

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from            to

Commission file number 001-12669



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

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

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

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South State Corporation and Subsidiary

September 30, 2015 Form 10-Q

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## South State Corporation and Subsidiary

## Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

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

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

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



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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

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

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

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South State Corporation and Subsidiary

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

Nine months ended September 30, 2015 and 2014

(Dollars in thousands, except per share data)

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

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

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

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

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

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

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 — Basis of Presentation

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

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

Note 2 — Summary of Significant Accounting Policies

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

Subsequent Events

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

Note 3 — Recent Accounting and Regulatory Pronouncements

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

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



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

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

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

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

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

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

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

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

Note 4 — Mergers and Acquisitions

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

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

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

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## Branch Acquisition

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

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

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

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

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

Consideration:

Cash paid as deposit premium	\$ 25,019
Fair value of total consideration transferred	\$ 25,019

Explanation of fair value adjustments

- (a)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.
- (b)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.
- (c)— Adjustment reflects the recording of the core deposit intangible on the acquired core deposit accounts.

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## Note 5 — Investment Securities

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

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

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

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

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

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



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

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

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

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

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

(Dollars in thousands)	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 77	\$ 14,915	\$ 243	\$ 32,732
State and municipal obligations	12	5,074	149	4,221
Mortgage-backed securities	179	32,579	259	24,555
Corporate stocks	—	—	979	1,251
	\$ 268	\$ 52,568	\$ 1,630	\$ 62,759
December 31, 2014:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 98	\$ 22,896	\$ 1,616	\$ 82,798
State and municipal obligations	3	1,444	192	8,269
Mortgage-backed securities	266	61,508	774	55,960
Corporate stocks	—	—	692	1,538
	\$ 367	\$ 85,848	\$ 3,274	\$ 148,565
September 30, 2014:				