SOUTH STATE Corp
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	**57-0799315**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
520 Gervais Street **Columbia, South Carolina**	**29201**
(Address of principal executive offices)	(Zip Code)

(800) 277-2175

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company o

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

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 April 30, 2015
Common Stock, $2.50 par value	24,184,578

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South State Corporation and Subsidiary

March 31, 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)

	March 31, 2015 (Unaudited)	December 31, 2014 (Note 1)	March 31, 2014 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	**$ 457,130**	$ 229,901	$ 361,816
Interest-bearing deposits with banks	**7,696**	7,456	4,690
Federal funds sold and securities purchased under agreements to resell	**165,908**	180,512	246,109
Total cash and cash equivalents	**630,734**	417,869	612,615
Investment securities:			
Securities held to maturity (fair value of $10,232, $10,233, and $11,427, respectively)	**9,659**	9,659	10,891
Securities available for sale, at fair value	**808,396**	806,766	793,124
Other investments	**9,031**	10,518	10,518
Total investment securities	**827,086**	826,943	814,533
Loans held for sale	**87,342**	61,934	57,609
Loans:			
Acquired credit impaired (covered of $172,870, $182,464, and $263,735, respectively; non-covered of $693,634, $736,938, and $850,028, respectively), net of allowance for loan losses	**866,504**	919,402	1,113,763
Acquired non-credit impaired (covered of $8,591, $9,376, and $8,246, respectively; non-covered of $1,238,758, $1,318,623, and $1,503,955, respectively)	**1,247,349**	1,327,999	1,512,201
Non-acquired	**3,586,405**	3,467,826	2,979,958
Less allowance for non-acquired loan losses	**(33,538)**	(34,539)	(34,669)
Loans, net	**5,666,720**	5,680,688	5,571,253
FDIC receivable for loss share agreements	**16,713**	22,161	60,484
Other real estate owned (covered of $12,026, $16,227, and $29,003, respectively; non-covered of $24,070, $26,499, and $35,144, respectively)	**36,096**	42,726	64,147
Premises and equipment, net	**171,565**	171,772	187,127
Bank owned life insurance	**99,751**	99,140	97,314
Deferred tax assets	**40,629**	42,692	67,997
Mortgage servicing rights	**21,510**	21,601	20,925
Core deposit and other intangibles	**47,223**	49,239	57,568
Goodwill	**317,688**	317,688	317,688
Other assets	**58,525**	71,774	61,715
Total assets	**$ 8,021,582**	$ 7,826,227	$ 7,990,975
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			

Noninterest-bearing	**$ 1,757,302**	$ 1,639,953	$ 1,585,055
Interest-bearing	**4,876,355**	4,821,092	5,049,496
Total deposits	**6,633,657**	6,461,045	6,634,551
Federal funds purchased and securities sold under agreements to repurchase	**276,774**	221,541	254,985
Other borrowings	**55,003**	101,210	100,963
Other liabilities	**48,584**	57,511	66,313
Total liabilities	**7,014,018**	6,841,307	7,056,812
Shareholders equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding			
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,156,759, 24,150,702, and 24,118,243 shares issued and outstanding, respectively	**60,392**	60,377	60,296
Surplus	**702,648**	701,764	698,079
Retained earnings	**241,526**	223,156	179,842
Accumulated other comprehensive income (loss)	**2,998**	(377)	(4,054)
Total shareholders equity	**1,007,564**	984,920	934,163
Total liabilities and shareholders equity	**$ 8,021,582**	$ 7,826,227	$ 7,990,975

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 March 31, 2015	Three Months Ended March 31, 2014
Interest income:		
Loans, including fees	**$ 78,848**	$ 81,959
Investment securities:		
Taxable	**3,661**	3,881
Tax-exempt	**1,078**	1,156
Federal funds sold and securities purchased under agreements to resell	**411**	460
Total interest income	**83,998**	87,456
Interest expense:		
Deposits	**2,003**	2,401
Federal funds purchased and securities sold under agreements to repurchase	**96**	101
Other borrowings	**850**	1,488
Total interest expense	**2,949**	3,990
Net interest income	**81,049**	83,466
Provision for loan losses	**818**	849
Net interest income after provision for loan losses	**80,231**	82,617
Noninterest income:		
Service charges on deposit accounts	**8,108**	8,988
Bankcard services income	**7,599**	7,105
Mortgage banking income	**6,626**	3,291
Trust and investment services income	**4,934**	4,543
Amortization of FDIC indemnification assets, net	**(3,207)**	(7,078)
Other	**2,445**	3,699
Total noninterest income	**26,505**	20,548
Noninterest expense:		
Salaries and employee benefits	**40,987**	39,093
Net occupancy expense	**5,237**	5,608
Information services expense	**3,958**	4,398
Furniture and equipment expense	**3,145**	3,744
OREO expense and loan related	**3,014**	4,203
Amortization of intangibles	**2,016**	2,104
Bankcard expense	**1,980**	2,256
Supplies, printing and postage expense	**1,612**	1,583
Professional fees	**1,409**	1,262
FDIC assessment and other regulatory charges	**1,184**	1,576
Advertising and marketing	**888**	1,007
Merger and branding related expense		5,985
Other	**5,055**	4,597
Total noninterest expense	**70,485**	77,416
Earnings:		
Income before provision for income taxes	**36,251**	25,749
Provision for income taxes	**12,325**	8,832
Net income	**$ 23,926**	$ 16,917
Preferred stock dividends		1,073
Net income available to common shareholders	**$ 23,926**	$ 15,844
Earnings per common share:		

Basic	**$**	**1.00**	$	0.66
Diluted	**$**	**0.99**	$	0.66
Dividends per common share	**$**	**0.23**	$	0.19
Weighted-average common shares outstanding:				
Basic		**23,943**		23,873
Diluted		**24,201**		24,116

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 March 31, 2015	2014
Net income	**$ 23,926**	$ 16,917
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	**5,275**	9,158
Tax effect	**(2,012)**	(3,492)
Net of tax amount	**3,263**	5,666
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:		
Unrealized holding losses arising during period	**(121)**	(71)
Tax effect	**46**	27
Reclassification adjustment for losses included in interest expense	**76**	76
Tax effect	**(29)**	(29)
Net of tax amount	**(28)**	3
Changes in pension plan obligation:		
Reclassification adjustment for changes included in net income	**226**	
Tax effect	**(86)**	
Net of tax amount	**140**	
Other comprehensive income, net of tax	**3,375**	5,669
Comprehensive income	**$ 27,301**	$ 22,586

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)

Three months ended March 31, 2015 and 2014

(Dollars in thousands, except per share data)

	Preferred Stock		Common Stock				Accumulated Other	
	Shares	**Amount**	**Shares**	**Amount**	**Surplus**	**Retained Earnings**	**Comprehensive Income (Loss)**	**Total**
Balance, December 31, 2013	65,000	$ 1	24,104,124	$ 60,260	$ 762,354	$ 168,577	$ (9,723)	$ 981,469
Comprehensive income						16,917	5,669	22,586
Cash dividends on Series A preferred stock at annual dividend rate of 9%						(1,073)		(1,073)
Cash dividends declared on common stock at $0.19 per share						(4,579)		(4,579)
Stock options exercised			4,660	12	117			129
Restricted stock awards			13,592	34	(34)			
Repurchase of Series A preferred stock	(65,000)	(1)			(64,999)			(65,000)
Common stock repurchased			(4,133)	(10)	(243)			(253)
Share-based compensation expense					884			884
Balance, March 31, 2014		$	24,118,243	$ 60,296	$ 698,079	$ 179,842	$ (4,054)	$ 934,163
Balance, December 31, 2014		**$**	**24,150,702**	**$ 60,377**	**$ 701,764**	**$ 223,156**	**$ (377)**	**$ 984,920**
Comprehensive income						**23,926**	**3,375**	**27,301**
Cash dividends declared on common stock at $0.23 per share						**(5,556)**		**(5,556)**
Stock options exercised			**21,000**	**53**	**614**			**667**
Restricted stock awards			**907**	**2**	**(2)**			
Common stock repurchased			**(15,850)**	**(40)**	**(941)**			**(981)**
Share-based compensation expense					**1,213**			**1,213**
Balance, March 31, 2015		**$**	**24,156,759**	**$ 60,392**	**$ 702,648**	**$ 241,526**	**$ 2,998**	**$ 1,007,564**

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)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	$ **23,926**	$ 16,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**5,353**	5,367
Provision for loan losses	**818**	849
Deferred income taxes	**(17)**	2,303
Share-based compensation expense	**1,213**	884
Amortization on FDIC indemnification asset	**3,207**	7,078
Accretion of discount related to performing acquired loans	**(1,600)**	(2,954)
(Gain) loss on sale of premises and equipment	**44**	(4)
Gain on sale of OREO	**(207)**	(2,712)
Net amortization of premium on investment securities	**1,178**	998
OREO write downs	**2,215**	3,001
Originations and purchases of mortgage loans for sale	**(241,740)**	(141,939)
Proceeds from sales of mortgage loans for sale	**217,101**	132,935
Net change in:		
Accrued interest receivable	**111**	(2,385)
Prepaid assets	**(243)**	2,105
FDIC Loss Share Receivable	**2,241**	18,884
Accrued interest payable	**(1,147)**	(534)
Accrued income taxes	**11,067**	10,725
Miscellaneous assets and liabilities	**(6,321)**	(19,817)
Net cash provided by operating activities	**17,199**	31,701
Cash flows from investing activities:		
Proceeds from maturities and calls of investment securities held to maturity		1,535
Proceeds from maturities and calls of investment securities available for sale	**42,301**	29,157
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	**(39,836)**	(27,413)
Purchases of other investments		(6,186)
Net decrease in loans	**8,214**	46,276
Net cash received from acquisitions		749
Purchases of premises and equipment	**(3,264)**	(5,389)
Proceeds from sale of OREO	**11,158**	13,070
Proceeds from sale of premises and equipment	**25**	6
Net cash provided by investing activities	**20,085**	54,673
Cash flows from financing activities:		
Net increase in deposits	**172,612**	75,156
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	**55,233**	43,584
Repayment of other borrowings	**(46,394)**	(1,184)
Preferred stock repurchase		(65,000)
Common stock repurchase	**(981)**	(253)
Dividends paid on preferred stock		(1,073)
Dividends paid on common stock	**(5,556)**	(4,579)

Stock options exercised		**667**		129
Net cash provided by financing activities		**175,581**		46,780
Net increase in cash and cash equivalents		**212,865**		133,154
Cash and cash equivalents at beginning of period		**417,869**		479,461
Cash and cash equivalents at end of period	**$**	**630,734**	$	612,615
Supplemental Disclosures:				
Cash Flow Information:				
Cash paid for:				
Interest	**$**	**4,098**	$	4,540
Income taxes	**$**	**1,670**	$	421
Schedule of Noncash Investing Transactions:				
Real estate acquired in full or in partial settlement of loans (covered of $2,423 and $6,822, respectively; and non-covered of $4,113 and $5,766, respectively)	**$**	**6,536**	$	12,588

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 months ended March 31, 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 an consolidated subsidiaries. References to the Bank means 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 February 2015, the Financial Accounting Standards Board (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.

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Note 3 Recent Accounting and Regulatory Pronouncements (Continued)

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.

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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016 (although the FASB recently proposed a one-year deferral of the effective date), 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, other than additional disclosures regarding residential real estate foreclosures and properties in process of foreclosure, 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).

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Note 4 Mergers and Acquisitions

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

- 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
- Former First Financial Holdings, Inc. (FFHI) July 26, 2013 Whole bank acquisition with FDIC purchase and assumption agreements of Cape Fear Bank (Cape Fear) April 10, 2009 and Plantation Federal Bank (Plantation) April 27, 2012

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.

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
March 31, 2015:				
State and municipal obligations	**$ 9,659**	**$ 573**	**$**	**$ 10,232**
December 31, 2014:				
State and municipal obligations	$ 9,659	$ 574	$	$ 10,233
March 31, 2014:				

State and municipal obligations	$	10,891	$	538	$	(2)	$	11,427

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Note 5 Investment Securities (Continued)

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
March 31, 2015:								
Government-sponsored entities debt *	**$**	**134,296**	**$**	**384**	**$**	**(477)**		**134,203**
State and municipal obligations		**132,043**		**4,638**		**(165)**		**136,516**
Mortgage-backed securities **		**524,785**		**10,005**		**(366)**		**534,424**
Corporate stocks		**3,161**		**592**		**(500)**		**3,253**
	$	**794,285**	**$**	**15,619**	**$**	**(1,508)**	**$**	**808,396**
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
March 31, 2014:								
Government-sponsored entities debt *	$	141,900	$	406	$	(4,705)		137,601
State and municipal obligations		140,840		2,462		(1,664)		141,638
Mortgage-backed securities **		507,159		5,896		(2,676)		510,379
Corporate stocks		3,161		612		(267)		3,506
	$	793,060	$	9,376	$	(9,312)	$	793,124

* - 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.

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
March 31, 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

March 31, 2014:								
Federal Home Loan Bank stock	$	7,484	$		$		$	7,484
Investment in unconsolidated subsidiaries		3,034						3,034
	$	10,518	$		$		$	10,518

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Note 5 Investment Securities (Continued)

The amortized cost and fair value of debt securities at March 31, 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.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$	$	$ 6,127	$ 6,168
Due after one year through five years	985	1,007	38,286	38,676
Due after five years through ten years	8,674	9,225	221,614	226,097
Due after ten years			528,258	537,455
	$ 9,659	$ 10,232	$ 794,285	$ 808,396

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

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	**$ 58**	**$ 19,933**	**$ 419**	**$ 32,555**
State and municipal obligations	**4**	**1,186**	**161**	**5,593**
Mortgage-backed securities	**29**	**18,299**	**337**	**23,040**
Corporate Stocks			**500**	**1,730**
	$ 91	**$ 39,418**	**$ 1,417**	**$ 62,918**
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
March 31, 2014:				
Securities Held to Maturity				
State and municipal obligations	$ 2	$ 499	$	$
Securities Available for Sale				
Government-sponsored entities debt	$ 4,176	$ 81,116	$ 529	$ 9,409
State and municipal obligations	1,079	62,307	585	14,400
Mortgage-backed securities	2,551	187,215	125	4,288
Corporate stocks	267	1,964		

$	8,073	$	332,602	$	1,239	$	28,097

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Note 5 Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the anticipated outlook for changes in the general level of interest rates. All securities available for sale in an unrealized loss position as of March 31, 2015 continue to perform as scheduled. As part of the Company s evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at March 31, 2015. Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	**March 31, 2015**	**December 31, 2014**	**March 31, 2014**
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 358,108**	$ 364,221	$ 319,441
Commercial non-owner occupied	**364,727**	333,590	285,145
Total commercial non-owner occupied real estate	**722,835**	697,811	604,586
Consumer real estate:			
Consumer owner occupied	**854,283**	786,778	595,652
Home equity loans	**290,488**	283,934	263,057
Total consumer real estate	**1,144,771**	1,070,712	858,709
Commercial owner occupied real estate	**925,192**	907,913	845,728
Commercial and industrial	**407,990**	405,923	333,574
Other income producing property	**154,360**	150,928	158,186
Consumer	**195,451**	189,317	147,710
Other loans	**35,806**	45,222	31,465
Total non-acquired loans	**3,586,405**	3,467,826	2,979,958
Less allowance for loan losses	**(33,538)**	(34,539)	(34,669)
Non-acquired loans, net	**$ 3,552,867**	$ 3,433,287	$ 2,945,289

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following is a summary of acquired non-credit impaired loans accounted for under FASB ASC Topic 310-20, net of related discount:

(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	**$ 19,598**	$ 24,099	$ 39,181
Commercial non-owner occupied	**44,772**	49,476	52,625
Total commercial non-owner occupied real estate	**64,370**	73,575	91,806
Consumer real estate:			
Consumer owner occupied	**612,917**	646,375	732,564
Home equity loans	**221,535**	234,949	256,963
Total consumer real estate	**834,452**	881,324	989,527
Commercial owner occupied real estate	**56,167**	62,065	71,607
Commercial and industrial	**35,592**	41,130	44,183
Other income producing property	**61,415**	65,139	73,753
Consumer	**195,353**	204,766	241,325
Total FASB ASC Topic 310-20 acquired loans	**$ 1,247,349**	$ 1,327,999	$ 1,512,201

In accordance with FASB ASC Topic 310-30, the Company aggregated acquired loans that have common risk characteristics into pools of loan categories as described in the table below. The following is a summary of acquired credit impaired loans accounted for under FASB ASC Topic 310-30 (identified as credit impaired at the time of acquisition), net of related discount:

(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2014
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	**$ 15,477**	$ 15,813	$ 21,479
Commercial real estate	**302,592**	325,109	402,505
Commercial real estate construction and development	**61,456**	65,262	98,060
Residential real estate	**368,633**	390,244	444,115
Consumer	**80,656**	85,449	99,545
Commercial and industrial	**42,343**	44,804	58,973
Single pay	**64**	86	132
Total FASB ASC Topic 310-30 acquired loans	**871,221**	926,767	1,124,809
Less allowance for loan losses	**(4,717)**	(7,365)	(11,046)
FASB ASC Topic 310-30 acquired loans, net	**$ 866,504**	$ 919,402	$ 1,113,763

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Note 6 Loans and Allowance for Loan Losses (Continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of acquired credit impaired loans as of March 31, 2015, December 31, 2014 and March 31, 2014 are as follows:

(Dollars in thousands)		March 31, 2015		December 31, 2014		March 31, 2014
Contractual principal and interest	**$**	**1,173,550**	$	1,337,703	$	1,568,978
Non-accretable difference		**(85,300)**		(104,110)		(212,934)
Cash flows expected to be collected		**1,088,250**		1,233,593		1,356,044
Accretable yield		**(217,029)**		(306,826)		(231,235)
Carrying value	**$**	**871,221**	$	926,767	$	1,124,809
Allowance for acquired loan losses	**$**	**(4,717)**	$	(7,365)	$	(11,046)

Income on acquired credit impaired loans that are not impaired at the acquisition date is recognized in the same manner as loans impaired at the acquisition date. A portion of the fair value discount on acquired non-impaired loans has been ascribed as an accretable difference that is accreted into interest income over the estimated remaining life of the loans. The remaining nonaccretable difference represents cash flows not expected to be collected.

The following are changes in the carrying value of acquired credit impaired loans:

(Dollars in thousands)	Three Months Ended March 31,			
		2015		2014
Balance at beginning of period	**$**	**919,402**	$	1,216,080
Net reductions for payments, foreclosures, and accretion		**(55,546)**		(102,889)
Change in the allowance for loan losses on acquired loans		**2,648**		572
Balance at end of period, net of allowance for loan losses on acquired loans	**$**	**866,504**	$	1,113,763

The table below reflects refined accretable yield balance for acquired credit impaired loans:

(Dollars in thousands)	Three Months Ended March 31,			
		2015		2014
Balance at beginning of period	**$**	**306,826**	$	250,340
Accretion		**(25,692)**		(28,767)
Reclass of nonaccretable difference due to improvement in expected cash flows		**5,948**		10,750
Other changes, net		**(70,053)**		(1,088)
Balance at end of period	**$**	**217,029**	$	231,235

During the recast in the first quarter of 2015, the accretable yield balance declined significantly by $64.1 million. This decline was primarily the result of an increase in the assumed prepayment speed of certain acquired loan pools from the FFHI acquisition. The actual cash flows were faster than what had been previously expected (assumed) and required an adjustment in the assumed prepayment speed used to forecast expected cash flows. The result was a decrease in the accretable yield balance, however, there was no impairment since this only changed the timing of the receipt of future cash on these pools of loans (expect to receive cash sooner).

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Note 6 Loans and Allowance for Loan Losses (Continued)

Our loan loss policy adheres to generally accepted accounting principles in the United States as well as interagency guidance. The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The allowance for loan losses on non-acquired loans consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience for each class of loans and management s evaluation and risk grading of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. Currently, these adjustments are applied to the non-acquired loan portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management s evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Generally, the need for specific reserve is evaluated on impaired loans, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

With the FFHI acquisition, the Company segregated the loan portfolio into performing loans (non-credit impaired) and acquired credit impaired loans. The performing loans and revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non-acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are reclassified from the non-accretable difference to accretable difference and recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Management analyzes the acquired loan pools using various assessments of risk to determine an expected loss. The expected loss is derived based upon a loss given default based upon the collateral type and/or detailed review by loan officers and the probability of default that is determined based upon historical data at the loan level. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses.

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Note 6 Loans and Allowance for Loan Losses (Continued)

An aggregated analysis of the changes in allowance for loan losses is as follows:

(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Three months ended March 31, 2015:				
Balance at beginning of period	**$ 34,539**	**$**	**$ 7,365**	**$ 41,904**
Loans charged-off	**(996)**	**(1,811)**		**(2,807)**
Recoveries of loans previously charged off	**1,050**	**25**		**1,075**
Net charge-offs	**54**	**(1,786)**		**(1,732)**
Provision (benefit) for loan losses	**(1,055)**	**1,786**	**66**	**797**
Benefit attributable to FDIC loss share agreements			**21**	**21**
Total provision for loan losses charged to operations	**(1,055)**	**1,786**	**87**	**818**
Provision for loan losses recorded through the FDIC loss share receivable			**(21)**	**(21)**
Reduction due to loan removals			**(2,714)**	**(2,714)**
Balance at end of period	**$ 33,538**	**$**	**$ 4,717**	**$ 38,255**
Three months ended March 31, 2014:				
Balance at beginning of period	$ 34,331	$	$ 11,618	$ 45,949
Loans charged-off	(1,370)			(1,370)
Recoveries of loans previously charged off	1,038			1,038
Net charge-offs	(332)			(332)
Provision for loan losses	670		304	974
Benefit attributable to FDIC loss share agreements			(125)	(125)
Total provision for loan losses charged to operations	670		179	849
Provision for loan losses recorded through the FDIC loss share receivable			125	125
Reduction due to loan removals			(876)	(876)
Balance at end of period	$ 34,669	**$**	$ 11,046	$ 45,715

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for non-acquired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Three months ended March 31, 2015										
Allowance for loan losses:										
Balance, December 31, 2014	**$ 5,666**	**$ 3,154**	**$ 8,415**	**$ 6,866**	**$ 2,829**	**$ 3,561**	**$ 2,232**	**$ 1,367**	**$ 449**	**$ 34,539**
Charge-offs	**(45)**	**(11)**	**(6)**		**(86)**	**(139)**	**(2)**	**(707)**		**(996)**
Recoveries	**40**	**8**	**7**	**25**	**43**	**599**	**11**	**317**		**1,050**
Provision (benefit)	**(262)**	**(20)**	**(545)**	**150**	**(1)**	**(561)**	**(261)**	**445**		**(1,055)**
Balance, March 31, 2015	**$ 5,399**	**$ 3,131**	**$ 7,871**	**$ 7,041**	**$ 2,785**	**$ 3,460**	**$ 1,980**	**$ 1,422**	**$ 449**	**$ 33,538**
Loans individually evaluated for impairment	**$ 697**	**$ 35**	**$ 70**	**$ 123**	**$ 1**	**$ 16**	**$ 485**	**$ 2**	**$**	**$ 1,429**
Loans collectively evaluated for impairment	**$ 4,702**	**$ 3,096**	**$ 7,801**	**$ 6,918**	**$ 2,784**	**$ 3,444**	**$ 1,495**	**$ 1,420**	**$ 449**	**$ 32,109**
Loans:										
Loans individually evaluated for impairment	**$ 5,407**	**$ 3,765**	**$ 8,297**	**$ 7,093**	**$ 250**	**$ 906**	**$ 4,667**	**$ 63**	**$**	**$ 30,448**
Loans collectively evaluated for impairment	**352,701**	**360,962**	**916,895**	**847,190**	**290,238**	**407,084**	**149,693**	**195,388**	**35,806**	**3,555,957**
Total non-acquired loans	**$ 358,108**	**$ 364,727**	**$ 925,192**	**$ 854,283**	**$ 290,488**	**$ 407,990**	**$ 154,360**	**$ 195,451**	**$ 35,806**	**$ 3,586,405**
Three months ended March 31, 2014										
Allowance for loan losses:										
Balance, December 31, 2013	$ 6,789	$ 3,677	$ 7,767	$ 6,069	$ 2,782	$ 3,592	$ 2,509	$ 937	$ 209	$ 34,331
Charge-offs	(92)	(144)	(216)	(78)	(143)	(60)	(86)	(551)		(1,370)
Recoveries	145	331	6	203	13	90	6	244		1,038
Provision (benefit)	(520)	(421)	760	(72)	269	(181)	419	475	(59)	670
Balance, March 31, 2014	$ 6,322	$ 3,443	$ 8,317	$ 6,122	$ 2,921	$ 3,441	$ 2,848	$ 1,105	$ 150	$ 34,669
Loans individually evaluated for impairment	$ 563	$ 39	$ 106	$ 72	$ 1	$ 21	$ 617	$ 2	$	$ 1,421

Loans collectively evaluated for impairment	$ 5,759	$ 3,404	$ 8,211	$ 6,050	$ 2,920	$ 3,420	$ 2,231	$ 1,103	$ 150	$ 33,248
Loans:										
Loans individually evaluated for impairment	$ 6,150	$ 4,153	$ 12,798	$ 2,550	$ 48	$ 1,536	$ 6,498	$ 89	$	$ 33,822
Loans collectively evaluated for impairment	313,291	280,992	832,930	593,102	263,009	332,038	151,688	147,621	31,465	2,946,136
Total non-acquired loans	$ 319,441	$ 285,145	$ 845,728	$ 595,652	$ 263,057	$ 333,574	$ 158,186	$ 147,710	$ 31,465	$ 2,979,958

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired non-credit impaired loans:

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Three months ended March 31, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$	$	$	$	$	$	$	$	$
Charge-offs				(328)	(1,050)	(103)	(4)	(326)	(1,811)
Recoveries	1			5	3	5	1	10	25
Provision (benefit)	(1)			323	1,047	98	3	316	1,786
Balance, March 31, 2015	$	$	$	$	$	$	$	$	$
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans:									
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment	19,598	44,772	56,167	612,917	221,535	35,592	61,415	195,353	1,247,349
Total non-acquired loans	$ 19,598	$ 44,772	$ 56,167	$ 612,917	$ 221,535	$ 35,592	$ 61,415	$ 195,353	$ 1,247,349

As of March 31, 2014, the Company had not recorded an allowance for loan losses for acquired non-credit impaired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following tables present a disaggregated analysis of activity in the allowance for loan losses and loan balances for acquired credit impaired loans:

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Three months ended March 31, 2015								
Allowance for loan losses:								
Balance, December 31, 2014	$ 135	$ 1,444	$ 336	$ 4,387	$ 275	$ 718	$ 70	$ 7,365
Provision for loan losses before benefit attributable to FDIC loss share agreements		3	9	19	158	(122)	(1)	66
Benefit attributable to FDIC loss share agreements					(107)	127	1	21
Total provision for loan losses charged to operations		3	9	19	51	5		87
Provision for loan losses recorded through the FDIC loss share receivable					107	(127)	(1)	(21)
Reduction due to loan removals	(199)	(898)	55	(1,086)	(189)	(377)	(20)	(2,714)
Balance, March 31, 2015	$ (64)	$ 549	$ 400	$ 3,320	$ 244	$ 219	$ 49	$ 4,717
Loans individually evaluated for impairment	$	$	$	$	$	$	$	$
Loans collectively evaluated for impairment								