

SOUTH STATE Corp
Form 10-Q
August 04, 2016
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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 June 30, 2016

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 July 31, 2016
Common Stock, \$2.50 par value	24,210,496

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South State Corporation and Subsidiary

June 30, 2016 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)

	June 30, 2016 (Unaudited)	December 31, 2015 (Note 1)	June 30, 2015 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 182,875	\$ 178,664	\$ 155,881
Interest-bearing deposits with banks	8,055	218,883	273,273
Federal funds sold and securities purchased under agreements to resell	290,982	298,247	164,228
Total cash and cash equivalents	481,912	695,794	593,382
Investment securities:			
Securities held to maturity (fair value of \$8,231, \$9,723 and \$10,114, respectively)	7,921	9,314	9,659
Securities available for sale, at fair value	989,610	1,009,541	841,661
Other investments	9,529	8,893	9,031
Total investment securities	1,007,060	1,027,748	860,351
Loans held for sale			
Loans:			
Acquired credit impaired (covered of \$0, \$98,459 and \$113,158, respectively; non-covered of \$658,835, \$635,411 and \$710,823, respectively), net of allowance for loan losses	658,835	733,870	823,981
Acquired non-credit impaired (covered of \$0, \$8,047 and \$8,059, respectively; non-covered of \$941,886, \$1,041,491 and \$1,163,613, respectively)	941,886	1,049,538	1,171,672
Non-acquired	4,816,875	4,220,726	3,788,399
Less allowance for non-acquired loan losses	(36,939)	(34,090)	(34,782)
Loans, net	6,380,657	5,970,044	5,749,270
FDIC indemnification asset	—	4,401	11,035
Other real estate owned (covered of \$0, \$5,751 and \$8,172, respectively; non-covered of \$22,427, \$24,803 and \$26,870, respectively)	22,427	30,554	35,042
Premises and equipment, net	177,950	174,537	171,582
Bank owned life insurance	102,815	101,588	100,363
Deferred tax assets	25,915	37,827	45,911

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Mortgage servicing rights	22,350	26,202	25,325
Core deposit and other intangibles	43,629	47,425	45,260
Goodwill	338,340	338,340	317,688
Other assets	72,012	61,239	56,720
Total assets	\$ 8,723,993	\$ 8,557,348	\$ 8,084,984
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	\$ 2,117,246	\$ 1,976,480	\$ 1,844,973
Interest-bearing	5,046,680	5,123,948	4,822,555
Total deposits	7,163,926	7,100,428	6,667,528
Federal funds purchased and securities sold under agreements to repurchase	341,064	288,231	287,903
Other borrowings	55,254	55,158	55,055
Other liabilities	59,406	54,147	50,719
Total liabilities	7,619,650	7,497,964	7,061,205
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; 24,195,226, 24,162,657 and 24,197,531 shares issued and outstanding, respectively	60,488	60,407	60,494
Surplus	703,445	703,929	704,625
Retained earnings	333,900	298,919	260,591
Accumulated other comprehensive income (loss)	6,510	(3,871)	(1,931)
Total shareholders' equity	1,104,343	1,059,384	1,023,779
Total liabilities and shareholders' equity	\$ 8,723,993	\$ 8,557,348	\$ 8,084,984

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		Six Months Ended	
	June 30,	2015	June 30,	2015
	2016		2016	
Interest income:				
Loans, including fees	\$ 77,154	\$ 79,406	\$ 154,408	\$ 158,254
Investment securities:				
Taxable	4,477	3,822	9,270	7,484
Tax-exempt	992	1,072	2,008	2,150
Federal funds sold and securities purchased under agreements to resell	756	464	1,508	875
Total interest income	83,379	84,764	167,194	168,763
Interest expense:				
Deposits	1,368	1,737	2,969	3,740
Federal funds purchased and securities sold under agreements to repurchase	137	105	281	201
Other borrowings	475	646	944	1,497
Total interest expense	1,980	2,488	4,194	5,438
Net interest income	81,399	82,276	163,000	163,325
Provision for loan losses	2,727	3,144	5,286	3,963
Net interest income after provision for loan losses	78,672	79,132	157,714	159,362
Noninterest income:				
Fees on deposit accounts	21,539	17,699	41,663	34,192
Mortgage banking income	5,620	7,089	9,818	13,715
Trust and investment services income	4,911	5,051	9,697	9,985
Securities gains, net	—	—	122	—
Amortization of FDIC indemnification asset, net	(4,427)	(2,042)	(5,901)	(5,249)
Other	4,475	2,285	6,761	3,945
Total noninterest income	32,118	30,082	62,160	56,588
Noninterest expense:				
Salaries and employee benefits	40,537	39,754	81,969	80,741
Net occupancy expense	5,541	5,046	10,900	10,283
Information services expense	5,083	4,382	10,117	8,340
Furniture and equipment expense	3,072	2,762	5,923	5,907
OREO expense and loan related	874	2,019	2,648	5,033
Bankcard expense	3,040	2,285	5,919	4,265
Amortization of intangibles	1,892	1,964	3,795	3,980
Supplies, printing and postage expense	1,757	1,430	3,565	3,042
Professional fees	1,576	1,585	2,906	2,994
FDIC assessment and other regulatory charges	1,017	1,253	2,161	2,437
Advertising and marketing	858	1,009	1,502	1,864

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Branch and conversion related expense	1,573	2,237	2,531	2,237
Other	7,034	5,803	11,947	10,891
Total noninterest expense	73,854	71,529	145,883	142,014
Earnings:				
Income before provision for income taxes	36,936	37,685	73,991	73,936
Provision for income taxes	12,420	12,813	24,981	25,138
Net income	\$ 24,516	\$ 24,872	\$ 49,010	\$ 48,798
Earnings per common share:				
Basic	\$ 1.02	\$ 1.04	\$ 2.04	\$ 2.04
Diluted	\$ 1.01	\$ 1.03	\$ 2.02	\$ 2.02
Dividends per common share	\$ 0.30	\$ 0.24	\$ 0.58	\$ 0.47
Weighted average common shares outstanding:				
Basic	23,995	23,981	23,977	23,947
Diluted	24,237	24,258	24,205	24,214

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$ 24,516	\$ 24,872	\$ 49,010	\$ 48,798
Other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains (losses) arising during period	4,631	(8,226)	16,551	(2,953)
Tax effect	(1,766)	3,100	(6,311)	1,090
Reclassification adjustment for gains included in net income	—	—	(122)	—
Tax effect	—	—	46	—
Net of tax amount	2,865	(5,126)	10,164	(1,863)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	(46)	29	(198)	(92)
Tax effect	18	(11)	75	35
Reclassification adjustment for losses included in interest expense	68	64	142	140
Tax effect	(26)	(24)	(54)	(53)
Net of tax amount	14	58	(35)	30
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	204	225	408	450
Tax effect	(78)	(86)	(156)	(171)
Net of tax amount	126	139	252	279
Other comprehensive income (loss), net of tax	3,005	(4,929)	10,381	(1,554)
Comprehensive income	\$ 27,521	\$ 19,943	\$ 59,391	\$ 47,244

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)

Six months ended June 30, 2016 and 2015

(Dollars in thousands, except for share data)

	Preferred Stock Shares	Common Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	—	\$ —	24,150,702	\$ 60,377	\$ 701,764	\$ 223,156	\$ (377)	\$ 984,920
Comprehensive income:								
Net income	—	—	—	—	—	48,798	—	48,798
Other comprehensive loss, net of tax effects	—	—	—	—	—	—	(1,554)	(1,554)
Total comprehensive income								47,244
Cash dividends declared on common stock at \$0.47 per share	—	—	—	—	—	(11,363)	—	(11,363)
Employee stock purchases	—	—	3,366	8	199	—	—	207
Stock options exercised	—	—	30,060	76	863	—	—	939
Restricted stock awards	—	—	30,605	76	(76)	—	—	—
Common stock repurchased	—	—	(17,202)	(43)	(1,032)	—	—	(1,075)
Share-based compensation expense	—	—	—	—	2,907	—	—	2,907
Balance, June 30, 2015	—	—	24,197,531	60,494	704,625	260,591	(1,931)	1,023,779
Balance, December 31,	—	—	24,162,657	60,407	703,929	298,919	(3,871)	1,059,384

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2015								
Comprehensive income:								
Net income	—	—	—	—	—	49,010	—	49,010
Other comprehensive income, net of tax effects	—	—	—	—	—	—	10,381	10,381
Total comprehensive income								59,391
Cash dividends declared at \$0.58 per share	—	—	—	—	—	(14,029)	—	(14,029)
Employee stock purchases			3,729	9	218			227
Stock options exercised	—	—	24,073	60	748	—	—	808
Restricted stock awards	—	—	39,556	99	(99)	—	—	—
Stock issued pursuant to restricted stock units	—	—	35,903	90	(90)	—	—	—
Common stock repurchased - buyback plan			(32,900)	(82)	(2,048)			(2,130)
Common stock repurchased	—	—	(37,792)	(95)	(2,377)	—	—	(2,472)
Share-based compensation expense	—	—	—	—	3,164	—	—	3,164
Balance, June 30, 2016	—	\$ —	24,195,226	\$ 60,488	\$ 703,445	\$ 333,900	\$ 6,510	\$ 1,104,343

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)

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 49,010	\$ 48,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,565	10,531
Provision for loan losses	5,286	3,963
Deferred income taxes	5,515	(2,320)
Gain on sale of securities, net	(122)	—
Share-based compensation expense	3,164	2,907
Amortization of FDIC indemnification asset	3,566	5,249
Accretion of discount related to performing acquired loans	(2,795)	(3,211)
(Gain) Loss on disposals of premises and equipment	(33)	301
Gain on sale of OREO	(1,483)	(766)
Net amortization of premiums on investment securities	2,707	2,210
OREO write downs	2,943	4,314
Fair value adjustment for loans held for sale	(665)	(189)
Originations and purchases of mortgage loans for sale	(328,899)	(506,532)
Proceeds from mortgage loans sales	322,286	495,506
Net change in:		
Accrued interest receivable	(1,108)	(277)
Prepaid assets	(1,248)	(972)
FDIC indemnification asset	3,177	5,877
Miscellaneous other assets	(7,797)	(666)
Accrued interest payable	(541)	(1,822)
Accrued income taxes	3,187	12,861
Miscellaneous other liabilities	6,138	(4,231)
Net cash provided by operating activities	72,853	71,531
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	137	—
Proceeds from maturities and calls of investment securities held to maturity	1,395	—
Proceeds from maturities and calls of investment securities available for sale	234,765	96,497
Proceeds from calls of other investment securities	—	1,392
Proceeds from sales of other investment securities	24	95
Purchases of investment securities available for sale	(201,130)	(136,554)
Purchases of other investment securities	(660)	—
Net increase in loans	(421,134)	(83,652)
Payment to terminate FDIC Loss Share Agreements	(2,342)	—
Recoveries of loans previously charged off	1,646	1,598

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Purchases of premises and equipment	(12,381)	(7,431)
Proceeds from sale of OREO	14,209	16,855
Proceeds from sale of premises and equipment	—	25
Net cash used in investing activities	(385,471)	(111,175)
Cash flows from financing activities:		
Net increase in deposits	63,510	206,483
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	52,833	66,361
Repayment of other borrowings	(11)	(46,395)
Common stock issuance	227	207
Common stock repurchase	(4,602)	(1,075)
Dividends paid on common stock	(14,029)	(11,363)
Stock options exercised	808	939
Net cash provided by financing activities	98,736	215,157
Net increase (decrease) in cash and cash equivalents	(213,882)	175,513
Cash and cash equivalents at beginning of period	695,794	417,869
Cash and cash equivalents at end of period	\$ 481,912	\$ 593,382
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	\$ 4,735	\$ 7,259
Income taxes	\$ 16,676	\$ 14,410
Schedule of Noncash Investing Transactions:		
Real estate acquired in full or in partial settlement of loans (covered of \$0 and \$3,554, respectively; and non-covered of \$7,542 and \$9,165, respectively)	\$ 7,542	\$ 12,719

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 six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The condensed consolidated balance sheet at December 31, 2015 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, 2015, as filed with the Securities and Exchange Commission (the “SEC”) on February 24, 2016, 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.

Note 3 — Recent Accounting and Regulatory Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: (“ASU 2016-13”). ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently assessing the impact of the new guidance on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share –Based Payment Accounting; (“ASU 2016-09”). ASU 2016-09 introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, ASU 2016-09 requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” For public business entities, ASU 2016-09 is effective for interim and annual periods beginning after

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December 15, 2016. The Company is currently evaluating the provisions of ASU 2016-09 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent considerations (Reporting Revenue Gross versus Net); ("ASU 2016-08"). ASU 2016-08 updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) Clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. For public business entities, the effective date and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2014-09 which is effective for interim and annual periods beginning after December 15, 2017. 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 2016-08 in connection with the provisions of ASU 2014-09 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting; ("ASU 2016-07"). ASU 2016-07 requires an investor to initially apply the equity method of accounting from the date it qualifies for that method, i.e., the date the investor obtains significant influence over the operating and financial policies of an investee. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. For public business entities, the amendments in ASU 2016-05 are effective for interim and annual periods beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Company is currently evaluating the provisions of ASU 2016-07 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05"). ASU 2016-05 requires an entity to discontinue a designated hedging relationship in certain circumstances, including termination of the derivative hedging instrument or if the entity wishes to change any of the critical terms of the hedging relationship. ASU 2016-05 amends Topic 815 to clarify that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. For public business entities, the amendments in ASU 2016-05 are effective for interim and annual periods beginning after December 15, 2016. An entity has an option to apply the amendments in ASU 2016-05 on either a prospective basis or a modified retrospective basis. The Company has determined that this guidance will

not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. For public business entities, the amendments in ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach which includes a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the provisions of ASU 2016-02 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10); Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). This update is intended to improve the recognition and measurement of financial instruments and it requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 also provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes and requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public business entities, the amendments in ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the ASU 2016-01. The Company is currently evaluating the provisions of ASU 2016-01 to determine the potential impact the new standard will have to the Company’s consolidated financial statements.

In September 2015, the FASB issued 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 became effective for interim and annual periods beginning after December 15, 2015, and is to be applied prospectively. ASU 2015-16 became effective for the Company on January 1, 2016 and did not have a significant 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. ASU 2015-03 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company’s consolidated financial statements.

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: (i) modify the evaluation of whether limited

partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (ii) eliminate the presumption that a general partner should consolidate a limited partnership; (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (iv) 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 became effective for interim and annual reporting periods beginning after December 15, 2015. ASU 2015-02 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company’s consolidated financial statements.

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. ASU 2014-16

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became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated 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 (i) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (ii) 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. ASU 2014-12 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated 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.

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.

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
- 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

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loans associated with such branches, from the seller at an agreed upon price. We refer to the loans acquired by the Bank upon the completion of mergers and acquisitions as “acquired loans.”

Southeastern Bank Financial Corporation Proposed Acquisition

On June 16, 2016, South State Corporation, (“SSB”) entered into an Agreement and Plan of Merger with Southeastern Bank Financial Corporation, a Georgia corporation (“SBFC”), and a bank holding company headquartered in Augusta, Georgia. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, SBFC will merge with and into SSB, with SSB as the surviving corporation in the Merger. Immediately following the Merger, SBFC's wholly owned bank subsidiary, Georgia Bank & Trust Company of Augusta (“Georgia Bank & Trust”), will merge with and into the Bank, with the Bank as the surviving entity in the bank merger. At June 30, 2016, SBFC reported \$1.9 billion in total assets, \$1.0 billion in loans and \$1.6 billion in deposits. Georgia Bank & Trust has nine full service branches in Augusta, Georgia, three full service branches in Aiken, South Carolina that serve individuals and businesses and a limited service loan production office in Athens, Georgia.

Under the terms of the merger agreement, SBFC common shareholders will receive aggregate consideration of approximately 4,929,958 shares of SSB common stock. The common stock consideration is based upon a fixed exchange ratio of 0.7307 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

The transaction is subject to regulatory approvals, the affirmative vote of both SSB’s and SBFC’s shareholders, and other customary closing conditions. The transaction is expected to close during the first quarter of 2017.

Branch Acquisition

On August 21, 2015, the Bank completed its acquisition 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.

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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 by BOA	Fair Value Adjustments	As Recorded by the Company
Assets			
Cash and cash equivalents	\$ 428,567	\$ —	\$ 428,567
Loans	3,445	(295) (a)	3,150
Premises and equipment	6,267	(2,138) (b)	4,129
Intangible assets	—	6,800 (c)	6,800
Other assets	66	—	66
Total assets	\$ 438,345	\$ 4,367	\$ 442,712
Liabilities			
Deposits:			
Noninterest-bearing	\$ 97,440	\$ —	\$ 97,440
Interest-bearing	340,849	—	340,849
Total deposits	438,289	—	438,289
Other liabilities	56	—	56
Total liabilities	438,345	—	438,345
Net identifiable assets acquired over (under) liabilities assumed	—	4,367	4,367
Goodwill	—	20,652	20,652
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.

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
June 30, 2016:				
State and municipal obligations	\$ 7,921	\$ 310	\$ —	\$ 8,231
December 31, 2015:				
State and municipal obligations	\$ 9,314	\$ 409	\$ —	\$ 9,723
June 30, 2015:				
State and municipal obligations	\$ 9,659	\$ 455	\$ —	\$ 10,114

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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
June 30, 2016:				
Government-sponsored entities debt*	\$ 102,985	\$ 107	\$ —	\$ 103,092
State and municipal obligations	118,400	5,498	(4)	123,894
Mortgage-backed securities**	743,956	14,956	(31)	758,881
Corporate stocks	3,658	356	(271)	3,743
	\$ 968,999	\$ 20,917	\$ (306)	\$ 989,610
December 31, 2015:				
Government-sponsored entities debt*	\$			