currency/Interest Rate	0	647	0	0	647
Equity	14	376	0	0	390
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(7,241)	(7,241)
Total derivative assets	$ 25	$ 7,741	$ 8	$ (7,241)	$ 533
Derivative liabilities:					
Interest Rate	$ 5	$ 7,597	$ 5	$ 0	$ 7,607
Currency	0	425	0	0	425
Credit	0	49	0	0	49
Currency/Interest Rate	0	857	0	0	857
Equity	1	474	0	0	475
Commodity	0	0	0	0	0
Netting(1)	0	0	0	(7,257)	(7,257)
Total derivative liabilities	$ 6	$ 9,402	$ 5	$ (7,257)	$ 2,156

	As of December 31, 2012				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 11	$ 11,675	$ 5	$ 0	$ 11,691
Currency	0	432	0	0	432
Credit	0	19	0	0	19
Currency/Interest Rate	0	450	0	0	450
Equity	63	518	19	0	600
Commodity	0	0	0	0	0
Netting(1)	0	0	0	(10,117)	(10,117)
Total derivative assets	$ 74	$ 13,094	$ 24	$ (10,117)	$ 3,075

Derivative liabilities:					
Interest Rate	$ 11	$ 6,783	$ 2	$ 0	$ 6,796
Currency	0	517	0	0	517
Credit	0	84	0	0	84
Currency/Interest Rate	0	578	0	0	578
Equity	165	198	0	0	363
Commodity	0	0	0	0	0
Netting(1)	0	0	0	(8,031)	(8,031)
Total derivative liabilities	$ 176	$ 8,160	$ 2	$ (8,031)	$ 307

(1) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.

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Changes in Level 3 derivative assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the year ended December 31, 2013, as well as the portion of gains or losses included in income for the year ended December 31, 2013, attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2013.

	Year Ended December 31, 2013		
	Derivative Assets Equity	Derivative Assets Credit	Derivative Assets Interest Rate
	(in millions)		
Fair Value, beginning of period	$ 19	$ 0	$ 3
Total gains or (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	(15)	0	0
Asset management fees and other income	0	0	0
Purchases	0	0	0
Sales	0	0	0
Issuances	0	0	0
Settlements	(4)	0	0
Transfers into Level 3(1)	0	0	0
Transfers out of Level 3(1)	0	0	0
Fair Value, end of period	$ 0	$ 0	$ 3
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:			
Included in earnings:			
Realized investment gains (losses), net	$ (15)	$ 0	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0

	Year Ended December 31, 2012		
	Derivative Assets Equity	Derivative Assets Credit	Derivative Assets Interest Rate
	(in millions)		
Fair Value, beginning of period	$ 83	$ 1	$ (1)
Total gains or (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	(70)	(1)	4
Asset management fees and other income	0	0	0
Purchases	6	0	0
Sales	0	0	0
Issuances	0	0	0
Settlements	0	0	0
Transfers into Level 3(1)	0	0	0
Transfers out of Level 3(1)	0	0	0
Fair Value, end of period	$ 19	$ 0	$ 3

Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:			
Included in earnings:			
Realized investment gains (losses), net	$ (70)	$ (1)	$ 4
Asset management fees and other income	$ 0	$ 0	$ 0

(1) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.

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Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. Nonrecurring fair value reserve adjustments resulted in a net loss of $9 million for the year ended December 31, 2013 on certain commercial mortgage loans. The carrying value of these loans as of December 31, 2013 was $27 million. Valuation reserve adjustments on certain commercial mortgage loans for the year ended December 31, 2012, resulted in a net gain of $2 million and a net loss of $7 million for the year ended December 31, 2011. The adjustments were based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral and the underlying assets were classified as Level 3 in the hierarchy.

There were no intangible asset impairments recorded for the years ended December 31, 2013 and 2011. Impairments of $46 million were recorded related to the write off of intangible assets for the year ended December 31, 2012. The impairments were primarily based on discounted cash flow models, using assumptions and inputs specific to the Company, and those underlying assets are therefore, classified as Level 3 in the valuation hierarchy. For certain cost method investments, impairments of $21 million, $4 million and $8 million were recorded for the years ended December 31, 2013, 2012 and 2011, respectively. The methodologies utilized were primarily discounted future cash flow and, where appropriate, valuations provided by the general partners taking into consideration investment related expenses. These cost method investments are classified as Level 3 in the valuation hierarchy.

For mortgage servicing rights, valuation reserves decreased, resulting in a gain of $16 million for the year ended December 31, 2013. Similarly, valuation reserve increases of $14 million and $9 million were recorded for the years ended December 31, 2012 and 2011, respectively, for mortgage servicing rights. Mortgage servicing rights are valued based on internal models and classified as Level 3 in the valuation hierarchy. For real estate and property and equipment related investments, no impairments were recorded for the year ended December 31, 2013. Impairments of $4 million and $22 million for the years ended December 31, 2012 and 2011, respectively, were recorded for real estate investments, some of which were classified as discontinued operations. The impairments for these real estate investments were based primarily on appraisal values and the assets were therefore classified as Level 3 in the valuation hierarchy.

Fair Value Option The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans, other long-term investments and notes issued by consolidated variable interest entities, where the fair value option has been elected.

	Years Ended December 31,		
	2013	2012	2011
	(in millions)		
Assets:			
Commercial mortgage loans:			
Changes in instrument-specific credit risk	$ 0	$ 0	$ 1
Other changes in fair value	0	(1)	4
Other long-term investments:			
Changes in fair value	68	40	(5)
Liabilities:			
Notes issued by consolidated variable interest entities:			
Changes in fair value	$ (17)	$ 2	$ 0

Changes in fair value are reflected in Realized investment gains (losses), net for commercial mortgage loans and Asset management fees and other income for other long-term investments and notes issued by consolidated variable interest entities. Changes in fair value due to instrument-specific credit risk are estimated based on changes in credit spreads and quality ratings for the period reported.

Interest income on commercial mortgage loans is included in net investment income. For the years ended December 31, 2013, 2012 and 2011, the Company recorded $10 million, $13 million and $12 million of interest income, respectively, on these fair value option loans. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

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The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $158 million and $154 million, respectively, as of December 31, 2013, and $162 million and $156 million, respectively, as December 31, 2012. As of December 31, 2013, there were no loans in non-accrual status and none of the loans are more than 90 days past due and still accruing.

The fair value of other long-term investments was $873 million and $465 million as of December 31, 2013 and 2012, respectively.

The fair value and aggregate contractual principal amounts of notes issued by consolidated variable interest entities, for which the fair value option has been elected, were $3,254 million and $3,276 million, respectively, as of December 31, 2013, and $1,406 million and $1,422 million, respectively, as December 31, 2012. Interest expense recorded for these liabilities was $106 million and $21 million for the years ended December 31, 2013 and 2012, respectively.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. However, in some cases, as described below, the carrying amount equals or approximates fair value.

	December 31, 2013					December 31, 2012	
	Fair Value				Carrying Amount(1)	Fair Value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Total	Total	Total
				(in millions)			
Assets:							
Fixed maturities, held-to-maturity	$ 0	$ 2,065	$ 1,488	$ 3,553	$ 3,312	$ 4,511	$ 4,268
Commercial mortgage and other loans	0	639	42,010	42,649	40,850	39,554	36,570
Policy loans	0	0	11,766	11,766	11,766	14,592	11,575
Other long term investments	0	0	2,470	2,470	2,203	2,159	1,995
Short-term investments	0	518	0	518	518	57	57
Cash and cash equivalents	3,661	796	0	4,457	4,457	4,500	4,500
Accrued investment income	0	3,089	0	3,089	3,089	3,127	3,127
Other assets	162	2,147	252	2,561	2,561	2,601	2,601
Total assets	$ 3,823	$ 9,254	$ 57,986	$ 71,063	$ 68,756	$ 71,101	$ 64,693
Liabilities:							
Policyholders account balances investment contracts	$ 0	$ 39,347	$ 57,253	$ 96,600	$ 95,476	$ 104,200	$ 101,232
Securities sold under agreements to repurchase	0	7,898	0	7,898	7,898	5,818	5,818
Cash collateral for loaned securities	0	5,040	0	5,040	5,040	3,941	3,941
Short-term debt	0	2,718	0	2,718	2,669	2,506	2,484

Long-term debt	1,078	19,453	5,038	25,569	23,553	27,497	24,729
Notes of consolidated VIEs	0	0	39	39	48	149	171
Other liabilities	0	5,803	266	6,069	6,069	6,356	6,356
Separate account liabilities investment contracts	0	82,071	22,163	104,234	104,234	96,561	96,561
Total liabilities	$ 1,078	$ 162,330	$ 84,759	$ 248,167	$ 244,987	$ 247,028	$ 241,292

(1) Carrying values presented herein differ from those in the Company s Consolidated Statement of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments. Financial statement captions excluded from the above table are not considered financial instruments.

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The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

Fixed Maturities, Held-to-Maturity

The fair values of public fixed maturity securities are generally based on prices from third-party pricing services, which are reviewed to validate reasonableness. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities, the fair value is based on indicative broker quotes, if available, or determined using a discounted cash flow model or internally-developed values. For private fixed maturities, fair value is determined using a discounted cash flow model. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

The fair value of most commercial mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or foreign government bond rate (for non-U.S. dollar-denominated loans) plus an appropriate credit spread for similar quality loans. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology.

Certain commercial mortgage loans are valued incorporating other factors, including the terms of the loans, the principal exit strategies for the loans, prevailing interest rates and credit risk. Other loan valuations are primarily based upon the present value of the expected future cash flows discounted at the appropriate local government bond rate and local market swap rates or credit default swap spreads, plus an appropriate credit spread and liquidity premium. The credit spread and liquidity premium are a significant component of the pricing inputs, and are based upon an internally-developed methodology, which takes into account, among other factors, the credit quality of the loans, the property type of the collateral, the weighted average coupon and the weighted average life of the loans.

Policy Loans

During the fourth quarter of 2013, the Company changed the valuation technique used to fair value policy loans. For the period ended December 31, 2013, the fair value of policy loans was determined by discounting expected cash flows at the current loan coupon rate. As a result, the carrying value of the policy loans approximates the fair value for the year ended December 31, 2013. Prior to this change, the fair value of U.S. insurance policy loans was calculated by discounting expected cash flows based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans used the risk-free proxy based on the yen LIBOR.

Other Long-term Investments

Other long-term investments include investments in joint ventures and limited partnerships. The estimated fair values of these cost method investments are generally based on the Company s share of the net asset value (NAV) as provided in the financial statements of the investees. In certain circumstances, management may adjust the NAV by a premium or discount when it has sufficient evidence to support applying such adjustments. For the year end December 31, 2013 and 2012, no such adjustments were made.

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Notes to Consolidated Financial Statements

Short-Term Investments, Cash and Cash Equivalents, Accrued Investment Income and Other Assets

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: certain short-term investments which are not securities, are recorded at amortized cost and include quality loans; cash and cash equivalent instruments; accrued investment income; and other assets that meet the definition of financial instruments, including receivables, such as reinsurance recoverables, unsettled trades, accounts receivable and restricted cash.

Policyholders Account Balances Investment Contracts

Only the portion of policyholders account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are derived using discounted projected cash flows based on interest rates that are representative of the Company s financial strength ratings, and hence reflect the Company s own non-performance risk. For guaranteed investment contracts, funding agreements, structured settlements without life contingencies and other similar products, fair values are derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products, the fair value is the market value of the assets supporting the liabilities.

Securities Sold Under Agreements to Repurchase

The Company receives collateral for selling securities under agreements to repurchase, or pledges collateral under agreements to resell. Repurchase and resale agreements are also generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.

Cash Collateral for Loaned Securities

Cash collateral for loaned securities represents the collateral received or paid in connection with loaning or borrowing securities, similar to the securities sold under agreement to repurchase above. For these transactions, the carrying value of the related asset or liability approximates fair value, as they equal the amount of cash collateral received/paid.

Debt

The fair value of short-term and long-term debt, as well as notes issued by consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. With the exception of the notes issued by consolidated VIEs for which recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company, the fair values of these instruments consider the Company s own non-performance risk. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value.

A portion of the senior secured notes issued by Prudential Holdings, LLC (the IHC debt) is insured by a third-party financial guarantee insurance policy. The effect of the third-party credit enhancement is not included in the fair value measurement of the IHC debt and the methodologies used to determine fair value consider the Company s own non-performance risk.

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Other Liabilities

Other liabilities are primarily payables, such as reinsurance payables, unsettled trades, drafts and accrued expense payables. Due to the short term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

Separate Account Liabilities Investment Contracts

Only the portion of separate account liabilities related to products that are investments contracts are reflected in the table above. Separate account liabilities are recorded at the amount credited to the contractholder, which reflects the change in fair value of the corresponding separate account assets including contractholder deposits less withdrawals and fees. Therefore, carrying value approximates fair value.

21. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

Interest rate swaps, options, and futures are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities (including duration mismatches) and to hedge against changes in the value of assets it owns or anticipates acquiring or selling. Swaps may be attributed to specific assets or liabilities or may be used on a portfolio basis. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

The Company also uses swaptions, interest rate caps, and interest rate floors to manage interest rate risk. A swaption is an option to enter into a swap with a forward starting effective date. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. In an interest rate cap, the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Similarly, in an interest rate floor, the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price. Swaptions and interest rate caps and floors are included in interest rate options.

In exchange-traded interest rate futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the values of underlying referenced investments, and posts variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission s merchants who are members of a trading exchange.

Equity Contracts

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range.

Foreign Exchange Contracts

Currency derivatives, including currency futures, options, forwards, and swaps, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell, and to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

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Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investments operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

Under currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

Credit Contracts

The Company writes credit default swaps for which it receives a premium to insure credit risk. These are used by the Company to enhance the return on the Company s investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With these derivatives, the Company sells credit protection on an identified name, or an index of names, and in return receives a quarterly premium. This premium or credit spread generally corresponds to the difference between the yield on the referenced name s (or an index s referenced names) public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name or one of the referenced names in the index, as defined by the agreement, then the Company is obligated to pay the referenced amount of the contract to the counterparty and receive in return the referenced defaulted security or similar security or (in the case of a credit default index) pay the referenced amount less the auction recovery rate. See credit derivatives written section for further discussion of guarantees. In addition to selling credit protection the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio.

Other Contracts

TBAs. The Company uses to be announced (TBA) forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company enhance the return on its investment portfolio, and can provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company s mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

Loan Commitments. In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, origination income or expense, and the value of service rights. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company s financial statements. See Note 23 for a further discussion of these loan commitments.

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Embedded Derivatives. The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are marked to market through Realized investment gains (losses), net based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to economically hedge the risks related to the above products features. The derivatives may include, but are not limited to equity options, total return swaps, interest rate swaptions, caps, floors, and other instruments.

The Company invests in fixed maturities that, in addition to a stated coupon, provide a return based upon the results of an underlying portfolio of fixed income investments and related investment activity. The Company accounts for these investments as available-for-sale fixed maturities containing embedded derivatives. Such embedded derivatives are marked to market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio.

Synthetic Guarantees. The Company sells synthetic guaranteed investment contracts, through both full service and investment-only sales channels, to qualified pension plans. The assets are owned by the trustees of such plans, who invest the assets according to the contract terms agreed to with the Company. The contracts contain a guarantee of a minimum rate of return on participant balances supported by the underlying assets, and a guarantee of liquidity to meet certain participant-initiated withdrawals from the contract. Under U.S. GAAP, these contracts are accounted for as derivatives and recorded at fair value.

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The table below provides a summary of the gross notional amount and fair value of derivatives contracts used in a non-broker-dealer capacity by the primary underlying, excluding embedded derivatives which are recorded with the associated host. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements and cash collateral held with the same counterparty. This netting impact results in total derivative assets of $533 million and $3,075 million as of December 31, 2013 and 2012, respectively, and total derivative liabilities of $2,156 million and $307 million as of December 31, 2013 and 2012, respectively, reflected in the Consolidated Statement of Financial Position.

Primary Underlying/	December 31, 2013	Gross Fair Value		December 31, 2012	Gross Fair Value	
Instrument Type	**Notional**	**Assets**	**Liabilities**	**Notional**	**Assets**	**Liabilities**
			(in millions)			
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 2,393	$ 8	$ (228)	$ 3,374	$ 26	$ (396)
Foreign Currency						
Foreign Currency Forwards	497	1	(27)	639	1	(35)
Currency/Interest Rate						
Foreign Currency Swaps	8,903	216	(530)	6,373	128	(342)
Total Qualifying Derivatives	$ 11,793	$ 225	$ (785)	$ 10,386	$ 155	$ (773)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 118,419	$ 3,835	$ (5,102)	$ 108,581	$ 7,779	$ (3,301)
Interest Rate Futures	14,825	8	(5)	6,749	11	(12)
Interest Rate Options	23,873	369	(283)	25,250	895	(141)
Interest Rate Forwards	1,452	0	(6)	660	0	0
Foreign Currency						
Foreign Currency Forwards	13,357	596	(358)	14,638	371	(397)
Foreign Currency Options	74	5	0	92	13	0
Currency/Interest Rate						
Foreign Currency Swaps	7,072	339	(254)	5,304	239	(152)
Credit						
Credit Default Swaps	1,904	3	(49)	3,250	19	(84)
Equity						
Equity Futures	262	1	(1)	6,518	0	(165)
Equity Options	61,301	406	(19)	42,757	603	(40)
Total Return Swaps	11,389	1	(466)	5,779	8	(158)
Commodity						
Commodity Futures	37	1	0	0	0	0
Synthetic GIC s	60,758	8	0	64,359	6	0
Total Non-Qualifying Derivatives(1)	$ 314,723	$ 5,572	$ (6,543)	$ 283,937	$ 9,944	$ (4,450)
Total Derivatives(2)	$ 326,516	$ 5,797	$ (7,328)	$ 294,323	$ 10,099	$ (5,223)

(1) Based on notional amounts, most of the Company s derivatives do not qualify for hedge accounting as follows: i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income, ii) derivatives that are utilized as macro hedges of the Company s exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules, and iii) synthetic guaranteed investment contracts (GIC s), which are product standalone derivatives do not qualify as hedging instruments under hedge accounting rules.

(2) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a net liability of $430 million as of December 31, 2013, and a net liability of $3,438 million as of December 31, 2012, included in Future policy benefits and Fixed maturities, available-for-sale.

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Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (including bifurcated embedded derivatives), and repurchase and reverse repurchase agreements that are offset in the balance sheet, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the balance sheet.

	December 31, 2013				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives	$ 7,721	$ (7,241)	$ 480	$ (535)	$ (55)
Securities purchased under agreement to resell	656	0	656	(656)	0
Total Assets	$ 8,377	$ (7,241)	$ 1,136	$ (1,191)	$ (55)
Offsetting of Financial Liabilities:					
Derivatives	$ 9,408	$ (7,257)	$ 2,151	$ (1,999)	$ 152
Securities sold under agreement to repurchase	7,898	0	7,898	(7,898)	0
Total Liabilities	$ 17,306	$ (7,257)	$ 10,049	$ (9,897)	$ 152

	December 31, 2012				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments/ Collateral	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives	$ 13,167	$ (10,117)	$ 3,050	$ (2,891)	$ 159
Securities purchased under agreement to resell	990	0	990	(990)	0
Total Assets	$ 14,157	$ (10,117)	$ 4,040	$ (3,881)	$ 159
Offsetting of Financial Liabilities:					
Derivatives	$ 8,329	$ (8,031)	$ 298	$ (63)	$ 235
Securities sold under agreement to repurchase	5,818	0	5,818	(5,818)	0

Total Liabilities	$ 14,147	$ (8,031)	$ 6,116	$ (5,881)	$ 235

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see Credit Risk below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company s accounting policy for securities repurchase and resale agreements, see Note 2 to the Company s Consolidated Financial Statements.

Cash Flow, Fair Value and Net Investment Hedges

The primary derivative instruments used by the Company in its fair value, cash flow, and net investment hedge accounting relationships are interest rate swaps, currency swaps and currency forwards. These instruments

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are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, equity or embedded derivatives in any of its fair value, cash flow or net investment hedge accounting relationships.

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship.

	Year Ended December 31, 2013					
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 103	$ (71)	$ 0	$ 0	$ 20	$ 0
Currency	(80)	(1)	0	0	0	0
Total fair value hedges	23	(72)	0	0	20	0
Cash flow hedges						
Interest Rate	0	0	0	(23)	0	26
Currency/Interest Rate	0	2	(91)	0	0	(215)
Total cash flow hedges	0	2	(91)	(23)	0	(189)
Net investment hedges						
Currency(2)	0	0	(4)	0	0	6
Currency/Interest Rate	0	0	0	0	0	233
Total net investment hedges	0	0	(4)	0	0	239
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(5,254)	0	0	0	0	0
Currency	(591)	0	0	0	0	0
Currency/Interest Rate	131	0	(2)	0	0	0
Credit	(4)	0	0	0	0	0
Equity	(3,684)	0	0	0	0	0
Commodity	1	0	0	0	0	0
Embedded Derivatives	3,752	0	0	0	0	0
Total non-qualifying hedges	(5,649)	0	(2)	0	0	0

Total	$ (5,626)	$ (70)	$ (97)	$ (23)	$ 20	$ 50

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	Year Ended December 31, 2012					
	Realized Investment Gains/(Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 22	$ (92)	$ 0	$ 4	$ 33	$ 0
Currency	(37)	(3)	0	0	0	0
Total fair value hedges	(15)	(95)	0	4	33	0
Cash flow hedges						
Interest Rate	0	0	0	(19)	(1)	14
Currency/Interest Rate	0	(5)	(20)	0	0	(185)
Total cash flow hedges	0	(5)	(20)	(19)	(1)	(171)
Net investment hedges						
Currency(2)	(1)	0	0	0	0	(9)
Currency/Interest Rate	0	0	0	0	0	228
Total net investment hedges	(1)	0	0	0	0	219
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	413	0	0	0	0	0
Currency	(64)	0	0	0	0	0
Currency/Interest Rate	235	0	0	0	0	0
Credit	(34)	0	0	0	0	0
Equity	(2,302)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	251	0	0	0	0	0
Total non-qualifying hedges	(1,501)	0	0	0	0	0
Total	$ (1,517)	$ (100)	$ (20)	$ (15)	$ 32	$ 48

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	Year Ended December 31, 2011					
	Realized Investment Gains/(Losses)	**Net Investment Income**	**Other Income**	**Interest Expense (in millions)**	**Interest Credited To Policyholders Account Balances**	**Accumulated Other Comprehensive Income(1)**
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ (122)	$ (113)	$ 0	$ 8	$ 56	$ 0
Currency	28	(5)	0	0	0	0
Total fair value hedges	(94)	(118)	0	8	56	0
Cash flow hedges						
Interest Rate	0	0	0	(19)	(1)	(4)
Currency/Interest Rate	0	(14)	22	0	0	180
Total cash flow hedges	0	(14)	22	(19)	(1)	176
Net investment hedges						
Currency(2)	(9)	0	6	0	0	(6)
Currency/Interest Rate	0	0	0	0	0	(23)
Total net investment hedges	(9)	0	6	0	0	(29)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	5,133	0	0	0	0	0
Currency	125	0	0	0	0	0
Currency/Interest Rate	(4)	0	0	0	0	0
Credit	(38)	0	0	0	0	0
Equity	(318)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	(2,579)	0	0	0	0	0
Total non-qualifying hedges	2,319	0	0	0	0	0
Total	$ 2,216	$ (132)	$ 28	$ (11)	$ 55	$ 147

(1) Amounts deferred in Accumulated other comprehensive income (loss).
(2) Relates to the sale of equity method investments.

For the years ended December 31, 2013, 2012 and 2011, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company s results of operations and there were no material amounts reclassified into earnings relating to instances in which the

Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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Presented below is a roll forward of current period cash flow hedges in Accumulated other comprehensive income (loss) before taxes:

		(in millions)
Balance, December 31, 2010	$	(262)
Net deferred gains/(losses) on cash flow hedges from January 1 to December 31, 2011		148
Amount reclassified into current period earnings		28
Balance, December 31, 2011		(86)
Net deferred gains/(losses) on cash flow hedges from January 1 to December 31, 2012		(219)
Amount reclassified into current period earnings		48
Balance, December 31, 2012		(257)
Net deferred gains/(losses) on cash flow hedges from January 1 to December 31, 2013		(317)
Amount reclassified into current period earnings		128
Balance, December 31, 2013	$	(446)

Using December 31, 2013 values, it is anticipated that a pre-tax loss of approximately $15 million will be reclassified from Accumulated other comprehensive income (loss) to earnings during the subsequent twelve months ending December 31, 2014, offset by amounts pertaining to the hedged items. As of December 31, 2013, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 25 years. Income amounts deferred in Accumulated other comprehensive income (loss) as a result of cash flow hedges are included in Net unrealized investment gains (losses) in the Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss) were $356 million in 2013, $117 million in 2012, and $(102) million in 2011.

Credit Derivatives Written

The following table sets forth the Company s exposure from credit derivatives where the Company has written credit protection, by NAIC rating of the underlying credits as of December 31, 2013 and 2012. The Company s maximum amount at risk under these credit derivatives listed below assumes the value of the underlying referenced securities become worthless. These credit derivatives have maturities of less than 2 years. The table excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market.

December 31, 2013

NAIC Designation	Single Name		Credit Default Index		Total	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
			(in millions)			
1	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2	5	0	0	0	5	0
Subtotal	5	0	0	0	5	0
3	0	0	0	0	0	0
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0
Total	$ 5	$ 0	$ 0	$ 0	$ 5	$ 0

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NAIC Designation	December 31, 2012 Single Name Notional	Single Name Fair Value	Credit Default Index Notional	Credit Default Index Fair Value	Total Notional	Total Fair Value
	(in millions)					
1	$ 275	$ 0	$ 0	$ 0	$ 275	$ 0
2	45	0	0	0	45	0
Subtotal	320	0	0	0	320	0
3	0	0	750	2	750	2
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
Subtotal	0	0	750	2	750	2
Total	$ 320	$ 0	$ 750	$ 2	$ 1,070	$ 2

The following table sets forth the composition of the Company s credit derivatives where the Company has written credit protection by industry category as of the dates indicated.

Industry	December 31, 2013 Notional	December 31, 2013 Fair Value	December 31, 2012 Notional	December 31, 2012 Fair Value
	(in millions)			
Corporate Securities:				
Consumer Non-cyclical	$ 0	$ 0	$ 120	$ 0
Capital Goods	0	0	90	0
Basic Industry	0	0	40	0
Transportation	0	0	25	0
Consumer Cyclical	0	0	20	0
Energy	0	0	20	0
Communication	5	0	5	0
Finance	0	0	0	0
Other(1)	0	0	750	2
Total Credit Derivatives	$ 5	$ 0	$ 1,070	$ 2

(1) Includes Credit Default Index derivative with various industry categories.

In addition to the above, the Company entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional amount of this credit derivative is $500 million and the fair value as of December 31, 2013 and 2012 was a liability of $4 million and $32 million, respectively. No collateral was pledged in either period.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio. As of December 31, 2013 and 2012, the Company had $1,399 million and $1,680 million of outstanding notional amounts, respectively, reported at fair value as a liability of $42 million and $35 million, respectively.

Prior to disposal in the fourth quarter of 2013, the Company held certain externally-managed investments in the European market which contained embedded derivatives. Their fair values were primarily driven by changes in credit spreads. These investments were medium-term notes that were collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes had a stated coupon and provided a return based on the performance of the underlying portfolios and the level of leverage. The Company invested in these notes to earn a coupon through maturity, consistent with its investment purpose for other debt securities. The notes were accounted for under U.S. GAAP as available-for-sale fixed maturity securities with

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bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities were reported in Equity under the heading Accumulated Other Comprehensive Income (Loss) and changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. The Company s maximum exposure to loss from these investments was $314 million on December 31, 2012.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. The Company manages credit risk by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

The credit exposure of the Company s OTC derivative transactions is represented by the contracts with a positive fair value (market value) at the reporting date. To reduce credit exposures, the Company seeks to (i) enter into OTC derivative transactions pursuant to master agreements that provide for a netting of payments and receipts with a single counterparty, and (ii) enter into agreements that allow the use of credit support annexes, which are bilateral rating-sensitive agreements that require collateral postings at established threshold levels. Cleared derivatives are bilateral transactions between the Company and a counterparty where the transactions are cleared through a clearinghouse, such that each derivative counterparty is only exposed to the default of the clearinghouse. These cleared transactions require initial and daily variation margin collateral postings and include certain interest rate swaps and credit default swaps entered into on or after June 10, 2013, related to new guidelines implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Also, the Company enters into exchange-traded futures and certain options transactions through regulated exchanges and these transactions are settled on a daily basis, thereby reducing credit risk exposure in the event of non-performance by counterparties to such financial instruments.

Under fair value measurements, the Company incorporates the market s perception of its own and the counterparty s non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company s own credit spread a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company s counterparty s credit spread is applied to OTC derivative net asset positions.

Certain of the Company s derivative agreements with some of its counterparties contain credit-rating related triggers. If the Company s credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were $621 million as of December 31, 2013. In the normal course of business the Company has posted collateral related to these instruments of $519 million as of December 31, 2013. If the credit-risk-related contingent features underlying these agreements had been triggered on December 31, 2013, the Company estimates that it would be required to post a maximum of $60 million of additional collateral to its counterparties.

22. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through three divisions, which together encompass six reportable segments. Businesses that are not sufficiently material to warrant separate

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disclosure and divested businesses are included in Corporate and Other operations within the Financial Services Businesses. Collectively, the businesses that comprise the three operating divisions and Corporate and Other are referred to as the Financial Services Businesses.

U.S. Retirement Solutions and Investment Management Division. The U.S. Retirement Solutions and Investment Management division consists of the Individual Annuities, Retirement, and Asset Management segments. The Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. The Retirement segment manufactures and distributes products and provides administrative services for qualified and non-qualified retirement plans and offers innovative pension risk transfer solutions, investment-only stable value products, guaranteed investment contracts, funding agreements, institutional and retail notes, structured settlement annuities and other group annuities. The Asset Management segment provides a broad array of investment management and advisory services by means of institutional portfolio management, mutual funds, asset securitization activity and other structured products, and strategic investments. These products and services are provided to the public and private marketplace, as well as to other segments of the Company.

U.S. Individual Life and Group Insurance Division. The U.S. Individual Life and Group Insurance division consists of the Individual Life and Group Insurance segments. The Individual Life segment manufactures and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. The Individual Life segment also includes the results of the individual life business acquired from The Hartford on January 2, 2013. The Group Insurance segment manufactures and distributes a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the U.S. primarily to institutional clients for use in connection with employee and plans and affinity groups.

International Insurance Division. The International Insurance division consists of the International Insurance segment, which manufactures and distributes individual life insurance, retirement and related products to the mass affluent and affluent markets in Japan, Korea and other foreign countries through its Life Planner operations. In addition, similar products are offered to the broad middle income market across Japan through Life Consultants, the proprietary distribution channel of the Company s Gibraltar Life operation, as well as other channels, including banks and independent agencies.

Corporate and Other. Corporate and Other includes corporate operations, after allocations to business segments, and divested businesses. Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities, deferred compensation, and costs related to certain contingencies and enhanced regulatory supervision; (6) certain retained obligations relating to pre-demutualization policyholders whom the Company had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) results related to the Company s capital protection framework; (8) results related to a life insurance joint venture and an asset management company joint venture in China and (9) the impact of transactions with other segments.

Closed Block Business. The Closed Block Business, which is managed separately from the Financial Services Businesses, was established on the date of demutualization. It includes the Closed Block (as discussed in Note 12); assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed in Note 14) and certain related assets and liabilities.

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Segment Accounting Policies. The accounting policies of the segments are the same as those described in Note 2. Results for each segment include earnings on attributed equity established at a level which management considers necessary to support each segment s risks. Operating expenses specifically identifiable to a particular segment are allocated to that segment as incurred. Operating expenses not identifiable to a specific segment that are incurred in connection with the generation of segment revenues are generally allocated based upon the segment s historical percentage of general and administrative expenses. As discussed in Note 2, results for the periods presented in the Company s Consolidated Financial Statements reflect the implementation of a discretionary change in accounting principle related to the Company s accrual of performance-based incentive fee revenue in its Asset Management segment.

For information related to significant acquisitions and disposition, see Note 3. For information related to the adoption of new accounting pronouncements, see Note 2. The segments results in prior years have been revised for these items, as applicable, to conform to the current year presentation.

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment s income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items, which are described in greater detail below:

- realized investment gains (losses), net, and related charges and adjustments;
- net investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- the contribution to income/loss of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down status, but that did not qualify for discontinued operations accounting treatment under U.S. GAAP; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company s definition of adjusted operating income may differ from that used by other companies. However, the Company believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of the

Financial Services Businesses.

As discussed in Note 1, the Company recorded out of period adjustments during 2012 that resulted in a decrease in adjusted operating income of $160 million for the year, principally $61 million to the Asset Management segment and $99 million to Corporate and Other operations.

Realized investment gains (losses), net, and related charges and adjustments

Realized investment gains (losses), net

Adjusted operating income excludes Realized investment gains (losses), net, except for certain items described below. Significant activity excluded from adjusted operating income includes impairments and credit-related gains and losses from sales of securities, the timing of which depends largely on market credit cycles and can vary considerably across periods, and interest rate-related gains and losses from sales of securities, which are

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largely subject to the Company s discretion and influenced by market opportunities, as well as the Company s tax and capital profile. Additionally, certain gains and losses pertaining to derivative contracts that do not qualify for hedge accounting treatment are also excluded from adjusted operating income. Trends in the underlying profitability of the Company s businesses can be more clearly identified without the fluctuating effects of these transactions.

The following table sets forth the significant components of Realized investment gains (losses), net that are included in adjusted operating income and, as a result, are reflected as adjustments to Realized investment gains (losses), net for purposes of calculating adjusted operating income:

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
Net gains (losses) from:			
Terminated hedges of foreign currency earnings	$ 240	$ (75)	$ (136)
Current period yield adjustments(1)	445	320	241
Principal source of earnings(1)	$ 122	$ 91	$ 176

(1) Amounts for the prior periods have been reclassified to conform to current period presentation. In addition to the items in the table above, Realized investment gains (losses), net, and related charges and adjustments also includes an adjustment to reflect Realized investments gains (losses), net related to divested businesses as results of Divested businesses , discussed below.

Terminated Hedges of Foreign Currency Earnings. The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Insurance segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment s U.S. dollar equivalent earnings. Pursuant to this program, the Company s Corporate and Other operations may execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

Current Period Yield Adjustments. The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in Realized investment gains (losses), net , and are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains on certain derivatives contracts that were terminated or offset in prior periods of $72 million, $64 million and $50 million for the years ended 2013, 2012 and 2011, respectively. Additionally, as of December 31, 2013, there was a

$444 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily in the International Insurance segment.

Principal Source of Earnings. The Company conducts certain activities for which realized investment gains and losses are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company s Asset Management segment. For example, Asset Management s strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company s managed funds and structured products. The realized investment gains and losses

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associated with the sale of these strategic investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the realized investment gains and losses associated with loans originated by the Company s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income.

Other items reflected as adjustments to Realized investment gains (losses), net

The following table sets forth certain other items excluded from adjusted operating income and reflected as an adjustment to Realized investment gains (losses), net for purposes of calculating adjusted operating income:

	Years Ended December 31,		
	2013	2012 (in millions)	2011
Net gains (losses) from:			
Other trading account assets	$ 168	$ 102	$ (81)
Foreign currency exchange movements	(4,060)	(1,750)	986
Other activities	$ 167	$ 29	$ (109)

Other Trading Account Assets. The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company s statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

Foreign Currency Exchange Movements. The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company s capital funding strategies for its international subsidiaries, the change in value included in Asset management fees and other income is excluded from adjusted operating income. The amounts in the table above are largely driven by non-yen denominated insurance liabilities in the Company s Japanese insurance operations. The insurance liabilities are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While these non-yen denominated assets and liabilities are economically hedged, under U.S. GAAP, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in Accumulated other comprehensive income (loss), while the non-yen denominated liabilities are re-measured for foreign currency exchange rate movements, and the related change in value is recorded in earnings within Asset management fees and other income. Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the change in value recorded within Asset management fee and other income is excluded from adjusted operating income.

Other Activities. The Company excludes certain other items from adjusted operating income that are consistent with similar adjustments described above. The significant items within other activities shown in the table above included the following:

In connection with the settlement of disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc., the Company recorded losses of $65 million in 2011 related to a portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. For the years ended 2013 and 2012, the Company recorded $146 million and $12 million, respectively, in estimated recoveries of this settlement. These losses and recoveries are recorded within Asset management fees and other income within the Company s Corporate and Other operations. Consistent with the exclusion of credit-related losses recorded in Realized investment gains (losses), net , the impact of these losses and recoveries are excluded from adjusted operating income.

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The Company records valuation adjustments for non-performance risk that relates to the uncollateralized portion of certain derivative contracts between a subsidiary of the Company and third parties and liquidity risk associated with certain derivatives. These adjustments are recorded within Asset management fees and other income. Consistent with the exclusion of the mark-to-market on derivatives recorded in Realized investment gains (losses), net , the impact of these risks is excluded from adjusted operating income. The net impact of these risks was to exclude from adjusted operating income net gains of $30 million, net gains of $36 million and net losses of $22 million for the years ended 2013, 2012 and 2011, respectively.

Related charges

Charges that relate to realized investment gains and losses are also excluded from adjusted operating income, and include the following:

- The portion of the amortization of deferred policy acquisition costs, value of business acquired, unearned revenue reserves and deferred sales inducements for certain products that is related to net realized investment gains and losses.
- Policyholder dividends and interest credited to policyholders account balances that relate to certain life policies that pass back certain realized investment gains and losses to the policyholder, and reserves for future policy benefits for certain policies that are affected by net realized investment gains and losses.
- Market value adjustments paid or received upon a contractholder s surrender of certain of the Company s annuity products as these amounts mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets.

Investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are classified as trading and are carried at fair value, with realized and unrealized gains and losses reported in Asset management fees and other income. To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives are carried at fair value, with realized and unrealized gains and losses reported in Realized investment gains (losses), net. The commercial mortgage and other loans are carried at unpaid principal, net of unamortized discounts and an allowance for losses, with gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans reported in Realized investment gains (losses), net.

Adjusted operating income excludes net investment gains and losses on trading account assets supporting insurance liabilities, which is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in Interest credited to policyholders account balances. These adjustments are in addition to the exclusion from adjusted operating income of net investment gains and losses on the related derivatives and commercial mortgage and other loans through *Realized investment gains (losses), net, and related charges and adjustments,* as discussed above. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to ultimately accrue to the contractholders.

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Divested businesses

The contribution to income/loss of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for discontinued operations accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of divested businesses are not relevant to understanding the Company s ongoing operating results.

On July 1, 2013, the Company sold its wealth management solutions business to Envestnet Inc. Due to the existence of an ongoing contractual relationship between the Company and these operations, this disposition did not qualify for discontinued operations treatment under U.S. GAAP. As a result, the Company has classified the results of these operations, previously reported in the Asset Management segment, as a divested business and excluded the results from adjusted operating income for all periods presented.

As previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2012, the Company decided to place its long-term care business in wind down in 2012 and has classified the results of this business as a divested business for all periods presented.

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests

Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company s Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company s Consolidated Statements of Operations.

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The summary below reconciles adjusted operating income before income taxes for the Financial Services Businesses to income from continuing operations before income taxes and equity in earnings of operating joint ventures:

	Years Ended December 31,		
	2013	2012	2011
		(in millions)	
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:			
Individual Annuities	$ 2,085	$ 1,039	$ 662
Retirement	1,039	638	594
Asset Management	723	584	888
Total U.S. Retirement Solutions and Investment Management Division	3,847	2,261	2,144
Individual Life	583	384	482
Group Insurance	157	16	163
Total U.S. Individual Life and Group Insurance Division	740	400	645
International Insurance	3,152	2,704	2,263
Total International Insurance Division	3,152	2,704	2,263
Corporate Operations	(1,370)	(1,338)	(1,112)
Total Corporate and Other	(1,370)	(1,338)	(1,112)
Adjusted Operating Income before income taxes for Financial Services Businesses	6,369	4,027	3,940
Reconciling items:			
Realized investment gains (losses), net, and related adjustments	(9,956)	(3,666)	2,503
Charges related to realized investment gains (losses), net	1,807	857	(1,656)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(250)	610	223
Change in experience-rated contractholder liabilities due to asset value changes	227	(540)	(123)
Divested businesses	29	(615)	90
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	28	(29)	(227)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	(1,746)	644	4,750
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	62	64	214
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (1,684)	$ 708	$ 4,964

The U.S. Retirement Solutions and Investment Management Division and U.S. Individual Life and Group Insurance Division results reflect deferred policy acquisition costs as if the individual annuity business and group insurance business were stand-alone operations. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

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The summary below presents certain financial information for the Company s reportable segments:

	As Of or Year Ended December 31, 2013							
	Revenues	Net Investment Income	Policyholders Benefits	Interest Credited to Policyholders Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs	Total Assets
	(in millions)							
Financial Services Businesses:								
Individual Annuities	$ 4,465	$ 693	$ 77	$ 381	$ 0	$ 91	$ 257	$ 160,778
Retirement	6,028	4,067	2,461	1,529	0	26	15	170,762
Asset Management	2,678	87	0	0	0	11	25	45,040
Total U.S. Retirement Solutions and Investment Management Division	13,171	4,847	2,538	1,910	0	128	297	376,580
Individual Life	4,620	1,406	1,869	576	33	407	111	64,990
Group Insurance	5,518	585	4,299	232	0	7	10	39,185
Total U.S. Individual Life and Group Insurance Division	10,138	1,991	6,168	808	33	414	121	104,175
International Insurance	22,540	4,306	14,499	984	107	3	1,011	168,677
Total International Insurance Division	22,540	4,306	14,499	984	107	3	1,011	168,677
Corporate Operations	(568)	386	(35)	0	0	715	(35)	13,947
Total Corporate and Other	(568)	386	(35)	0	0	715	(35)	13,947
Total	45,281	11,530	23,170	3,702	140	1,260	1,394	663,379
Reconciling items:								
Realized investment gains (losses), net, and related adjustments	(9,960)	(13)	0	0	0	0	0	
Charges related to realized investment gains (losses), net	(199)	0	(225)	(500)	0	0	(1,191)	
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(250)	0	0	0	0	0	0	
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	(227)	0	0	0	
Divested businesses	631	196	454	0	0	1	0	
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(78)	0	0	0	0	0	0	

Total Financial Services Businesses	35,425	11,713	23,399	2,975	140	1,261	203	663,379
Closed Block Business	6,036	3,016	3,334	136	1,910	148	37	68,402
Total per Consolidated Financial Statements	$ 41,461	$ 14,729	$ 26,733	$ 3,111	$ 2,050	$ 1,409	$ 240	$ 731,781

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	As Of or Year Ended December 31, 2012							
	Revenues	Net Investment Income	Policyholders Benefits	Interest Credited to Policyholders Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs	Total Assets
	(in millions)							
Financial Services Businesses:								
Individual Annuities	$ 3,983	$ 770	$ 573	$ 452	$ 0	$ 109	$ 338	$ 146,893
Retirement(1)	36,595	3,203	33,317	1,695	0	20	49	168,262
Asset Management	2,376	107	0	0	0	15	24	41,884
Total U.S. Retirement Solutions and Investment Management Division	42,954	4,080	33,890	2,147	0	144	411	357,039
Individual Life	3,367	1,033	1,210	329	31	316	419	47,371
Group Insurance	5,601	586	4,528	228	0	7	5	38,754
Total U.S. Individual Life and Group Insurance Division	8,968	1,619	5,738	557	31	323	424	86,125
International Insurance	29,586	4,268	20,981	1,122	124	3	1,173	183,794
Total International Insurance Division	29,586	4,268	20,981	1,122	124	3	1,173	183,794
Corporate Operations	(405)	403	136	(22)	0	773	(42)	12,287
Total Corporate and Other	(405)	403	136	(22)	0	773	(42)	12,287
Total	81,103	10,370	60,745	3,804	155	1,243	1,966	639,245
Reconciling items:								
Realized investment gains (losses), net, and related adjustments	(3,671)	(24)	0	0	0	0	0	
Charges related to realized investment gains (losses), net	(108)	0	(2)	(247)	0	0	(716)	
Investment gains (losses) on trading account assets supporting insurance liabilities, net	610	0	0	0	0	0	0	
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	540	0	0	0	
Divested businesses	735	162	943	0	0	0	216	
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(79)	0	0	0	0	0	0	
Total Financial Services Businesses	78,590	10,508	61,686	4,097	155	1,243	1,466	639,245
Closed Block Business	6,257	3,153	3,445	137	2,021	148	38	69,990

Total per Consolidated Financial Statements	$ 84,847	$ 13,661	$ 65,131	$ 4,234	$ 2,176	$ 1,391	$ 1,504	$ 709,235

(1) In 2012, the Company completed significant non-participating group annuity pension risk transfer transactions with two unaffiliated pension plan sponsors. The premiums from these transactions contributed approximately $31.8 billion to revenue in the Retirement segment. These premiums were largely offset by a corresponding increase in policyholders benefits.

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	Year Ended December 31, 2011						
	Revenues	Net Investment Income	Policyholders Benefits	Interest Credited to Policyholders Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
	(in millions)						
Financial Services Businesses:							
Individual Annuities	$ 3,638	$ 790	$ 476	$ 570	$ 0	$ 112	$ 536
Retirement	4,871	3,178	1,594	1,715	0	14	41
Asset Management	2,531	118	0	0	0	13	25
Total U.S. Retirement Solutions and Investment Management Division	11,040	4,086	2,070	2,285	0	139	602
Individual Life	2,900	978	1,115	299	29	214	135
Group Insurance	5,606	575	4,474	228	0	0	6
Total U.S. Individual Life and Group Insurance Division	8,506	1,553	5,589	527	29	214	141
International Insurance	19,567	3,754	11,963	978	122	1	880
Total International Insurance Division	19,567	3,754	11,963	978	122	1	880
Corporate Operations	(187)	410	146	(34)	0	809	(58)
Total Corporate and Other	(187)	410	146	(34)	0	809	(58)
Total	38,926	9,803	19,768	3,756	151	1,163	1,565
Reconciling items:							
Realized investment gains (losses), net, and related adjustments	2,497	(28)	0	0	0	0	0
Charges related to realized investment gains (losses), net	(108)	0	0	466	1	0	1,080
Investment gains (losses) on trading account assets supporting insurance liabilities, net	223	0	0	0	0	0	0
Change in experience-rated contractholder liabilities due to assets value changes	0	0	0	123	0	0	0
Divested businesses	793	135	364	0	0	1	13
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(261)	0	0	0	0	0	0
Total Financial Services Businesses	42,070	9,910	20,132	4,345	152	1,164	2,658
Closed Block Business	7,015	3,214	3,482	139	2,571	148	37
Total per Consolidated Financial Statements	$ 49,085	$ 13,124	$ 23,614	$ 4,484	$ 2,723	$ 1,312	$ 2,695

Revenues, calculated in accordance with U.S. GAAP, for the years ended December 31, include the following associated with the Company s foreign and domestic operations:

	2013	2012 (in millions)	2011
Domestic operations	$ 22,222	$ 56,684	$ 28,955
Foreign operations, total	19,239	28,163	20,130
Foreign operations, Japan	16,523	26,393	17,607
Foreign operations, Korea	1,437	1,294	1,331

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The Asset Management segment revenues include intersegment revenues, primarily consisting of asset-based management and administration fees, for the years ended December 31, as follows:

	2013	2012 (in millions)	2011
Asset Management segment intersegment revenues	$ 611	$ 545	$ 498

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

23. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments and Guarantees

The Company occupies leased office space in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. Rental expense, net of sub-lease income, incurred for the years ended December 31, 2013, 2012 and 2011, was $253 million, $287 million and $280 million, respectively.

The following table presents, at December 31, 2013, the Company s future minimum lease payments under non-cancelable operating leases along with associated sub-lease income:

	Operating Leases	Sub-lease Income
	(in millions)	
2014	$ 140	$ (14)
2015	97	(1)
2016	75	0
2017	62	0
2018	45	0
2019 and thereafter	90	0
Total	$ 509	$ (15)

Occasionally, for business reasons, the Company may exit certain non-cancelable operating leases prior to their expiration. In these instances, the Company s policy is to accrue, at the time it ceases to use the property being leased, the future rental expense net of any expected sub-lease income, and to release this reserve over the remaining commitment period. Of the total non-cancelable operating leases and sub-lease income amounts listed above, $9 million and $4 million, respectively, has been accrued at December 31, 2013.

Commercial Mortgage Loan Commitments

	As of December 31,	
	2013	2012
	(in millions)	
Total outstanding mortgage loan commitments	$ 2,365	$ 2,552
Portion of commitment where prearrangement to sell to investor exists	$ 587	$ 897

In connection with the Company s commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to governmental sponsored entities as discussed below, after the Company funds the loan.

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Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	As of December 31, 2013	2012
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	$ 5,461	$ 3,410
Expected to be funded from separate accounts	$ 274	$ 757
Portion of separate account commitments with recourse to Prudential Insurance	$ 0	$ 7

(1) Includes a remaining commitment of $256 million and $200 million at December 31, 2013 and 2012, respectively, related to the Company s agreement to co-invest with the Fosun Group (Fosun) in a private equity fund, managed by Fosun, for the Chinese marketplace.

The Company has commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company s control, including those at the discretion of the Company s counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts. Some of the separate account commitments have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due.

Guarantees of Investee Debt

	As of December 31, 2013	2012
	(in millions)	
Total guarantees of debt issued by entities in which the separate accounts have invested	$ 2,510	$ 2,178
Amount of above guarantee that is limited to separate account assets	$ 2,510	$ 2,167
Accrued liability associated with guarantee	$ 0	$ 0

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company s maximum potential exposure under these guarantees is mostly limited to the assets of the separate account. The exposure that is not limited to the separate account assets relates mostly to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next eleven years. At December 31, 2013, the Company s assessment is that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

Indemnification of Securities Lending Transactions

	As of December 31, 2013	2012
	(in millions)	
Indemnification provided to mutual fund and separate account clients for securities lending	$ 15,598	$ 15,454
Fair value of related collateral associated with above indemnifications	$ 15,965	$ 15,730
Accrued liability associated with guarantee	$ 0	$ 0

In the normal course of business, the Company may facilitate securities lending transactions on behalf of mutual funds and separate accounts for which the Company is the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the mutual funds or separate accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the

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securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the mutual fund or separate account at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 21, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

	As of December 31,	
	2013	2012
	(in millions)	
Guaranteed value of third parties assets	$ 78,110	$ 64,424
Fair value of collateral supporting these assets	$ 79,458	$ 67,555
Asset associated with guarantee, carried at fair value	$ 8	$ 5

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Company s balance sheet.

Guarantees of Credit Enhancements

	As of December 31,	
	2013	2012
	(in millions)	
Guarantees of credit enhancements of debt instruments associated with commercial real estate assets	$ 156	$ 172
Fair value of properties and associated tax credits that secure the guarantee	$ 220	$ 215
Accrued liability associated with guarantee	$ 0	$ 0

The Company arranges for credit enhancements of certain debt instruments that provide financing primarily for affordable multi-family real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. The remaining contractual maturities for these guarantees are up to fifteen years. The Company s obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider.

Indemnification of Serviced Mortgage Loans

	As of December 31,	
	2013	**2012**
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$ 1,173	$ 1,147
First-loss exposure portion of above	$ 371	$ 369
Accrued liability associated with guarantees	$ 17	$ 19

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As part of the commercial mortgage activities of the Company s Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company s percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services $8,816 million of mortgages subject to these loss-sharing arrangements as of December 31, 2013, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of December 31, 2013, these mortgages had an average debt service coverage ratio of 1.82 times and an average loan-to-value ratio of 60%. The Company s total share of losses related to indemnifications that were settled was $0 million, $2 million, and $1 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Contingent Consideration

	As of December 31, 2013	2012
	(in millions)	
Maximum potential contingent consideration associated with acquisitions	$ 0	$ 52

In connection with the Company s initial investment in an operating joint venture, the Company agreed to pay additional consideration in future periods, contingent upon the attainment of defined operating objectives. The arrangement was resolved in 2013 and no additional consideration is required as the joint venture did not attain the defined operating objectives.

Other Guarantees

	As of December 31, 2013	2012
	(in millions)	
Other guarantees where amount can be determined	$ 404	$ 530
Accrued liability for other guarantees and indemnifications	$ 7	$ 8

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are $323 million and $299 million as of December 31, 2013 and 2012, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

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Insolvency Assessments

Most of the jurisdictions in which the Company is admitted to transact business require insurers doing business within the jurisdiction to participate in guarantee associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. In addition, Japan has established the Japan Policyholders Protection Corporation as a contingency to protect policyholders against the insolvency of life insurance companies in Japan through assessments to companies licensed to provide life insurance.

Assets and liabilities held for insolvency assessments were as follows:

	As of December 31,	
	2013	**2012**
	(in millions)	
Other assets:		
Premium tax offset for future undiscounted assessments	$ 78	$ 76
Premium tax offsets currently available for paid assessments	5	5
Total	$ 83	$ 81
Other liabilities:		
Insolvency assessments	$ 46	$ 105

Contingent Liabilities

On an ongoing basis, the Company s internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. From time to time, this review process results in the discovery of product administration, servicing or other errors, including errors relating to the timing or amount of payments or contract values due to customers. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see Litigation and Regulatory Matters below.

It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company s financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company s businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are

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seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if material, is disclosed, including matters discussed below. The Company estimates that as of December 31, 2013, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is not material (i.e., less than $250 million). Any estimate is not an indication of expected loss, if any, or the Company s maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Individual Annuities, Individual Life and Group Insurance

In January 2013, a *qui tam* action on behalf of the State of Florida, *Total Asset Recovery Services v. Met Life Inc., et al., Manulife Financial Corporation, et. al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency*, *LLC.* filed in the Circuit Court of Leon County, Florida, was served on the Company. The complaint alleges that the Company failed to escheat life insurance proceeds to the State of Florida in violation of the Florida False Claims Act and seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys fees and costs. In March 2013, the Company filed a motion to dismiss the complaint. In August 2013, the court dismissed the complaint with prejudice. In September 2013, plaintiff filed an appeal with Florida s Circuit Court of the Second Judicial Circuit in Leon County.

In September 2012, the State of West Virginia, through its State Treasurer, filed a lawsuit, *State of West Virginia ex. Rel. John D. Perdue v. Prudential Insurance Company of America*, in the Circuit Court of Putnam County, West Virginia. The complaint alleges violations of the West Virginia Uniform Unclaimed Property Fund Act by failing to properly identify and report all unclaimed insurance policy proceeds which should either be paid to beneficiaries or escheated to West Virginia. The complaint seeks to examine the records of Prudential Insurance to determine compliance with the West Virginia Uniform Unclaimed Property Fund Act, and to assess penalties and costs in an undetermined amount. In October 2012, the State of West Virginia commenced a second action, *State of West Virginia ex. Rel. John D. Perdue v. Pruco Life Insurance Company* making the same allegations stated in the action against Prudential Insurance. In April 2013, the Company filed motions to dismiss the complaints in both of the West Virginia actions. In December 2013, the Court granted the Company s motions and dismissed the complaints with prejudice. In January 2014, the State of West Virginia appealed the decisions.

In January 2012, a Global Resolution Agreement entered into by the Company and a third party auditor became effective upon its acceptance by the unclaimed property departments of 20 states and jurisdictions. Under the terms of the Global Resolution Agreement, the third party auditor acting on behalf of the signatory states will compare expanded matching criteria to the Social Security Master Death File (SSMDF) to identify deceased insureds and contract holders where a valid claim has not been made. In February 2012, a Regulatory Settlement Agreement entered into by the Company to resolve a multi-state market conduct examination regarding its adherence to state claim settlement practices became effective upon its acceptance by the insurance departments of 20 states and jurisdictions. The Regulatory Settlement Agreement applies prospectively and requires the Company to adopt and implement additional procedures comparing its records to the SSMDF to identify unclaimed death benefits and prescribes procedures for identifying and locating beneficiaries once deaths are identified. Substantially all other jurisdictions that are not signatories to the Global Resolution Agreement or the Regulatory Settlement Agreement have entered into similar agreements with the Company.

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The Company is one of several companies subpoenaed by the New York Attorney General regarding its unclaimed property procedures. Additionally, the New York State Department of Financial Services (NYDFS) has requested that 172 life insurers (including the Company) provide data to the NYDFS regarding use of the SSMDF. The New York Office of Unclaimed Funds is conducting an audit of the Company s compliance with New York s unclaimed property laws. In February 2012, the Massachusetts Office of the Attorney General requested information regarding the Company s unclaimed property procedures. In December 2013, this matter was closed without prejudice. In May 2013, the Company entered into a settlement agreement with the Minnesota Department of Commerce, Insurance Division, which requires the Company to take additional steps to identify deceased insureds and contract holders where a valid claim has not been made.

From July 2010 to December 2010, four purported nationwide class actions were filed challenging the use of retained asset accounts to settle death benefit claims of beneficiaries of a group life insurance contract owned by the United States Department of Veterans Affairs that covers the lives of members and veterans of the U.S. armed forces. In 2011, the cases were consolidated in the United States District Court for the District of Massachusetts by the Judicial Panel for Multi-District Litigation as *In re Prudential Insurance Company of America SGLI/VGLI Contract Litigation.* The consolidated complaint alleges that the use of the retained assets accounts that earn interest and are available to be withdrawn by the beneficiary, in whole or in part, at any time, to settle death benefit claims is in violation of federal law, and asserts claims of breach of contract, breaches of fiduciary duty and the duty of good faith and fair dealing, fraud and unjust enrichment and seeks compensatory and punitive damages, disgorgement of profits, equitable relief and pre and post-judgment interest. In March 2011, the motion to dismiss was denied. In January 2012, plaintiffs filed a motion to certify the class. In August 2012, the court denied plaintiffs class certification motion without prejudice pending the filing of summary judgment motions on the issue of whether plaintiffs sustained an actual injury. In October 2012, the parties filed motions for summary judgment. In November 2013, the Court issued a Memorandum and Order stating that the named plaintffs: (1) did not suffer a cognizable legal injury; (2) are not entitled to any damages based on allegations of delay in payment of benefits; and (3) are not entitled to disgorgement of profits as a remedy. The Court ordered further briefing on whether nominal damages should be awarded and whether any equitable relief should be granted. In February 2014, the parties filed briefs on the issues addressed in the Court s order.

In September 2010, *Huffman v. The Prudential Insurance Company*, a purported nationwide class action brought on behalf of beneficiaries of group life insurance contracts owned by ERISA-governed employee welfare benefit plans was filed in the United States District Court for the Eastern District of Pennsylvania, challenging the use of retained asset accounts in employee welfare benefit plans to settle death benefit claims as a violation of ERISA and seeking injunctive relief and disgorgement of profits. In July 2011, the Company s motion for judgment on the pleadings was denied. In February 2012, plaintiffs filed a motion to certify the class. In April 2012, the Court stayed the case pending the outcome of a case involving another insurer that is before the Third Circuit Court of Appeals.

In January 2011, a purported state-wide class action, *Garcia v. The Prudential Insurance Company of America* was dismissed by the Second Judicial District Court, Washoe County, Nevada. The complaint was brought on behalf of Nevada beneficiaries of individual life insurance policies for which, unless the beneficiaries elected another settlement method, death benefits were placed in retained asset accounts. The complaint alleges that by failing to disclose material information about the accounts, the Company wrongfully delayed payment and improperly retained undisclosed profits, and seeks damages, injunctive relief, attorneys fees and pre and post-judgment interest. In February 2011, plaintiff appealed the dismissal to the Nevada Supreme Court. As previously reported, in December 2009, an earlier purported nationwide class action raising substantially similar allegations brought by the same plaintiff in the United States District Court for the District of New Jersey, *Garcia v. Prudential Insurance Company of America*, was dismissed. In December 2011, plaintiff appealed the dismissal. In January 2013, the Nevada Supreme Court affirmed the dismissal of the complaint. In May 2013, the time for the plaintiffs to appeal the dismissal expired.

In December 2010, a purported state-wide class action complaint, *Phillips v. Prudential Financial, Inc.*, was filed in state court and removed to the United States District Court for the Southern District of Illinois. The

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complaint makes allegations under Illinois law, substantially similar to the *Garcia* cases, on behalf of a class of Illinois residents whose death benefit claims were settled by retained assets accounts. In March 2011, the complaint was amended to drop the Company as a defendant and add Pruco Life Insurance Company as a defendant and is now captioned *Phillips v. Prudential Insurance and Pruco Life Insurance Company*. In November 2011, the complaint was dismissed. In December 2011, plaintiff appealed the dismissal. In May 2013, the United States Court of Appeals for the Seventh Circuit affirmed the dismissal of plaintiff s putative class action complaint. In August 2013, plaintiff s time to appeal the dismissal expired.

In February 2011, a fifth amended complaint was filed in the United States District Court for the District of New Jersey in *Clark v. Prudential Insurance Company*. The complaint brought on behalf of a purported class of California, Indiana, Ohio and Texas residents who purchased individual health insurance policies alleges that Prudential Insurance failed to disclose that it had ceased selling this type of policy in 1981 and that, as a result, premiums would increase significantly. The complaint alleges claims of fraudulent misrepresentation and omission, breach of the duty of good faith and fair dealing, and California s Unfair Competition Law and seeks compensatory and punitive damages. The matter was originally filed in 2008 and certain of the claims in the first four complaints were dismissed. In February 2012, plaintiffs filed a motion for class certification. In July 2012, Prudential Insurance moved for summary judgment on certain of plaintiffs claims. In February 2013, the Court denied plaintiffs motion for class certification, granted the motion by Prudential Insurance for summary judgment against two of the named plaintiffs, and denied summary judgment against two other plaintiffs. In April 2013, the Court denied plaintiffs motions: (i) for reconsideration of the Court s order denying class certification and granting the Company partial summary judgment; and (ii) to alter or amend the order denying class certification by redefining the class and bifurcating liability and damages issues. In December 2013, the named plaintiffs agreed to a settlement within reserved amounts. In January 2014, the Court dismissed the complaint with prejudice.

From November 2002 to March 2005, eleven separate complaints were filed against the Company and the law firm of Leeds Morelli & Brown in New Jersey state court and in the New Jersey Superior Court, Essex County as *Lederman v. Prudential Financial, Inc., et al.* The complaints allege that an alternative dispute resolution agreement entered into among Prudential Insurance, over 235 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing legal fees to the law firm with the purpose of limiting Prudential s liability to the claimants. In February 2010, the New Jersey Supreme Court assigned the cases for centralized case management to the Superior Court, Bergen County. The Company participated in a court-ordered mediation that resulted in a settlement involving 193 of the remaining 235 plaintiffs. The amounts paid to the 193 plaintiffs were within existing reserves for this matter. In December 2013, the Company participated in court-ordered mediation that resulted in a December 2013 settlement involving 40 of the remaining 42 plaintiffs with litigation against the Company, including plaintiffs who had not yet appealed the dismissal of their claims. The amounts paid to the 40 plaintiffs were within existing reserves for this matter.

Other Matters

In October 2012, a shareholder derivative lawsuit, *Stephen Silverman, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, et. al.*, was filed in the United States District Court for the District of New Jersey, alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment by certain senior officers and directors. The complaint names as defendants the Company s Chief Executive Officer, the Chief Financial Officer, the Principal Accounting Officer, certain members of the Company s Board of Directors and a former Director. The complaint alleges that the defendants made false and misleading statements regarding the Company s current and future financial condition based on, among other things, the alleged failure to disclose: (i) potential liability for benefits that should either have been paid to policyholders or their beneficiaries, or escheated to applicable states; and (ii) the extent of the Company s exposure for alleged state and federal law violations

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concerning the settlement of claims and the escheatment of unclaimed property. The complaint seeks an undetermined amount of damages, attorneys fees and costs, and equitable relief including a direction for the Company to reform and to improve its corporate governance and internal procedures to comply with applicable laws.

In October 2012, the Board of Directors received a shareholder demand letter (the Demand), containing allegations of wrongdoing similar to those alleged in the *Silverman* complaint. The Demand alleges that the Company s Senior Management: (i) breached their fiduciary duties of loyalty and good faith in connection with the management, operation and oversight of the Company s business; (ii) breached their fiduciary duty of good faith to establish and maintain adequate internal controls; and (iii) breached their fiduciary duties by disseminating false, misleading and/or incomplete information, all in connection with the Company s alleged failure to use the SSDMF and to pay beneficiaries and escheat funds to states. The Demand requests that the Board of Directors: (a) undertake an independent internal investigation into Senior Management s violations of New Jersey and/or federal law; and (b) commence a civil action against each member of Senior Management to recover for the benefit of the Company the amount of damages sustained by the Company as a result of the alleged breaches described above. In response to the Demand, the Board of Directors formed a Special Litigation Committee that has retained an outside law firm to investigate the Demand s allegations. In September 2013, before the conclusion of the Special Litigation Committee s investigation, the shareholder who submitted the Demand filed a shareholder derivative lawsuit, *Paul Memo, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, Jr. et. al.,* in New Jersey Superior Court, Essex County. The complaint names as defendants the Company s Chief Executive Officer, the Vice Chairman, a former Chief Financial Officer, the Principal Accounting Officer, certain members of the Company s Board of Directors and a former Director. The complaint repeats the allegations in the Demand and seeks an undetermined amount of damages, attorneys fees and costs, and equitable relief including a direction for the Company to reform and to improve its corporate governance and internal procedures to comply with applicable laws.

In August 2012, a purported class action lawsuit, *City of Sterling Heights General Employees Retirement System v. Prudential Financial, Inc., et al.*, was filed in the United States District Court for the District of New Jersey, alleging violations of federal securities law. The complaint names as defendants the Company s Chief Executive Officer, the Chief Financial Officer, the Principal Accounting Officer and certain members of the Company s Board of Directors. The complaint alleges that knowingly false and misleading statements were made regarding the Company s current and future financial condition based on, among other things, the alleged failure to disclose: (i) potential liability for benefits that should either have been paid to policyholders or their beneficiaries, or escheated to applicable states; and (ii) the extent of the Company s exposure for alleged state and federal law violations concerning the settlement of claims and the escheatment of unclaimed property. The complaint seeks an undetermined amount of damages, interest, attorneys fees and costs. In May 2013, the complaint was amended to add three additional putative institutional investors as lead plaintiffs: National Shopmen Pension Fund, The Heavy & General Laborers Locals 472 & 172 Pension & Annuity Funds, and Roofers Local No. 149 Pension Fund. In June 2013, the Company moved to dismiss the amended complaint. In February 2014, the Court denied the Company s motion to dismiss.

In October 2006, a purported class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential failed to pay overtime to insurance agents in violation of federal and Pennsylvania law, and that improper deductions were made from these agents wages in violation of state law. The complaint sought back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys fees. In March 2008, the court conditionally certified a nationwide class on the federal overtime claim. Separately, in March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance,* claiming that the Company failed to pay its agents overtime and provide other benefits in violation of California and federal law and seeking compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. Subsequent amendments to the complaint resulted in additional allegations involving purported violations

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

of an additional nine states overtime and wage payment laws. In February 2010, Prudential moved to decertify the federal overtime class that had been conditionally certified in March 2008 and moved for summary judgment on the federal overtime claims of the named plaintiffs. In July 2010, plaintiffs filed a motion for class certification of the state law claims. In August 2010, the district court granted Prudential s motion for summary judgment, dismissing the federal overtime claims. In January 2013, the Court denied plaintiffs motion for class certification in its entirety. In July 2013, the Court granted plaintiffs motion for reconsideration, permitting plaintiffs to file a motion to certify a class of employee insurance agents seeking recovery under state wage and hour laws. In September 2013, plaintiffs filed a renewed motion for class certification.

Since April 2012, the Company has filed ten actions seeking to recover damages attributable to investments in residential mortgage-backed securities (RMBS). Eight actions were filed in New Jersey state court, captioned *The Prudential Insurance Company of America, et al. v. JP Morgan Chase, et al.; The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.*; *The Prudential Insurance Company of America, et al. v. Nomura Securities International, Inc., et al.; The Prudential Insurance Company of America, et al. v. Barclays Bank PLC, et al.; The Prudential Insurance Company of America, et al. v. Goldman Sachs & Company, et al.;The Prudential Insurance Company of America, et al. v. RBS Financial Products, Inc., et al.; The Prudential Insurance Company of America, et al. v. Countrywide Financial Corp., et al.;* and *The Prudential Insurance Company of America, et al. v. UBS Securities LLC. et al*. Additionally, two actions were filed in the United States District Court for the District of New Jersey: *The Prudential Insurance Company of America v. Credit Suisse Securities (USA) LLC, et al.* and *The Prudential Insurance Company of America v. Bank of America National Association and Merrill Lynch & Co., Inc., et al*. Among other allegations stemming from the defendants origination, underwriting and sales of RMBS, the complaints assert claims of common law fraud, negligent misrepresentation, breaches of the New Jersey Civil RICO statute, and, in some lawsuits, federal securities claims. The complaints seek unspecified damages.

Seven of the defendants (*J.P. Morgan, Barclays, Nomura, RBS, Goldman Sachs, Countrywide, and UBS*) removed the lawsuits from New Jersey state court to the United States District Court for the District of New Jersey. The *Countrywide* defendants also made an application to the Judicial Panel on Multi-District Litigation to transfer that case to the United States District Court for the Central District of California. In August 2013, that application was granted. Except for the *Nomura* and *Goldman Sachs* actions, the Company filed motions to remand the lawsuits to New Jersey state court. The *J.P. Morgan, Barclays, RBS and UBS* lawsuits were subsequently remanded to New Jersey state court.

Each of the *Goldman Sachs, Morgan Stanley, Nomura, Credit Suisse, Barclays, Bank of America/Merrill Lynch, J.P. Morgan, RBS* and *Countrywide* defendants filed motions to dismiss the complaints against them. The motions to dismiss filed by *Goldman Sachs, J.P. Morgan, Morgan Stanley,* and *Credit Suisse* have been denied, the motion to dismiss filed by *Nomura* has been superseded by the filing of our amended complaint, and the motions to dismiss filed by *Barclays, Bank of America/Merrill Lynch*, *RBS* and *Countrywide* are pending. In December 2013, the lawsuit against *Goldman Sachs* was settled.

Summary

The Company s litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company s results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company s financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company s financial position.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

24. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 are summarized in the table below:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2013				
Total revenues	$ 10,171	$ 10,041	$ 11,310	$ 9,939
Total benefits and expenses	11,730	10,810	9,784	10,821
Income (loss) from continuing operations	(686)	(489)	1,032	(424)
Income (loss) from discontinued operations	1	2	8	(4)
Net income (loss)	(685)	(487)	1,040	(428)
Less: Income attributable to noncontrolling interests	35	27	13	32
Net income (loss) attributable to Prudential Financial, Inc.	(720)	(514)	1,027	(460)
Basic earnings per share Common Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.58)	$ (1.12)	$ 2.06	$ (0.93)
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.01	(0.01)
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.58)	$ (1.12)	$ 2.07	$ (0.94)
Diluted earnings per share Common Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (1.58)	$ (1.12)	$ 2.02	$ (0.93)
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.02	(0.01)
Net income (loss) attributable to Prudential Financial, Inc.	$ (1.58)	$ (1.12)	$ 2.04	$ (0.94)
Basic and diluted earnings per share Class B Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 5.50	$ 1.00	$ 29.50	$ (14.00)
Net income (loss) attributable to Prudential Financial, Inc.	$ 5.50	$ 1.00	$ 29.50	$ (14.00)
2012				
Total revenues	$ 9,635	$ 16,140	$ 13,136	$ 45,936
Total benefits and expenses	10,386	13,167	14,074	46,512
Income (loss) from continuing operations	(926)	2,231	(565)	(185)
Income (loss) from discontinued operations	7	7	(2)	3
Net income (loss)	(919)	2,238	(567)	(182)
Less: Income attributable to noncontrolling interests	6	16	7	21
Net income (loss) attributable to Prudential Financial, Inc.	(925)	2,222	(574)	(203)
Basic earnings per share Common Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (2.01)	$ 4.73	$ (1.32)	$ (0.42)
Income (loss) from discontinued operations, net of taxes	0.01	0.02	0.00	0.00

Net income (loss) attributable to Prudential Financial, Inc.	$ (2.00)	$ 4.75	$ (1.32)	$ (0.42)
Diluted earnings per share Common Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (2.01)	$ 4.67	$ (1.32)	$ (0.42)
Income (loss) from discontinued operations, net of taxes	0.01	0.02	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ (2.00)	$ 4.69	$ (1.32)	$ (0.42)
Basic and diluted earnings per share Class B Stock(1):				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 6.50	$ (6.00)	$ 20.00	$ (9.00)
Income (loss) from discontinued operations, net of taxes	0.00	(0.50)	(0.50)	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 6.50	$ (6.50)	$ 19.50	$ (9.00)

(1) Quarterly earnings per share amounts may not add to the full year amounts due to the averaging of shares.

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

The quarterly historical information presented in the table above has been revised to reflect the impact of a discretionary change in accounting principle for recognition of performance based incentive fee revenue. The Company adopted this revised accounting principle in the fourth quarter of 2013 with retrospective application for prior periods. For further information, see Note 2. See table below for impact to net income (loss) attributable to Prudential Financial, Inc. and diluted earnings per share of Common stock for previously reported periods.

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
	(in millions, except per share amounts)			
Impact of change in accounting for performance based incentive fees:				
2013				
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ (21)	$ (1)	$ (21)	n/a
Less: Income (loss) attributable to noncontrolling interests	(7)	(8)	(6)	n/a
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ (14)	$ 7	$ (15)	n/a
EARNINGS PER SHARE				
Financial Services Businesses				
Basic earnings per share Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (0.03)	$ 0.02	$ (0.03)	n/a
Net income (loss) attributable to Prudential Financial, Inc.	(0.03)	0.01	(0.04)	n/a
Diluted earnings per share Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (0.03)	$ 0.02	$ (0.04)	n/a
Net income (loss) attributable to Prudential Financial, Inc.	(0.03)	0.01	(0.03)	n/a
2012				
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ 9	$ (1)	$ (8)	$ 23
Less: Income (loss) attributable to noncontrolling interests	(5)	1	(18)	(6)
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 14	$ (2)	$ 10	$ 29
EARNINGS PER SHARE				
Financial Services Businesses				
Basic earnings per share Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.03	$ (0.01)	$ 0.02	$ 0.06
Net income (loss) attributable to Prudential Financial, Inc.	0.03	0.00	0.02	0.06
Diluted earnings per share Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 0.03	$ 0.00	$ 0.02	$ 0.06
Net income (loss) attributable to Prudential Financial, Inc.	0.03	0.00	0.02	0.06

Results for the fourth quarter of 2013 include a pre-tax benefit of $116 million related to an out of period adjustment recorded by the Company due to an overstatement of reserves in the third quarter of 2013. The overstatement resulted from the use of incorrect data inputs to calculate the impact of the market s perception of our own non-performance risk on the reserves for certain annuities with guaranteed benefits. This item impacted only the third and fourth quarters of 2013 and had no impact to full year 2013 reported results.

Results for the second quarter of 2012 include a total pre-tax charge of $122 million related to two out of period adjustments recorded by the Company. The first adjustment related to a decline in the value of a real estate-related investment. Based on a review of the underlying collateral and a related guarantee, the Company determined that impairments of $75 million should have been recognized, $61 million of which related to prior periods. The second adjustment consisted of an increase of $61 million in reserves for estimated payments

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PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders. The initial calculation of the reserve excluded certain life policies in extended term status from the analysis used to identify potential claims.

Results for the fourth quarter of 2012 include a total pre-tax charge of $54 million related to an out of period adjustment recorded by the Company due to an understatement of recorded liabilities for certain employee benefits based on a review of the consistency of recognition of such liabilities.

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PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Financial Position

December 31, 2013 and 2012 (in millions)

	2013			2012		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities, available-for-sale, at fair value	$ 243,654	$ 43,212	$ 286,866	$ 254,917	$ 46,419	$ 301,336
Fixed maturities, held-to-maturity, at amortized cost	3,312	0	3,312	4,268	0	4,268
Trading account assets supporting insurance liabilities, at fair value	20,827	0	20,827	20,590	0	20,590
Other trading account assets, at fair value	6,111	342	6,453	6,053	275	6,328
Equity securities, available-for-sale, at fair value	6,026	3,884	9,910	5,052	3,225	8,277
Commercial mortgage and other loans	31,335	9,673	41,008	27,125	9,608	36,733
Policy loans	6,753	5,013	11,766	6,455	5,120	11,575
Other long-term investments	8,304	2,024	10,328	8,016	2,012	10,028
Short-term investments	5,837	1,866	7,703	5,186	1,261	6,447
Total investments	332,159	66,014	398,173	337,662	67,920	405,582
Cash and cash equivalents	10,797	642	11,439	17,546	554	18,100
Accrued investment income	2,505	584	3,089	2,534	593	3,127
Deferred policy acquisition costs	16,101	411	16,512	13,688	412	14,100
Value of business acquired	3,675	0	3,675	3,248	0	3,248
Other assets	13,082	751	13,833	11,313	511	11,824
Separate account assets	285,060	0	285,060	253,254	0	253,254
TOTAL ASSETS	$ 663,379	$ 68,402	$ 731,781	$ 639,245	$ 69,990	$ 709,235
LIABILITIES AND EQUITY						
LIABILITIES						
Future policy benefits	$ 156,601	$ 50,258	$ 206,859	$ 165,212	$ 50,838	$ 216,050
Policyholders account balances	131,298	5,359	136,657	128,987	5,426	134,413
Policyholders dividends	97	5,418	5,515	257	7,250	7,507
Securities sold under agreements to repurchase	4,128	3,770	7,898	3,436	2,382	5,818
Cash collateral for loaned securities	4,230	810	5,040	2,864	1,077	3,941
Income taxes	6,010	(588)	5,422	9,019	(507)	8,512
Short-term debt	2,594	75	2,669	2,409	75	2,484
Long-term debt	21,953	1,600	23,553	23,054	1,675	24,729
Other Liabilities	13,618	307	13,925	11,561	277	11,838
Notes issued by consolidated variable interest entities	3,302	0	3,302	1,577	0	1,577
Separate account liabilities	285,060	0	285,060	253,254	0	253,254
Total liabilities	628,891	67,009	695,900	601,630	68,493	670,123
EQUITY						
Accumulated other comprehensive income	8,586	95	8,681	9,990	224	10,214
Other attributed equity	25,299	1,298	26,597	27,016	1,273	28,289
Total attributed equity	33,885	1,393	35,278	37,006	1,497	38,503
Noncontrolling interests	603	0	603	609	0	609
Total equity	34,488	1,393	35,881	37,615	1,497	39,112

TOTAL LIABILITIES AND EQUITY	$ 663,379	$ 68,402	$ 731,781	$ 639,245	$ 69,990	$ 709,235

See Notes to Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Operations

Years Ended December 31, 2013 and 2012 (in millions)

	2013			2012		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 23,509	$ 2,728	$ 26,237	$ 62,537	$ 2,817	$ 65,354
Policy charges and fee income	5,415	0	5,415	4,489	0	4,489
Net investment income	11,713	3,016	14,729	10,508	3,153	13,661
Asset management fees and other income	226	60	286	2,740	44	2,784
Realized investment gains (losses), net						
Other-than-temporary impairments on fixed maturity securities	(659)	(396)	(1,055)	(939)	(672)	(1,611)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	509	347	856	676	598	1,274
Other realized investment gains (losses), net	(5,288)	281	(5,007)	(1,421)	317	(1,104)
Total realized investment gains (losses), net	(5,438)	232	(5,206)	(1,684)	243	(1,441)
Total revenues	35,425	6,036	41,461	78,590	6,257	84,847
BENEFITS AND EXPENSES						
Policyholders benefits	23,399	3,334	26,733	61,686	3,445	65,131
Interest credited to policyholders account balances	2,975	136	3,111	4,097	137	4,234
Dividends to policyholders	140	1,910	2,050	155	2,021	2,176
Amortization of deferred policy acquisition costs	203	37	240	1,466	38	1,504
General and administrative expenses	10,454	557	11,011	10,542	552	11,094
Total benefits and expenses	37,171	5,974	43,145	77,946	6,193	84,139
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(1,746)	62	(1,684)	644	64	708
Income tax expense (benefit)	(1,074)	16	(1,058)	192	21	213
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	(672)	46	(626)	452	43	495
Equity in earnings of operating joint ventures, net of taxes	59	0	59	60	0	60
INCOME (LOSS) FROM CONTINUING OPERATIONS	(613)	46	(567)	512	43	555
Income (loss) from discontinued operations, net of taxes	7	0	7	17	(2)	15
NET INCOME (LOSS)	(606)	46	(560)	529	41	570
Less: Income attributable to noncontrolling interests	107	0	107	50	0	50

NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ (713)	$ 46	$ (667)	$ 479	$ 41	$ 520

See Notes to Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Notes to Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

The supplemental combining financial information presents the consolidated financial position and results of operations for Prudential Financial, Inc. and its subsidiaries (together, the Company), separately reporting the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses and the Closed Block Business are both fully integrated operations of the Company and are not separate legal entities. The supplemental combining financial information presents the results of the Financial Services Businesses and the Closed Block Business as if they were separate reporting entities and should be read in conjunction with the Consolidated Financial Statements.

The Company has outstanding two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 12 to the Consolidated Financial Statements for a description of the Closed Block). It also includes assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed below and in Note 14 to the Consolidated Financial Statements) and related unamortized debt issuance costs, as well as an interest rate swap related to the IHC debt; and certain other related assets and liabilities. The Financial Services Businesses consist of the U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance divisions and Corporate and Other operations.

2. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of the Financial Services Businesses and the Closed Block Business on a stand-alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company is subject to agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock holders or IHC debt bond insurer.

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses revenues is generally allocated between the Financial Services Businesses and the Closed Block Business based on the general and administrative expenses of each business as a percentage of the total general and administrative expenses for all businesses.

PHLLC has outstanding IHC debt, of which net proceeds of $1.66 billion were allocated to the Financial Services Businesses concurrent with the demutualization on December 18, 2001. The IHC debt is serviced by the cash flows of the Closed Block Business, and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

Income taxes are allocated between the Financial Services Businesses and the Closed Block Business as if they were separate companies based on the taxable income or losses and other tax characterizations of each business. If the Financial Services Businesses generate tax benefits, such as net operating losses, it is entitled to record such tax benefits to the extent they are expected to be utilized on a consolidated basis. However, if the Closed Block Business generates tax benefits, it will receive the full benefit in cash, and the Financial Services Businesses will subsequently recover the payment at the time the benefits are actually utilized on a consolidated basis.

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Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management s Annual Report on Internal Control Over Financial Reporting and the report of the Company s independent registered public accounting firm on the effectiveness of internal control over financial reporting as of December 31, 2013 are included in Part II, Item 8 of this Annual Report on Form 10-K.

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of December 31, 2013. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a code of business conduct and ethics, known as Making the Right Choices, which applies to our Chief Executive Officer, Chief Financial Officer and our Principal Accounting Officer, as well as to our directors and all other employees. Making the Right Choices is posted on our website at www.investor.prudential.com. Our code of business conduct and ethics, any amendments and any waiver granted to any of our directors or executive officers are available free of charge on our website at www.investor.prudential.com and in print to any shareholder who requests it from our Shareholder Services department, whose contact information is provided in Item 15.

In addition, we have adopted Corporate Governance Guidelines, which we refer to as our Corporate Governance Principles and Practices. Our Corporate Governance Principles and Practices are available free of charge on our website at www.investor.prudential.com and in print to any shareholder who requests them from our Shareholder Services department, whose contact information is provided in Item 15.

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Certain of the information called for by this item is hereby incorporated herein by reference to the relevant portions of Prudential Financial s definitive proxy statement for the Annual Meeting of Shareholders to be held on May 13, 2014 to be filed by Prudential Financial with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2013 (the Proxy Statement). Additional information called for by this item is contained in Item 1C of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant.

ITEM 11. EXECUTIVE COMPENSATION

Certain of the information called for by this item is hereby incorporated herein by reference to the relevant portions of the Proxy Statement. Additional information called for by this Item is contained under Item 12 below of this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information as of December 31, 2013, regarding securities authorized for issuance under our equity compensation plans. All outstanding awards relate to our Common Stock. For additional information about our equity compensation plans see Note 17 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in(a))
Equity compensation plans approved by security holders Omnibus Plan Stock Options	14,994,449	$ 62.79	N/A(1)
Equity compensation plans approved by security holders Omnibus Plan Restricted Stock Units	4,364,106	N/A	N/A(1)
Equity compensation plans approved by security holders Omnibus Plan Performance Shares and performance units(2)	1,012,990	N/A	N/A(1)
Total equity compensation plans approved by security holders Omnibus Plan	20,371,545	N/A	14,220,662
Equity compensation plans approved by security holders Board of Directors(3)	N/A	N/A	228,565
Equity compensation plans approved by security holders PSPP(4)	N/A	N/A	18,081,845
Total equity compensation plans approved by security holders	20,371,545	N/A	32,531,072
Equity compensation plans not approved by security holders	0	N/A	0
Grand Total	20,371,545	N/A	32,531,072

(1) All shares of Common Stock subject to awards under the Prudential Financial, Inc. Omnibus Incentive Plan (the Omnibus Plan) may be issued in the form of stock options, restricted stock and units, and performance shares and performance units (as well as stock appreciation rights, long-term incentive payments and other awards provided for under the Omnibus Plan). The Omnibus Plan does not, by its terms, allocate any number of shares to a particular type of award.

(2) These performance shares and units are the target amount awarded, reduced for cancellations and releases to date. The actual number of shares the Compensation Committee will award at the end of each performance period will range between 0% and 150% of the target for awards granted in 2011, 2012 and 2013, based upon a measure of the reported performance of the Company s Financial Services Businesses relative to stated goals.

(3) A maximum of 500,000 shares may be issued under the Prudential Financial Deferred Compensation Plan for Non-Employee Directors, as amended effective January 1, 2011, all of which have been registered on Form S-8. Participants in the Plan may receive shares of Common Stock as distributions under the plan upon their termination of service on the Board. In 2013, 2012 and 2011, 13,135, 49,457,

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and 25,736 shares of Common Stock, respectively, were distributed to former participants of the Plan upon their retirement from the Board, leaving a balance of 228,565 shares of Common Stock available for future distribution. The Company will register additional shares on Form S-8 in the future, if necessary.

(4) At the Annual Meeting of the Shareholders of the Company held on June 7, 2005, the shareholders approved the Prudential Financial, Inc. Employee Stock Purchase Plan (PSPP). The plan is a qualified Employee Stock Purchase Plan under Section 423 of the Code, pursuant to which up to 26,367,235 shares of Common Stock may be issued, all of which have been registered on Form S-8. Under the plan employees may purchase shares based upon quarterly offering periods at an amount equal to the lesser of (1) 85% of the closing market price of the Common Stock on the first day of the quarterly offering period, or (2) 85% of the closing market price of the Common Stock on the last day of the quarterly offering period. Share purchases under the plan began in 2007. In 2013 there were 1,140,575 shares of Common Stock purchased under the plan, leaving 18,081,845 shares of Common Stock available for future distribution. Shares purchased in 2013 do not include 200,215 shares related to the October 1 to December 31, 2013 offering period, which were purchased in January 2014.

The other information called for by this item is hereby incorporated herein by reference to the relevant portions of the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is hereby incorporated herein by reference to the relevant portions of the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is hereby incorporated herein by reference to the relevant portions of the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

3. Exhibits:

Pursuant to the rules and regulations of the Securities and Exchange Commission, the Company has filed certain agreements as exhibits to this Annual Report on Form 10-K. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in the Company s public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the Company s actual state of affairs at the date hereof and should not be relied upon.

2.1	Plan of Reorganization. Incorporated by reference to Exhibit 2.1 to the Registrant s Registration Statement on Form S-1 (No. 333-58524) (the Registration Statement).
3.1	Amended and Restated Certificate of Incorporation of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registrant s May 9, 2012 Current Report on Form 8-K.
3.2	Amended and Restated By-laws of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registrant s February 12, 2013 Current Report on Form 8-K.
4.1	Form of certificate for the Common Stock of Prudential Financial, Inc., par value $.01 per share. Incorporated by reference to Exhibit 4.1 to the Registration Statement.
4.2	Upon the request of the Securities and Exchange Commission, the Registrant will furnish copies of all instruments defining the rights of holders of long-term debt of the Registrant.
4.3	Inter-Business Transfer and Allocation Policies relating to the Financial Services Businesses and the Closed Block Business. Incorporated by reference to Exhibit 4.3 to the Registrant s December 31, 2012 Annual Report on Form 10-K.
10.1	Support Agreement between The Prudential Insurance Company of America and Prudential Funding Corporation, dated as of March 18, 1982. Incorporated by reference to Exhibit 10.1 to the Registration Statement.
10.2	The Prudential Insurance Company of America Deferred Compensation Plan (as amended and restated effective as of June 20, 2013). Incorporated by reference to Exhibit 10.3 to the Registrant s June 30, 2013 Quarterly Report on Form 10-Q.*
10.3	The Pension Plan for Non-Employee Directors of The Prudential Insurance Company of America. Incorporated by reference to Exhibit 10.6 to the Registration Statement.*
10.4	Prudential Financial, Inc. Executive Change of Control Severance Program (amended and restated effective as of November 11, 2008). Incorporated by reference to Exhibit 10.13 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.5	Form of Waiver by certain executive officers of certain benefit entitlements under the Prudential Financial, Inc. Executive Change of Control Severance Program with respect to portions of their annual incentive award compensation granted to them in 2010 in respect of 2009. Incorporated by reference to Exhibit 10.15 to the Registrant s December 31, 2009 Annual Report on Form 10-K.*
10.6	Prudential Financial Executive Officer Severance Policy (adopted October 10, 2006). Incorporated by reference to Exhibit 10.2 to the Registrant s October 11, 2006 Current Report on Form 8-K.*
10.7	Prudential Financial, Inc. Omnibus Incentive Plan (amended and restated effective November 11, 2008). Incorporated by reference to Exhibit 10.15 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.8	First Amendment to the Prudential Financial, Inc. Omnibus Incentive Plan, effective February 9, 2010. Incorporated by reference to Exhibit 10.2 to the Registrant s February 11, 2010 Current Report on Form 8-K.*
10.9	Form of 2004 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.11 to the Registrant s December 31, 2005 Annual Report on Form 10-K.*
10.10	Form of 2005 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 14, 2005 Current Report on Form 8-K.*
10.11	Form of 2006 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 16, 2006 Current Report on Form 8-K.*

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10.12	Form of 2007 Grant Acceptance Agreement relating to stock option grants to the chairman, principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 13, 2007 Current Report on Form 8-K.*
10.13	Form of Grant Acceptance Agreement relating to January 18, 2008 stock option grants to John R. Strangfeld, Mark B. Grier, Bernard B. Winograd and Edward P. Baird under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s January 23, 2008 Current Report on Form 8-K.*
10.14	Form of Grant Acceptance Agreement relating to January 18, 2008 stock option grant to Richard J. Carbone under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Registrant s January 23, 2008 Current Report on Form 8-K.*
10.15	Form of 2008 Grant Acceptance Agreement relating to stock option grants to the chairman, principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 12, 2008 Current Report on Form 8-K.*
10.16	Form of Terms and Conditions of the 2009 Long-Term Incentive Program relating to stock option grants and restricted stock unit awards to the chairman and principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 10, 2009 Current Report on Form 8-K.*
10.17	Form of Terms and Conditions relating to awards in 2010 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units under the 2010 Mid-Term Incentive Program and of stock options, performance shares and performance units under the 2010 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.3 to the Registrant s February 11, 2010 Current Report on Form 8-K.*
10.18	Form of Terms and Conditions relating to awards in 2011 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units under the 2011 Mid-Term Incentive Program and of stock options, performance shares and performance units under the 2011 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s February 8, 2011 Current Report on Form 8-K.*
10.19	Revised Form of Terms and Conditions relating to awards in 2012 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2012 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s June 11, 2013 Current Report on Form 8-K.*
10.20	Revised Form of Terms and Conditions relating to awards in 2013 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2013 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.2 to the Registrant s June 11, 2013 Current Report on Form 8-K.*
10.21	Revised Form of Terms and Conditions relating to awards in 2014 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2014 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s February 18, 2014 Current Report on Form 8-K.*
10.22	Annual Incentive Payment Criteria for Executive Officers. Incorporated by reference to Exhibit 10.2 to the Registrant s February 13, 2013 Current Report on Form 8-K.*

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10.23	Prudential Financial, Inc. Non-Employee Director Compensation Summary (as adopted on November 12, 2013 and effective January 1, 2014)*
10.24	The Prudential Supplemental Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.35 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.25	First Amendment to The Prudential Supplemental Retirement Plan, effective June 30, 2012. Incorporated by reference to Exhibit 10.1 to the Registrant s June 30, 2012 Quarterly Report on Form 10-Q.*
10.26	Second Amendment to The Prudential Supplemental Retirement Plan, effective December 6, 2013.*
10.27	Prudential Supplemental Employee Savings Plan, as amended and restated effective as of January 1, 2006. Incorporated by reference to Exhibit 10.32 to the Registrant s December 31, 2006 Annual Report on Form 10-K.*
10.28	First Amendment to the Prudential Supplemental Employee Savings Plan, effective as of January 1, 2008. Incorporated by reference to Exhibit 10.2 to the Registrant s March 31, 2008 Quarterly Report on Form 10-Q.*
10.29	Second Amendment to the Prudential Supplemental Employee Savings Plan, dated December 23, 2008. Incorporated by reference to Exhibit 10.38 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.30	The Prudential Insurance Supplemental Executive Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.39 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.31	First Amendment to the Prudential Insurance Supplemental Executive Retirement Plan, effective as of January 1, 2010. Incorporated by reference to Exhibit 10.35 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.32	Prudential Financial, Inc. Compensation Plan (amended and restated effective as of November 11, 2008). Incorporated by reference to Exhibit 10.41 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.33	The Prudential Deferred Compensation Plan for Non-Employee Directors (as amended through October 9, 2007). Incorporated by reference to Exhibit 10.3 to the Registrant s September 30, 2007 Quarterly Report on Form 10-Q.*
10.34	First Amendment to The Prudential Deferred Compensation Plan for Non-Employee Directors, dated November 20, 2008. Incorporated by reference to Exhibit 10.43 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.35	Prudential Financial, Inc. 2011 Deferred Compensation Plan for Non-Employee Directors (effective as of January 1, 2011). Incorporated by reference to Exhibit 10.39 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.36	Prudential Securities Incorporated Supplemental Retirement Plan for Executives (amended and restated effective January 1, 2009). Incorporated by reference to Exhibit 10.44 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.37	PFI Supplemental Executive Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.45 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.38	First Amendment to the PFI Supplemental Executive Retirement Plan, effective as of January 1, 2010. Incorporated by reference to Exhibit 10.42 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.39	Prudential Financial, Inc. Nonqualified Retirement Plan Trust Agreement between Prudential Financial, Inc. and Wachovia Bank, N.A. Incorporated by reference to Exhibit 10.1 to the Registrant s June 30, 2007 Quarterly Report on Form 10-Q.*

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10.40	The Prudential Severance Plan for Senior Executives (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.41 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.41	The Prudential Severance Plan for Executives (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.42 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.42	The Prudential Severance Plan (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.43 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.43	First Amendment to the Prudential Severance Plan, the Prudential Severance Plan for Executives, and the Prudential Severance Plan for Senior Executives, dated December 11, 2012. Incorporated by reference to Exhibit 10.47 to the Registrant s December 31, 2012 Annual Report on Form 10-K.*
10.44	2014 Prudential Financial, Inc. Leveraging Opportunities Program Long Term Incentive Award Plan.*
10.45	Stock Purchase Agreement, dated as of September 30, 2010, between American International Group, Inc. and Prudential Financial, Inc. (excluding certain exhibits and schedules). Incorporated by reference to Exhibit 10.1 to the Registrant s October 1, 2010 Current Report on Form 8-K.
12.1	Statement of Ratio of Earnings to Fixed Charges.
18.1	Letter on Change in Accounting Principle
21.1	Subsidiaries of Prudential Financial, Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
24.1	Powers of Attorney.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.
101.INS XBRL	Instance Document.
101.SCH XBRL	Taxonomy Extension Schema Document.
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document.
101.LAB XBRL	Taxonomy Extension Label Linkbase Document.
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document.
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document.

* This exhibit is a management contract or compensatory plan or arrangement.

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services

Prudential Financial, Inc.

751 Broad Street, 21st Floor

Newark, New Jersey 07102

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Schedule I

Summary of Investments Other Than Investments in Related Parties

As of December 31, 2013 (in millions)

Type of Investment	Cost(1)	Fair Value	Amount at which shown in the Balance Sheet
Fixed maturities, available-for-sale:			
Bonds:			
United States Government and government agencies and authorities	$ 13,754	$ 15,400	$ 15,400
States, municipalities and political subdivisions	3,598	3,735	3,735
Foreign governments	75,595	82,788	82,788
Asset-backed securities	10,691	10,589	10,589
Residential mortgage-backed securities	6,365	6,703	6,703
Commercial mortgage-backed securities	13,633	13,873	13,873
Public utilities	22,926	24,018	24,018
All other corporate bonds	121,822	129,384	129,384
Redeemable preferred stock	343	376	376
Total fixed maturities, available-for-sale	$ 268,727	$ 286,866	$ 286,866
Fixed maturities, held-to-maturity:			
Bonds:			
Foreign governments	$ 938	$ 1,055	$ 938
Asset-backed securities	693	739	693
Residential mortgage-backed securities	611	645	611
Commercial mortgage-backed securities	166	184	166
All other corporate bonds	904	930	904
Total fixed maturities, held-to-maturity	$ 3,312	$ 3,553	$ 3,312
Equity securities:			
Common Stocks:			
Public utilities	$ 195	$ 252	$ 252
Banks, trust and insurance companies	1,339	1,976	1,976
Industrial, miscellaneous and other	5,436	7,645	7,645
Nonredeemable preferred stocks	33	37	37
Total equity securities, available-for-sale	$ 7,003	$ 9,910	$ 9,910
Trading account assets supporting insurance liabilities(2)(3)	$ 20,827		$ 20,827
Other trading account assets(2)	6,453		6,453
Commercial mortgage and other loans(4)	41,008		41,008
Policy loans	11,766		11,766
Short-term investments(5)	7,703		7,703
Other long-term investments	10,328		10,328
Total investments	$ 377,127		$ 398,173

(1) Original cost of equities reduced by impairment and, as to fixed maturities, original cost reduced by repayments and impairments and adjusted for amortization of premiums and accretion of discounts.
(2) At fair value.

(3) See Note 4 to the Consolidated Financial Statements for the composition of the Company s Trading account assets supporting insurance liabilities, at fair value.
(4) At carrying value, net of allowance for losses. Includes commercial mortgage and other collateralized loans of $39,713 million and uncollateralized loans of $1,295 million.
(5) Short-term investments include securities purchased under agreements to resell.

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Schedule II

Condensed Financial Information of Registrant

Condensed Statements of Financial Positions as of December 31, 2013 and 2012

(in millions)

	2013	2012
ASSETS		
Investment contracts from subsidiaries	$ 1	$ 0
Other investments	1,197	1,163
Total investments	1,198	1,163
Cash and cash equivalents	4,370	7,400
Due from subsidiaries	1,477	1,115
Loans receivable from subsidiaries	8,750	8,882
Investment in subsidiaries	40,662	44,063
Other assets	889	659
TOTAL ASSETS	$ 57,346	$ 63,282
LIABILITIES AND EQUITY		
LIABILITIES		
Due to subsidiaries	$ 1,734	$ 3,898
Loans payable to subsidiaries	1,799	1,587
Short-term debt	1,721	1,847
Long-term debt	16,346	16,998
Other liabilities	468	449
Total liabilities	22,068	24,779
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,319 and 660,111,307 shares issued at December 31, 2013 and 2012, respectively)	6	6
Class B Stock ($0.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2013 and 2012, respectively)	0	0
Additional paid-in capital	24,475	24,380
Common Stock held in treasury, at cost (199,056,067 and 197,077,940 shares at December 31, 2013 and 2012, respectively)	(12,415)	(12,163)
Accumulated other comprehensive income (loss)	8,681	10,214
Retained earnings	14,531	16,066
Total equity	35,278	38,503
TOTAL LIABILITIES AND EQUITY	$ 57,346	$ 63,282

See Notes to Condensed Financial Information of Registrant

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Schedule II

Condensed Financial Information of Registrant

Condensed Statements of Operations for the Years Ended December 31, 2013, 2012 and 2011

(in millions)

	2013	2012	2011
REVENUES			
Net investment income	$ 6	$ 33	$ 45
Realized investment gains (losses), net	390	(33)	(23)
Affiliated interest revenue	416	404	333
Other income	153	(19)	249
Total revenues	965	385	604
EXPENSES			
General and administrative expenses	50	67	53
Interest expense	1,091	1,066	1,043
Total expenses	1,141	1,133	1,096
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(176)	(748)	(492)
Income taxes:			
Current	(145)	(432)	(292)
Deferred	65	166	(29)
Total income tax benefit	(80)	(266)	(321)
LOSS FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES	(96)	(482)	(171)
Equity in earnings of subsidiaries	(571)	1,002	3,807
INCOME (LOSS) FROM CONTINUING OPERATIONS	(667)	520	3,636
Income (loss) from discontinued operations, net of taxes	0	0	(4)
NET INCOME (LOSS)	$ (667)	$ 520	$ 3,632
COMPREHENSIVE INCOME	$ (2,200)	$ 5,489	$ 6,227

See Notes to Condensed Financial Information of Registrant

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Schedule II

Condensed Financial Information of Registrant

Condensed Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011

(in millions)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ (667)	$ 520	$ 3,632
Adjustments to reconcile net income to cash provided by operating activities:			
Equity in earnings of subsidiaries	571	(1,002)	(3,807)
Realized investment (gains) losses, net	(390)	33	23
Dividends received from subsidiaries	2,483	2,435	2,955
Change in:			
Due to/from subsidiaries, net	(1,753)	1,920	525
Other, net	(418)	9	(666)
Cash flows from (used in) operating activities	(174)	3,915	2,662
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity of:			
Fixed maturities, available-for-sale	0	191	4
Equity securities, available-for-sale	0	0	4
Commercial loans	0	312	25
Investment contracts from subsidiaries	0	525	468
Short-term investments	6,522	2,485	2,288
Payments for the purchase of:			
Equity securities, available-for-sale	0	0	(4)
Commercial loans	0	(68)	(269)
Investment contracts from subsidiaries	(1)	0	0
Short-term investments	(6,544)	(2,550)	(2,301)
Capital contributions to subsidiaries	(1,760)	(1,912)	(1,593)
Returns of capital contributions from subsidiaries	524	427	287
Proceeds from sale of subsidiaries	0	0	91
Loans to subsidiaries, net of maturities	(22)	825	(2,824)
Other, investing	32	24	24
Cash flows from (used in) investing activities	(1,249)	259	(3,800)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid on Common Stock	(828)	(749)	(685)
Cash dividends paid on Class B Stock	(19)	(19)	(19)
Common Stock acquired	(738)	(650)	(999)
Common Stock reissued for exercise of stock options	348	150	122
Proceeds from the issuance of debt (maturities longer than 90 days)	2,414	3,180	1,741
Repayments of debt (maturities longer than 90 days)	(3,257)	(2,737)	(704)
Repayments of loans from subsidiaries	(102)	(20)	(45)
Proceeds from loans payable to subsidiaries	545	400	3
Net change in financing arrangements (maturities of 90 days or less)	65	(143)	(12)
Excess tax benefits from share-based payment arrangements	10	12	2
Other, financing	(45)	(44)	(7)
Cash flows from (used in) financing activities	(1,607)	(620)	(603)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,030)	3,554	(1,741)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,400	3,846	5,587

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,370	$ 7,400	$ 3,846
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for interest	$ 1,070	$ 1,040	$ 1,028
Cash paid (refunds received) during the period for taxes	$ 246	$ (256)	$ 135
NON-CASH TRANSACTIONS DURING THE YEAR			
Non-cash capital contributions to subsidiaries	$ 1,097	$ 0	$ 0
Non-cash dividends from subsidiaries	$ 942	$ 0	$ 0
Capital transactions with subsidiary in the form of a tax receivable/(liability)	$ 0	$ 0	$ 18
Treasury Stock shares issued for stock-based compensation programs	$ 105	$ 211	$ 77

See Notes to Condensed Financial Information of Registrant

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PRUDENTIAL FINANCIAL, INC.

Schedule II

Condensed Financial Information of Registrant

Notes to Condensed Financial Information of Registrant

1. ORGANIZATION AND PRESENTATION

Prudential Financial, Inc. (Prudential Financial) was incorporated on December 28, 1999 as a wholly-owned subsidiary of The Prudential Insurance Company of America. On December 18, 2001, The Prudential Insurance Company of America converted from a mutual life insurance company to a stock life insurance company and became an indirect, wholly-owned subsidiary of Prudential Financial.

The condensed financial statements of Prudential Financial reflect its direct wholly-owned subsidiaries using the equity method of accounting.

Certain amounts in prior years have been reclassified to conform to the current year presentation.

2. OTHER INVESTMENTS

Prudential Financial s other investments as of December 31, 2013 and 2012 primarily consisted of government agency securities and money market funds.

3. DEBT

A summary of Prudential Financial s short- and long-term debt is as follows:

	Maturity Dates	Rate(1)	December 31, 2013	December 31, 2012
			(in millions)	
Short-term debt:				
Commercial Paper(2)			$ 190	$ 113
Current portion of long-term debt			1,531	1,734
Total short-term debt			$ 1,721	$ 1,847
Long-term debt:				

Fixed rate senior notes	2014-2043	2.30%-7.38%	$ 10,907	$ 12,190
Floating rate senior notes	2014-2020	1.02%-4.91%	555	214
Junior subordinated notes	2042-2068	5.20%-8.88%	4,884	4,594
Total long-term debt			$ 16,346	$ 16,998

(1) Range of interest rates are for the year ended December 31, 2013.
(2) The weighted average interest rate on outstanding commercial paper was 0.32% and 0.41% at December 31, 2013 and 2012, respectively.

Long-term Debt

In order to modify exposure to interest rate movements, Prudential Financial utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. The impact of these derivative instruments are not reflected in the rates presented in the table above. For those derivatives that qualify for hedge accounting treatment, interest expense was increased by $2 million and decreased by $4 million, and $8 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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Schedule of Long-term Debt Maturities

The following table presents, as of December 31, 2013, Prudential Financial s contractual maturities for long-term debt:

	Calendar Year					
	2015	2016	2017	2018	2019 and thereafter	Total
	(in millions)					
Long-term debt	$ 2,222	$ 751	$ 971	$ 830	$ 11,572	$ 16,346

4. DIVIDENDS AND RETURNS OF CAPITAL

For the years ended December 31, Prudential Financial received cash dividends and/or returns of capital from the following companies:

	2013	2012	2011
	(in millions)		
Prudential Holdings, LLC	$ 0	$ 600	$ 1,592
Prudential Annuities Life Assurance Corporation	284	408	588
International Insurance and Investments Holding Companies	1,642	865	478
Prudential Asset Management Holding Company	441	646	468
Other Holding Companies	640	343	116
Total	$ 3,007	$ 2,862	$ 3,242

5. COMMITMENTS AND GUARANTEES

Prudential Financial has issued a subordinated guarantee covering a subsidiary s domestic commercial paper program. As of December 31, 2013, there was $460 million outstanding under this commercial paper program.

Prudential Financial has provided guarantees of the payment of principal and interest on inter-company loans between affiliates. As of December 31, 2013, Prudential Financial had issued guarantees of outstanding loans totaling $4.0 billion between International Insurance subsidiaries and other affiliates.

In 2011, Prudential Financial provided a guarantee of the obligations of a captive reinsurance subsidiary under a $2.0 billion letter of credit facility entered into by the captive subsidiary in support of its obligations under a reinsurance arrangement relating to the Closed Block Business within Prudential Insurance. Prudential Financial guarantees all obligations of the captive reinsurance subsidiary under the facility, including its obligation to reimburse any draws on a letter of credit issued under the facility during an availability period, which was extended by one year in 2013, expiring in October 2015.

In 2004, Prudential Financial entered into a $200 million liquidity facility agreement with a subsidiary. Under the facility, Prudential Financial may provide loans to the subsidiary from time to time in order to support payment obligations of the subsidiary arising under affiliated reinsurance arrangements and borrowings. There were no outstanding loans under the facility as of December 31, 2013.

Prudential Financial is also subject to other financial guarantees, net worth maintenance agreements and indemnity arrangements, including those made in the normal course of businesses guaranteeing the performance of, or representations made by, Prudential Financial subsidiaries. Prudential Financial has provided indemnities and guarantees related to acquisitions and dispositions, investments, debt issuances and other transactions, including those provided as part of its on-going operations that are triggered by, among other things, breaches of representations, warranties or covenants provided by Prudential Financial or its subsidiaries. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. At December 31, 2013, Prudential Financial has accrued liabilities of $6 million associated with all other financial guarantees and indemnity arrangements.

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PRUDENTIAL FINANCIAL, INC.

Schedule III

Supplementary Insurance Information

As of and for the Year Ended December 31, 2013 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses
Individual Annuities	$ 5,490	$ 2,341	$ 0	$ 9,035	$ 2,541	$ 685	$ (30)	$ (956)	$ 1,661
Retirement	225	45,241	1,939	46,475	1,107	4,084	3,294	15	984
Asset Management	0	0	0	0	0	87	0	25	1,826
U.S. Retirement Solutions and Investment Management Division	5,715	47,582	1,939	55,510	3,648	4,856	3,264	(916)	4,471
Individual Life	4,112	7,407	0	20,746	2,660	1,403	2,238	95	1,363
Group Insurance	183	4,921	193	8,179	4,813	581	4,535	10	820
U.S. Individual Life and Group Insurance Division	4,295	12,328	193	28,925	7,473	1,984	6,773	105	2,183
International Insurance	6,407	90,641	504	46,948	17,482	4,291	16,057	998	2,782
International Insurance Division	6,407	90,641	504	46,948	17,482	4,291	16,057	998	2,782
Corporate and Other	(316)	3,414	0	12	321	582	420	16	1,018
Total Financial Services Businesses	16,101	153,965	2,636	131,395	28,924	11,713	26,514	203	10,454
Closed Block Business	411	50,258	0	10,777	2,728	3,016	5,380	37	557
Total	$ 16,512	$ 204,223	$ 2,636	$ 142,172	$ 31,652	$ 14,729	$ 31,894	$ 240	$ 11,011

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PRUDENTIAL FINANCIAL, INC.

Schedule III

Supplementary Insurance Information

As of and for the Year Ended December 31, 2012 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses
Individual Annuities	$ 3,829	$ 5,360	$ 0	$ 10,608	$ 2,140	$ 770	$ 776	$ (397)	$ 1,581
Retirement	207	47,297	2,142	45,674	32,604	3,203	35,349	49	896
Asset Management	0	0	0	0	0	106	0	24	1,785
U.S. Retirement Solutions and Investment Management Division	4,036	52,657	2,142	56,282	34,744	4,079	36,125	(324)	4,262
Individual Life	3,115	5,144	0	10,590	1,976	1,033	1,570	419	995
Group Insurance	182	4,920	187	8,073	4,908	586	4,756	5	824
U.S. Individual Life and Group Insurance Division	3,297	10,064	187	18,663	6,884	1,619	6,326	424	1,819
International Insurance	6,589	96,412	462	54,289	25,015	4,245	22,431	1,167	3,474
International Insurance Division	6,589	96,412	462	54,289	25,015	4,245	22,431	1,167	3,474
Corporate and Other	(234)	3,286	1	10	383	565	1,056	199	987
Total Financial Services Businesses	13,688	162,419	2,792	129,244	67,026	10,508	65,938	1,466	10,542
Closed Block Business	412	50,839	0	12,676	2,817	3,153	5,603	38	552
Total	$ 14,100	$ 213,258	$ 2,792	$ 141,920	$ 69,843	$ 13,661	$ 71,541	$ 1,504	$ 11,094

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PRUDENTIAL FINANCIAL, INC.

Schedule III

Supplementary Insurance Information

As of and for the Year Ended December 31, 2011 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses
Individual Annuities	$ 2,389	$ 4,462	$ 0	$ 11,932	$ 1,881	$ 791	$ 1,511	$ 1,667	$ 1,395
Retirement	197	15,665	323	45,946	973	3,178	3,592	50	927
Asset Management	0	0	0	0	0	118	0	25	1,626
U.S. Retirement Solutions and Investment Management Division	2,586	20,127	323	57,878	2,854	4,087	5,103	1,742	3,948
Individual Life	3,191	4,487	0	9,507	1,668	978	1,443	135	841
Group Insurance	132	4,777	178	7,432	4,948	575	4,704	6	735
U.S. Individual Life and Group Insurance Division	3,323	9,264	178	16,939	6,616	1,553	6,147	141	1,576
International Insurance	6,141	86,756	443	55,066	15,549	3,725	12,903	879	3,369
International Insurance Division	6,141	86,756	443	55,066	15,549	3,725	12,903	879	3,369
Corporate and Other	5	2,156	1	(523)	288	545	476	(104)	1,140
Total Financial Services Businesses	12,055	118,303	945	129,360	25,307	9,910	24,629	2,658	10,033
Closed Block Business	462	51,423	0	10,995	2,918	3,214	6,192	37	572
Total	$ 12,517	$ 169,726	$ 945	$ 140,355	$ 28,225	$ 13,124	$ 30,821	$ 2,695	$ 10,605

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PRUDENTIAL FINANCIAL, INC.

Schedule IV

Reinsurance

For the Years Ended December 31, 2013, 2012 and 2011 (in millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2013					
Life Insurance Face Amount In Force	$ 3,534,834	$ 521,189	$ 185,479	$ 3,199,124	5.8%
Premiums:					
Life Insurance	$ 24,068	$ 1,408	$ 272	$ 22,932	1.2%
Accident and Health Insurance	3,376	71	0	3,305	0%
Total Premiums	$ 27,444	$ 1,479	$ 272	$ 26,237	1.0%
2012					
Life Insurance Face Amount In Force	$ 3,645,504	$ 456,329	$ 22,050	$ 3,211,225	0.7%
Premiums:					
Life Insurance	$ 62,603	$ 1,374	$ 223	$ 61,452	0.4%
Accident and Health Insurance	3,963	62	1	3,902	0.0%
Total Premiums	$ 66,566	$ 1,436	$ 224	$ 65,354	0.3%
2011					
Life Insurance Face Amount In Force	$ 3,596,957	$ 428,419	$ 17,881	$ 3,186,419	0.6%
Premiums:					
Life Insurance	$ 22,306	$ 1,302	$ 126	$ 21,130	0.6%
Accident and Health Insurance	3,220	51	2	3,171	0.1%
Total Premiums	$ 25,526	$ 1,353	$ 128	$ 24,301	0.5%

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PRUDENTIAL FINANCIAL, INC.

Schedule V

Valuation and Qualifying Accounts

For the Years Ended December 31, 2013, 2012 and 2011 (in millions)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Other	Deductions	Effect of Foreign Exchange Rates	Balance at End of Period
2013						
Allowance for losses on commercial mortgage and other loans	$ 269	$ 0	$ 0	$ 48(1)	$ (5)	$ 216
Valuation allowance on deferred tax asset	280	(42)	(1)	0	(2)	235
	$ 549	$ (42)	$ (1)	$ 48	$ (7)	$ 451
2012						
Allowance for losses on commercial mortgage and other loans	$ 367	$ 0	$ 0	$ 96(1)	$ (2)	$ 269
Valuation allowance on deferred tax asset	392	(108)	(3)	0	(1)	280
	$ 759	$ (108)	$ (3)	$ 96	$ (3)	$ 549
2011						
Allowance for losses on commercial mortgage and other loans	$ 575	$ 0	$ 0	$ 210(1)	$ 2	$ 367
Valuation allowance on deferred tax asset	386	(2)	11	3(2)	0	392
	$ 961	$ (2)	$ 11	$ 213	$ 2	$ 759

(1) Represents release of allowance for losses and charge-offs, net of recoveries.
(2) Primarily represents utilization and expiration of net operating losses.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Newark, and state of New Jersey, on the 27th day of February, 2014.

Prudential Financial, Inc.

By:	/s/ Robert M. Falzon
Name:	**Robert M. Falzon**
Title:	**Executive Vice President**

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 indicated on February 27, 2014:

Name	Title
/s/ John R. Strangfeld, Jr.	Chief Executive Officer,
John R. Strangfeld, Jr.	President and Director
/s/ Robert M. Falzon	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Robert M. Falzon	
/s/ Peter B. Sayre	Senior Vice President and
Peter B. Sayre	Principal Accounting Officer
Thomas J. Baltimore, Jr.*	Director
Thomas J. Baltimore, Jr.	
Gordon M. Bethune*	Director
Gordon M. Bethune	
Gaston Caperton*	Director
Gaston Caperton	
Gilbert F. Casellas*	Director
Gilbert F. Casellas	
James G. Cullen*	Director
James G. Cullen	

MARK B. GRIER*	Director
Mark B. Grier	
CONSTANCE J. HORNER*	Director
Constance J. Horner	
MARTINA HUND-MEJEAN*	Director
Martina Hund-Mejean	
KARL J. KRAPEK*	Director
Karl J. Krapek	

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Name	Title
CHRISTINE A. POON*	Director
Christine A. Poon	
DOUGLAS A. SCOVANNER*	Director
Douglas A. Scovanner	
JAMES A. UNRUH*	Director
James A. Unruh	

By:* /s/ ROBERT M. FALZON
Attorney-in-fact

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EXHIBIT INDEX

2.1	Plan of Reorganization. Incorporated by reference to Exhibit 2.1 to the Registrant s Registration Statement on Form S-1 (No. 333-58524) (the Registration Statement).
3.1	Amended and Restated Certificate of Incorporation of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registrant s May 9, 2012 Current Report on Form 8-K.
3.2	Amended and Restated By-laws of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registrant s February 12, 2013 Current Report on Form 8-K.
4.1	Form of certificate for the Common Stock of Prudential Financial, Inc., par value $.01 per share. Incorporated by reference to Exhibit 4.1 to the Registration Statement.
4.2	Upon the request of the Securities and Exchange Commission, the Registrant will furnish copies of all instruments defining the rights of holders of long-term debt of the Registrant.
4.3	Inter-Business Transfer and Allocation Policies relating to the Financial Services Businesses and the Closed Block Business. Incorporated by reference to Exhibit 4.3 to the Registrant s December 31, 2012 Annual Report on Form 10-K.
10.1	Support Agreement between The Prudential Insurance Company of America and Prudential Funding Corporation, dated as of March 18, 1982. Incorporated by reference to Exhibit 10.1 to the Registration Statement.
10.2	The Prudential Insurance Company of America Deferred Compensation Plan (as amended and restated effective as of June 20, 2013). Incorporated by reference to Exhibit 10.3 to the Registrant s June 30, 2013 Quarterly Report on Form 10-Q.*
10.3	The Pension Plan for Non-Employee Directors of The Prudential Insurance Company of America. Incorporated by reference to Exhibit 10.6 to the Registration Statement.*
10.4	Prudential Financial, Inc. Executive Change of Control Severance Program (amended and restated effective as of November 11, 2008). Incorporated by reference to Exhibit 10.13 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.5	Form of Waiver by certain executive officers of certain benefit entitlements under the Prudential Financial, Inc. Executive Change of Control Severance Program with respect to portions of their annual incentive award compensation granted to them in 2010 in respect of 2009. Incorporated by reference to Exhibit 10.15 to the Registrant s December 31, 2009 Annual Report on Form 10-K.*
10.6	Prudential Financial Executive Officer Severance Policy (adopted October 10, 2006). Incorporated by reference to Exhibit 10.2 to the Registrant s October 11, 2006 Current Report on Form 8-K.*
10.7	Prudential Financial, Inc. Omnibus Incentive Plan (amended and restated effective November 11, 2008). Incorporated by reference to Exhibit 10.15 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.8	First Amendment to the Prudential Financial, Inc. Omnibus Incentive Plan, effective February 9, 2010. Incorporated by reference to Exhibit 10.2 to the Registrant s February 11, 2010 Current Report on Form 8-K.*
10.9	Form of 2004 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.11 to the Registrant s December 31, 2005 Annual Report on Form 10-K.*
10.10	Form of 2005 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 14, 2005 Current Report on Form 8-K.*

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10.11	Form of 2006 Grant Acceptance Agreement relating to stock option grants to executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 16, 2006 Current Report on Form 8-K.*
10.12	Form of 2007 Grant Acceptance Agreement relating to stock option grants to the chairman, principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 13, 2007 Current Report on Form 8-K.*
10.13	Form of Grant Acceptance Agreement relating to January 18, 2008 stock option grants to John R. Strangfeld, Mark B. Grier, Bernard B. Winograd and Edward P. Baird under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s January 23, 2008 Current Report on Form 8-K.*
10.14	Form of Grant Acceptance Agreement relating to January 18, 2008 stock option grant to Richard J. Carbone under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.2 to the Registrant s January 23, 2008 Current Report on Form 8-K.*
10.15	Form of 2008 Grant Acceptance Agreement relating to stock option grants to the chairman, principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 12, 2008 Current Report on Form 8-K.*
10.16	Form of Terms and Conditions of the 2009 Long-Term Incentive Program relating to stock option grants and restricted stock unit awards to the chairman and principal executive officer, principal financial officer and other executive officers under the Prudential Financial, Inc. Omnibus Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Registrant s February 10, 2009 Current Report on Form 8-K.*
10.17	Form of Terms and Conditions relating to awards in 2010 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units under the 2010 Mid-Term Incentive Program and of stock options, performance shares and performance units under the 2010 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.3 to the Registrant s February 11, 2010 Current Report on Form 8-K.*
10.18	Form of Terms and Conditions relating to awards in 2011 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units under the 2011 Mid-Term Incentive Program and of stock options, performance shares and performance units under the 2011 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s February 8, 2011 Current Report on Form 8-K.*
10.19	Revised Form of Terms and Conditions relating to awards in 2012 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2012 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s June 11, 2013 Current Report on Form 8-K.*
10.20	Revised Form of Terms and Conditions relating to awards in 2013 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2013 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.2 to the Registrant s June 11, 2013 Current Report on Form 8-K.*

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10.21	Revised Form of Terms and Conditions relating to awards in 2014 under the Prudential Financial, Inc. Omnibus Incentive Plan to the chairman, principal executive officer, principal financial officer and other executive officers of book value units, stock options, performance shares and performance units under the 2014 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.1 to the Registrant s February 18, 2014 Current Report on Form 8-K.*
10.22	Annual Incentive Payment Criteria for Executive Officers. Incorporated by reference to Exhibit 10.2 to the Registrant s February 13, 2013 Current Report on Form 8-K.*
10.23	Prudential Financial, Inc. Non-Employee Director Compensation Summary (as adopted on November 12, 2013 and effective January 1, 2014)*
10.24	The Prudential Supplemental Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.35 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.25	First Amendment to The Prudential Supplemental Retirement Plan, effective June 30, 2012. Incorporated by reference to Exhibit 10.1 to the Registrant s June 30, 2012 Quarterly Report on Form 10-Q.*
10.26	Second Amendment to The Prudential Supplemental Retirement Plan, effective December 6, 2013.*
10.27	Prudential Supplemental Employee Savings Plan, as amended and restated effective as of January 1, 2006. Incorporated by reference to Exhibit 10.32 to the Registrant s December 31, 2006 Annual Report on Form 10-K.*
10.28	First Amendment to the Prudential Supplemental Employee Savings Plan, effective as of January 1, 2008. Incorporated by reference to Exhibit 10.2 to the Registrant s March 31, 2008 Quarterly Report on Form 10-Q.*
10.29	Second Amendment to the Prudential Supplemental Employee Savings Plan, dated December 23, 2008. Incorporated by reference to Exhibit 10.38 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.30	The Prudential Insurance Supplemental Executive Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.39 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.31	First Amendment to the Prudential Insurance Supplemental Executive Retirement Plan, effective as of January 1, 2010. Incorporated by reference to Exhibit 10.35 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.32	Prudential Financial, Inc. Compensation Plan (amended and restated effective as of November 11, 2008). Incorporated by reference to Exhibit 10.41 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.33	The Prudential Deferred Compensation Plan for Non-Employee Directors (as amended through October 9, 2007). Incorporated by reference to Exhibit 10.3 to the Registrant s September 30, 2007 Quarterly Report on Form 10-Q.*
10.34	First Amendment to The Prudential Deferred Compensation Plan for Non-Employee Directors, dated November 20, 2008. Incorporated by reference to Exhibit 10.43 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.35	Prudential Financial, Inc. 2011 Deferred Compensation Plan for Non-Employee Directors (effective as of January 1, 2011). Incorporated by reference to Exhibit 10.39 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.36	Prudential Securities Incorporated Supplemental Retirement Plan for Executives (amended and restated effective January 1, 2009). Incorporated by reference to Exhibit 10.44 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*

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10.37	PFI Supplemental Executive Retirement Plan (amended and restated effective as of January 1, 2009). Incorporated by reference to Exhibit 10.45 to the Registrant s December 31, 2008 Annual Report on Form 10-K.*
10.38	First Amendment to the PFI Supplemental Executive Retirement Plan, effective as of January 1, 2010. Incorporated by reference to Exhibit 10.42 to the Registrant s December 31, 2010 Annual Report on Form 10-K.*
10.39	Prudential Financial, Inc. Nonqualified Retirement Plan Trust Agreement between Prudential Financial, Inc. and Wachovia Bank, N.A. Incorporated by reference to Exhibit 10.1 to the Registrant s June 30, 2007 Quarterly Report on Form 10-Q.*
10.40	The Prudential Severance Plan for Senior Executives (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.41 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.41	The Prudential Severance Plan for Executives (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.42 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.42	The Prudential Severance Plan (amended and restated effective as of November 1, 2011). Incorporated by reference to Exhibit 10.43 to the Registrant s December 31, 2011 Annual Report on Form 10-K.*
10.43	First Amendment to the Prudential Severance Plan, the Prudential Severance Plan for Executives, and the Prudential Severance Plan for Senior Executives, dated December 11, 2012. Incorporated by reference to Exhibit 10.47 to the Registrant s December 31, 2012 Annual Report on Form 10-K.*
10.44	2014 Prudential Financial, Inc. Leveraging Opportunities Program Long Term Incentive Award Plan.*
10.45	Stock Purchase Agreement, dated as of September 30, 2010, between American International Group, Inc. and Prudential Financial, Inc. (excluding certain exhibits and schedules). Incorporated by reference to Exhibit 10.1 to the Registrant s October 1, 2010 Current Report on Form 8-K.
12.1	Statement of Ratio of Earnings to Fixed Charges.
18.1	Letter on Change in Accounting Principle
21.1	Subsidiaries of Prudential Financial, Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
24.1	Powers of Attorney.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.
101.INS XBRL	Instance Document.
101.SCH XBRL	Taxonomy Extension Schema Document.
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document.
101.LAB XBRL	Taxonomy Extension Label Linkbase Document.
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document.
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document.

* This exhibit is a management contract or compensatory plan or arrangement.