

SOUTH STATE Corp  
Form 10-Q  
November 02, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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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Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding as of October 31, 2018
Common Stock, \$2.50 par value	36,527,104

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South State Corporation and Subsidiary

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## South State Corporation and Subsidiary

## Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	September 30, 2018 (Unaudited)	December 31, 2017	September 30, 2017 (Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents:			
Cash and due from banks	\$ 234,011	\$ 255,775	\$ 197,984
Interest-bearing deposits with banks	25,950	117,635	137,543
Federal funds sold and securities purchased under agreements to resell	47,348	4,217	68,407
Total cash and cash equivalents	307,309	377,627	403,934
Investment securities:			
Securities held to maturity (fair value of \$500, \$2,556 and \$3,732, respectively)	500	2,529	3,678
Securities available for sale, at fair value	1,551,281	1,648,193	1,319,454
Other investments	19,229	23,047	13,664
Total investment securities	1,571,010	1,673,769	1,336,796
Loans held for sale	33,752	70,890	46,321
Loans:			
Acquired credit impaired, net of allowance for loan losses	512,633	618,803	578,863
Acquired non-credit impaired	2,786,102	3,507,907	1,455,555
Non-acquired	7,606,478	6,492,155	6,230,327
Less allowance for non-acquired loan losses	(49,869)	(43,448)	(41,541)
Loans, net	10,855,344	10,575,417	8,223,204
Other real estate owned	12,119	11,203	13,527
Premises and equipment, net	241,909	255,565	198,146
Bank owned life insurance	229,075	225,132	151,402
Deferred tax assets	47,943	45,902	41,664
Mortgage servicing rights	36,056	31,119	29,937
Core deposit and other intangibles	66,437	73,789	50,472
Goodwill	1,002,900	999,586	597,236
Other assets	118,361	126,590	76,471
Total assets	\$ 14,522,215	\$ 14,466,589	\$ 11,169,110
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			

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Noninterest-bearing	\$ 3,157,478	\$ 3,047,432	\$ 2,505,570
Interest-bearing	8,456,397	8,485,334	6,556,451
Total deposits	11,613,875	11,532,766	9,062,021
Federal funds purchased and securities sold under agreements to repurchase	279,698	286,857	291,099
Other borrowings	115,919	216,385	83,307
Other liabilities	144,584	121,661	99,858
Total liabilities	12,154,076	12,157,669	9,536,285
Shareholders' equity:			
Common stock - \$2.50 par value; authorized 80,000,000; 80,000,000 and 40,000,000 shares, respectively; 36,723,238; 36,759,656 and 29,267,369 shares issued and outstanding, respectively	91,808	91,899	73,168
Surplus	1,805,685	1,807,601	1,136,352
Retained earnings	515,155	419,847	427,093
Accumulated other comprehensive loss	(44,509)	(10,427)	(3,788)
Total shareholders' equity	2,368,139	2,308,920	1,632,825
Total liabilities and shareholders' equity	\$ 14,522,215	\$ 14,466,589	\$ 11,169,110

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$ 132,043	\$ 95,864	\$ 388,936	\$ 281,216
Investment securities:				
Taxable	8,890	6,646	26,726	20,897
Tax-exempt	1,521	1,320	4,695	4,147
Federal funds sold and securities purchased under agreements to resell	1,106	581	2,983	1,916
Total interest income	143,560	104,411	423,340	308,176
Interest expense:				
Deposits	13,220	2,974	30,142	8,132
Federal funds purchased and securities sold under agreements to repurchase	599	276	1,696	756
Other borrowings	1,452	842	4,678	2,576
Total interest expense	15,271	4,092	36,516	11,464
Net interest income	128,289	100,319	386,824	296,712
Provision for loan losses	3,117	2,062	10,049	8,082
Net interest income after provision for loan losses	125,172	98,257	376,775	288,630
Noninterest income:				
Fees on deposit accounts	17,790	20,144	62,945	59,541
Mortgage banking income	2,824	3,446	11,089	14,210
Trust and investment services income	7,527	6,310	22,608	18,703
Securities gains (losses), net	(11)	1,278	(652)	1,388
Other-than-temporary impairment losses	—	(753)	—	(753)
Recoveries on acquired loans	1,238	1,944	6,379	5,647
Other	2,659	1,367	7,738	4,532
Total noninterest income	32,027	33,736	110,107	103,268
Noninterest expense:				
Salaries and employee benefits	57,934	47,245	175,425	143,711
Net occupancy expense	7,630	6,214	23,611	18,650
Information services expense	7,804	6,003	26,445	18,776
Furniture and equipment expense	4,605	3,751	13,750	11,422
OREO expense and loan related	(19)	1,753	2,679	5,648
Bankcard expense	379	444	1,381	1,623
Amortization of intangibles	3,537	2,494	10,672	7,496
Supplies, printing and postage expense	1,561	1,491	4,359	4,715
Professional fees	2,138	1,265	5,735	4,637
FDIC assessment and other regulatory charges	2,525	918	7,065	3,029



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Advertising and marketing	1,049	852	2,948	2,400
Merger and branch consolidation related expense	4,476	1,551	29,868	26,882
Other	6,675	5,289	20,325	17,066
Total noninterest expense	100,294	79,270	324,263	266,055
Earnings:				
Income before provision for income taxes	56,905	52,723	162,619	125,843
Provision for income taxes	9,823	17,677	32,752	40,710
Net income	\$ 47,082	\$ 35,046	\$ 129,867	\$ 85,133
Earnings per common share:				
Basic	\$ 1.28	\$ 1.20	\$ 3.53	\$ 2.92
Diluted	\$ 1.28	\$ 1.19	\$ 3.52	\$ 2.90
Dividends per common share	\$ 0.35	\$ 0.33	\$ 1.02	\$ 0.99
Weighted average common shares outstanding:				
Basic	36,645	29,115	36,657	29,023
Diluted	36,893	29,385	36,909	29,291

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 47,082	\$ 35,046	\$ 129,867	\$ 85,133
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	(11,056)	130	(41,354)	7,049
Tax effect	2,432	(50)	9,130	(2,687)
Reclassification adjustment for (gains) losses and OTTI included in net income	11	(525)	652	(635)
Tax effect	(2)	200	(144)	242
Net of tax amount	(8,615)	(245)	(31,716)	3,969
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	(1)	4	43	(56)
Tax effect	—	(1)	(9)	21
Reclassification adjustment for losses included in interest expense	35	57	121	226
Tax effect	(8)	(22)	(27)	(86)
Net of tax amount	26	38	128	105
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	194	188	581	564
Tax effect	(43)	(72)	(128)	(215)
Net of tax amount	151	116	453	349
Other comprehensive gain (loss), net of tax	(8,438)	(91)	(31,135)	4,423
Comprehensive income	\$ 38,644	\$ 34,955	\$ 98,732	\$ 89,556

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



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South State Corporation and Subsidiary

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

Nine months ended September 30, 2018 and 2017

(Dollars in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	24,230,392	\$ 60,576	\$ 711,307	\$ 370,916	\$ (8,211)	\$ 1,134,588
Comprehensive income	—	—	—	85,133	4,423	89,556
Cash dividends declared on common stock at \$0.99 per share	—	—	—	(28,956)	—	(28,956)
Common stock issued for Southeastern Bank Financial Corp. acquisition	4,978,338	12,446	422,163	—	—	434,609
Employee stock purchases	6,742	17	536	—	—	553
Stock options exercised	33,896	84	1,050	—	—	1,134
Restricted stock awards	20,683	51	(51)	—	—	—
Stock issued pursuant to restricted stock units	37,802	95	(95)	—	—	—
Common stock repurchased	(40,484)	(101)	(3,525)	—	—	(3,626)
Share-based compensation expense	—	—	4,967	—	—	4,967

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Balance, September 30, 2017	29,267,369	\$ 73,168	\$ 1,136,352	\$ 427,093	\$ (3,788)	\$ 1,632,825
Balance, December 31, 2017	36,759,656	\$ 91,899	\$ 1,807,601	\$ 419,847	\$ (10,427)	\$ 2,308,920
Comprehensive income	—	—	—	129,867	(31,135)	98,732
Cash dividends declared on common stock at \$1.02 per share	—	—	—	(37,506)	—	(37,506)
AOCI reclassification to retained earnings from adoption of ASU 2018-02	—	—	—	2,947	(2,947)	—
Employee stock purchases	8,783	22	687	—	—	709
Stock options exercised	33,424	83	948	—	—	1,031
Restricted stock awards	4,586	12	(12)	—	—	—
Common stock repurchased - buyback plan	(100,000)	(250)	(8,094)	—	—	(8,344)
Common stock repurchased	(22,752)	(57)	(1,959)	—	—	(2,016)
Stock issued pursuant to restricted stock units	39,541	99	(99)	—	—	—
Share-based compensation expense	—	—	6,613	—	—	6,613
Balance, September 30, 2018	36,723,238	\$ 91,808	\$ 1,805,685	\$ 515,155	\$ (44,509)	\$ 2,368,139

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 129,867	\$ 85,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,864	21,030
Provision for loan losses	10,049	8,082
Deferred income taxes	9,897	3,144
Revision of provisional amount related to the revaluation of deferred taxes from the Tax Reform Act	(991)	—
Other-than-temporary impairment on securities	—	753
(Gain) loss on sale of securities, net	652	(1,388)
Share-based compensation expense	6,613	4,967
Accretion of discount related to performing acquired loans	(23,993)	(9,779)
Loss on disposal of premises and equipment	1,304	171
Gain on sale of OREO	(1,570)	(2)
Net amortization of premiums on investment securities	5,696	5,068
OREO write downs	1,185	2,220
Fair value adjustment for loans held for sale	(699)	867
Originations and purchases of loans held for sale	(491,694)	(558,459)
Proceeds from sales of loans	529,528	575,495
Net change in:		
Accrued interest receivable	(2,081)	(475)
Prepaid assets	1,833	1,865
Miscellaneous other assets	(1,706)	(5,844)
Accrued interest payable	1,490	(160)
Accrued income taxes	649	10,763
Miscellaneous other liabilities	20,890	4,482
Net cash provided by operating activities	223,783	147,933
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	67,853	265,965
Proceeds from maturities and calls of investment securities held to maturity	2,030	2,420
Proceeds from maturities and calls of investment securities available for sale	173,531	182,299
Proceeds from sales of other investment securities	15,938	3,444
Purchases of investment securities available for sale	(191,305)	(183,581)
Purchases of other investment securities	(12,119)	(303)
Net increase in loans	(283,331)	(533,647)
Net cash received from acquisitions	—	70,188
Recoveries of loans previously charged off	2,686	2,455

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Purchases of premises and equipment	(9,504)	(9,095)
Proceeds from sale of OREO	11,655	11,331
Proceeds from sale of premises and equipment	33	15
Net cash used in investing activities	(222,533)	(188,509)
Cash flows from financing activities:		
Net increase in deposits	81,721	206,678
Net decrease in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	(7,159)	(23,688)
Proceeds from FHLB advances	325,001	—
Repayment of other borrowings	(425,005)	(82,033)
Common stock issuance	709	553
Common stock repurchase	(10,360)	(3,626)
Dividends paid on common stock	(37,506)	(28,956)
Stock options exercised	1,031	1,134
Net cash (used in) provided by financing activities	(71,568)	70,062
Net increase (decrease) in cash and cash equivalents	(70,318)	29,486
Cash and cash equivalents at beginning of period	377,627	374,448
Cash and cash equivalents at end of period	\$ 307,309	\$ 403,934
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	\$ 35,026	\$ 11,625
Income taxes	\$ 23,981	\$ 25,534
Schedule of Noncash Investing Transactions:		
Acquisitions:		
Fair value of tangible assets acquired	\$ (7,246)	\$ 1,817,877
Other intangible assets acquired	3,321	18,120
Liabilities assumed	(612)	1,659,177
Net identifiable assets acquired over liabilities assumed	(3,313)	176,820
Common stock issued in acquisition	—	434,625
Real estate acquired in full or in partial settlement of loans	\$ 11,976	\$ 8,375

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 of America (“GAAP”) 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 for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The condensed consolidated balance sheet at December 31, 2017 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 South State Corporation’s (“SSB’s”) Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on February 23, 2018, 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 subsidiary. References to the “Bank” means South State Corporation’s wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

Revenue from Contracts with Customers (Topic 606) and Method of Adoption



On January 1, 2018, we adopted the requirements of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASU Topic 606”). The majority of our revenue is derived primarily from interest income from receivables (loans) and securities. Other revenues are derived from fees received in connection with deposit accounts, mortgage banking activities including gains from the sale of loans and loan origination fees, and trust and investment advisory services. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted ASU Topic 606 using the retrospective transition approach which requires restatement of prior periods. We selected this method even though there were no material changes in the timing of revenue recognition due to the fact that ASU Topic 606 requires us to report network costs associated with debit card and ATM transactions netted against the related fees from such transactions. Previously, such network costs were reported as a component of other noninterest expense. We did restate prior periods for this reclassification. For the three and nine months ended September 30, 2018, gross interchange and debit card transaction fees totaled \$5.5 million and \$27.2 million, respectively while related network costs totaled \$3.2 million and \$9.1 million, respectively. On a net basis we reported \$2.3 million and \$18.1 million, respectively, as interchange and debit card transactions fees in the accompanying Consolidated Statements of Income as noninterest income for the three and nine months ended September 30, 2018. We also made this reclassification for the comparable periods in 2017. For the three and nine months ended September 30, 2017, gross interchange and debit card transaction fees totaled \$8.7 million and \$26.4 million, respectively while related network costs totaled \$2.3 million and \$6.8 million, respectively. On a net basis we reported \$6.4 million and \$19.6 million, respectively, as net interchange and debit card transactions fees as noninterest income for the three and nine months ended September 30, 2017. This adoption method is considered a change in accounting principle requiring additional disclosure of the nature of and reason for the change, which is solely a result of the adoption of the required standard. When applying the retrospective approach under ASU Topic 606, the Company has elected, as a practical expedient, to apply the revenue standard only to contracts that are not completed as of January 1,

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2018. A completed contract is considered to be a contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that was in effect before January 1, 2018. There were no uncompleted contracts as of January 1, 2018 for which application of the new standard required an adjustment to retained earnings.

The following disclosures related to ASU Topic 606 involve income derived from contracts with customers. Within the scope of ASU Topic 606, we maintain contracts to provide services, primarily for investment advisory and/or custody of assets. Through our wholly owned subsidiaries, the Bank, South State Advisory, Inc. and Minis & Co., Inc., we contract with our customers to perform IRA, Trust, and/or Custody and Agency advisory services. Total revenue recognized from these contracts with customers was \$7.5 million and \$22.6 million, respectively, for the three and nine months ended September 30, 2018. The Bank contracts with our customers to perform deposit account services. Total revenue recognized from these contracts with customers is \$18.0 million and \$63.7 million, respectively, for the three and nine months ended September 30, 2018. Due to the nature of our relationship with the customers that we provide services, we do not incur costs to obtain contracts and there are no material incremental costs to fulfill these contracts that should be capitalized.

Disaggregation of Revenue - Our portfolio of services provided to our customers consists of approximately 806,000 active contracts. We have disaggregated revenue according to timing of the transfer of service. Total revenue derived from contracts in which services are transferred at a point in time was \$24.5 million and \$85.2 million, respectively, for the three and nine months ended September 30, 2018. Total revenue derived from contracts in which services are transferred over time was \$4.7 million and \$14.5 million, respectively, for the three and nine months ended September 30, 2018. Revenue is recognized as the services are provided to the customers. Economic factors impacting the customers could affect the nature, amount, and timing of these cash flows, as unfavorable economic conditions could impair the customers' ability to provide payment for services. This risk is mitigated as we generally deduct payments from customers' accounts as services are rendered.

Contract Balances - The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on our balance sheet. Most contracts call for payment by a charge or deduction to the respective customer account but there are some that require a receipt of payment from the customer. For fee per transaction contracts, the customers are billed as the transactions are processed. For hourly rate and monthly service contracts related to trust and some investment revenues, the customers are billed monthly (generally as a percentage basis point of the market value of the investment account). In some cases, specific to Minis & Co., Inc. and South State Advisory, Inc., customers are billed in advance for quarterly services to be performed based on the past quarter's average account balance. These do create contract liabilities or deferred revenue, as the customers pay in advance for service. Neither the contract liabilities nor the accounts receivables balances are material to the Company's balance sheet.

Performance Obligations - A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASU Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The performance obligations for these contracts are satisfied as the service is provided to the customer (either over time or at a point in time). The payment terms of the contracts are typically based on a basis point percentage of the

investment account market value, fee per hour of service, or fee for service incurred. There are no significant financing components in the contracts. Excluding deposit services revenues which are mostly billed at a point in time as a fee for services incurred, all other contracts within the scope of ASU Topic 606 contain variable consideration in that fees earned are derived from market values of accounts or from hours worked for services performed which determines the amount of consideration to which we are entitled. The variability is resolved when the hours are incurred or services are provided. The contracts do not include obligations for returns, refunds, or warranties. The contracts are specific to the amounts owed to the Company for services performed during a period should the contracts be terminated.

Significant Judgments - All of the contracts create performance obligations that are satisfied at a point in time excluding the contracts billed in advance through Minis& Co., Inc. and South State Advisory, Inc. and some immaterial deposit revenues. Revenue is recognized as services are billed to the customers. Variable consideration does exist for contracts related to our trust and investment services as revenues are based on market values and services performed. We have adopted the right-to-invoice practical expedient for trust management contracts through South State Bank which we contract with our customers to perform IRA, Trust, and/or Custody services.

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Note 3 — Recent Accounting and Regulatory Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Subtopic 350-40) (“ASU 2018-15”). The ASU clarifies certain aspects of ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which was issued in April 2015. Specifically, ASU 2018-15 “align[s] the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).” This ASU does not affect the accounting for the service element of a hosting arrangement that is a service contract. An entity would expense the capitalized implementation costs related to a hosting arrangement that is a service contract over the hosting arrangement’s term, which comprises the arrangement’s noncancelable term and any renewal options whose exercise is reasonably certain. The expense would be presented in the same line item in the statement of income as that in which the fee associated with the hosting arrangement is presented. For public business entities, the amendments in ASU 2018-15 are effective for interim and annual periods beginning after December 15, 2019 and an entity has the option of using either a retrospective or prospective transition method. Early adoption is permitted. At this point in time, the Company does not expect that this guidance will have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plan (Subtopic 715-20) (“ASU 2018-14”). ASU 2018-14 amends Accounting Standards Codification (“ASC”) 715-20 to add, remove, and clarify disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public business entities, ASU 2018-14 is effective for fiscal years ending after December 15, 2020 and requires entities to apply the amendment on a retrospective basis. Early adoption is permitted. At this point in time, the Company does not expect that this guidance will have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) (“ASU 2018-13”). ASU 2018-13 removes, modifies, and adds certain disclosure requirements in ASC 820 related to Fair Value Measurement on the basis of the concepts in the FASB Concepts Statement Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted upon issuance of this ASU, including in any interim period for which financial statements have not yet been issued or made available for issuance. Entities making this election are permitted to early adopt the eliminated or modified disclosure requirements and delay the adoption of all the new disclosure requirements until their effective date. The ASU requires application of the prospective method of transition (for only the most recent interim or annual period presented in the initial fiscal year of adoption) to the new disclosure requirement additions. The ASU also requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments made by the ASU must be applied retrospectively to all periods presented. The Company is still assessing the impact of this new guidance, but does not believe it will have a material impact on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements - Leases (Topic 842) (“ASU 2018-11”). ASU 2018-11 updates the new lease standard (Leases (Topic 842) (“ASU 2016-02”)) by providing another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date instead of at the beginning of the earliest period presented in the financial statements as required in the original pronouncement. ASU 2018-11 also provides updated guidance for lessors related to separating lease and

nonlease components in a contract and allocating the consideration in the contract to the separate components. For public business entities, the amendments in ASU 2016-02 and ASU 2018-11 are effective for interim and annual periods beginning after December 15, 2018. In transition, lessees and lessors have the choice to recognize and measure leases at the beginning of the earliest period presented in financials using a modified retrospective approach or to allow the entity to recognize and measure leases as of the adoption date and not in comparative periods. The guidance includes a number of optional practical expedients that entities may elect to apply. The Company has reviewed its outstanding lease agreements and has centrally documented the terms of its leases. The Company is still evaluating the provisions of ASU 2016-02 and ASU 2018-11 in relation to its outstanding leases to determine the potential impact the new standard will have to the Company's consolidated financial statements. Based on the Company's current evaluation, the Company estimates that it would have recorded a right to use asset and a lease liability of approximately \$76 million if the standard was effective at September 30, 2018.

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In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10) (“ASU 2018-03”). ASU 2018-03 updates the new financial instruments standard by clarifying issues that arose from ASU 2016-01, but does not change the core principle of the new standard. The issues addressed in this ASU include: (1) Equity securities without a readily determinable fair value-discontinuation, (2) Equity securities without a readily determinable fair value-adjustments, (3) Forward contracts and purchased options, (4) Presentation requirements for certain fair value option liabilities, (5) Fair value option liabilities denominated in a foreign currency, (6) Transition guidance for equity securities without a readily determinable fair value, and (7) Transition and open effective date information. For public business entities, the amendments in ASU 2018-03 and 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 ASU 2018-03 and ASU 2016-01. This guidance became effective on January 1, 2018 and the Company determined that the implementation of this standard did not have a material impact to the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). ASU 2018-02 amends ASC Topic 220 and allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”). Consequently, this amendment eliminates the stranded tax effects resulting from the Tax Reform Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Reform Act, the underlying guidance that requires that the effects of the change in tax laws or rates be included in income from continuing operations is not affected. The guidance is effective for public companies for annual periods beginning on or after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. This amendment should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in U.S. federal corporate income tax rate in the Tax Reform Act is recognized. The Company early adopted this amendment in the first quarter of 2018 and reclassified \$2.9 million from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Reform Act.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). ASU 2017-12 amends ASC Topic 815 to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments will improve the transparency of information about an entity’s risk management activities and simplify the application of hedge accounting. The guidance is effective for public companies for annual periods beginning on or after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. The Company is still assessing the impact of this new guidance, but does not believe it will have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 provides clarity by offering guidance on the scope of modification accounting for share-based payment awards and gives direction on which changes to the terms or conditions of these awards require an entity to apply modification accounting. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or a

liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for all companies for annual periods beginning on or after December 15, 2017. Early adoption is permitted. The Company adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Cost (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities; ("ASU 2017-08"). ASU 2017-08 shortens the amortization period of the premium for certain callable debt securities, from the contractual maturity date to the earliest call date. The amendments do not require an accounting change for securities held at a discount; an entity

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will continue to amortize to the contractual maturity date the discount related to callable debt securities. The amendments apply to the amortization of premiums on callable debt securities with explicit, noncontingent call features that are callable at fixed prices on preset dates. For public business entities, ASU 2017-08 is effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For entities other than public business entities, the amendments are effective in fiscal years beginning after December 15, 2019 and in interim periods in fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including in an interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are adopted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 applies to any employer that sponsors a defined benefit pension plan, other postretirement benefit plan, or other types of benefits accounted for under Topic 715. The amendments require that an employer disaggregate the service cost component from the other components of net benefit cost, as follows (1) service cost must be presented in the same line item(s) as other employee compensation costs, which costs are generally included within income from continuing operations, but in some cases may be eligible for capitalization, (2) all other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented, and (3) the amendments permit capitalizing only the service cost component of net benefit cost, assuming such costs meet the criteria required for capitalization by other GAAP, rather than total net benefit cost which has been permitted under prior GAAP. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. The amendments should be adopted prospectively and allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior periods to apply the retrospective presentation requirements. The Company adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangible-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under ASC Topic 350 and eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those years. The amendments should be adopted prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. At this point in time, the Company does not expect that this guidance will have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). These amendments are intended to clarify the definition of a business to assist companies and other reporting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC Topic 606. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company adopted this



standard in the first quarter of 2018 and determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20"). ASU 2016-20 updates the new revenue standard by clarifying issues that arose from ASU 2014-09, but does not change the core principle of the new standard. The issues addressed in this ASU include: (1) Loan guarantee fees, (2) Impairment testing of contract costs, (3) Interaction of impairment testing with guidance in other topics, (4) Provisions for losses on construction-type and production-type contracts, (5) Scope of topic 606, (6) Disclosure of remaining performance obligations, (7) Disclosure of prior-period performance obligations, (8) Contract modifications, (9) Contract asset vs. receivable, (10) Refund liability, (11)

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Advertising costs, (12) Fixed-odds wagering contracts in the casino industry, (13) Cost capitalization for advisors to private funds and public funds. The updated guidance is effective for interim and annual reporting 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's revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on January 1, 2018 and the Company refined its disclosures around the standard in the first quarter of 2018. See Note 2 – Summary of Significant Accounting Policies for additional information. The Company has determined that there is no material change on how the Company recognizes its revenue streams and the adoption of these standards did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 addresses eight classification issues related to the statement of cash flows: Debt prepayment or debt extinguishment costs; Settlement of zero-coupon bonds; Contingent consideration payments made after a business combination; Proceeds from the settlement of insurance claims; Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; Distributions received from equity method investees; Beneficial interests in securitization transactions; and Separately identifiable cash flows and application of the predominance principle. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions using a retrospective transition method to each period presented. The Company adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued 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 for loans, investment securities portfolio, and purchased financial assets with credit deterioration. ASU 2016-13 also will require enhanced disclosures. The new 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. A cross-functional working group comprised of individuals from credit administration, risk management, accounting and finance, information technology, among others are in place implementing and developing the data, forecast, processes, and portfolio segmentation that will be used in the models that will estimate the expected credit loss for each loan segment. The Company has also contracted with a third party vendor solution to assist us in the application and analysis of ASU 2016-13 in aggregating the results of the models and valuations used to measure CECL. The Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13, and it will be influenced by the composition, characteristics and quality of our loan and securities portfolio, as well as the economic conditions and forecasts as of each reporting period.

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's revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on

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January 1, 2018 and the Company refined its disclosures around the standard in the first quarter of 2018. The Company determined that there is no material change on how the Company recognizes its revenue streams and the adoption of these standards did not have a material impact on the Company's consolidated financial statements, other than the required disclosures and the reclassification of interchange costs from noninterest expense to noninterest income on the Consolidated Statement of Income which the Company applied retrospectively to each prior reporting period. See further discussion in Note 2 – Summary of Significant Accounting Policies.

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. ASU 2016-05 became effective for the Company on January 1, 2017 and did not have a significant 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. In July 2018, ASU 2018-11 was issued which provided targeted improvements related to 2016-02. (See above for further details) For public business entities, the amendments in ASU 2016-02 and ASU 2018-11 are effective for interim and annual periods beginning after December 15, 2018. In transition, lessees and lessors have the choice to recognize and measure leases at the beginning of the earliest period presented in financials using a modified retrospective approach or to allow the entity to recognize and measure leases as of the adoption date and not in comparative periods. The guidance includes a number of optional practical expedients that entities may elect to apply. The Company has reviewed its outstanding lease agreements and has centrally documented the terms of its leases. The Company is still evaluating the provisions of ASU 2016-02 and 2018-11 in relation to its outstanding leases to determine the potential impact the new standard will have to the Company's consolidated financial statements. Based on the Company's current evaluation, the Company estimates that it would have recorded a right to use asset and a lease liability of approximately \$76 million if the standard was effective at September 30, 2018.

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. This guidance became effective on January 1, 2018 and the Company has determined that the implementation of this standard did not have a material impact to the Company's consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, Topic 606 (“ASU 2014-09”). The new standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. The Company’s revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on January 1, 2018 and the Company refined its disclosures around the standard in the first quarter of 2018. See Note 2 – Summary of Significant Accounting Policies for additional information. The Company has determined that there is no material change on how the Company recognizes its revenue streams and the adoption of these standards did not have a material impact on the Company’s consolidated financial statements.

Note 4 — Mergers and Acquisitions

The following business combinations have occurred over the past two years:

- Park Sterling Corporation (“PSC” or “Park”) – November 30, 2017 – Whole bank acquisition
- Southeastern Bank Financial Corporation (“SBFC” or “Southeastern”) – January 3, 2017 – Whole bank acquisition

Park Sterling Corporation Acquisition

On November 30, 2017, SSB acquired all of the outstanding common stock of PSC of Charlotte, North Carolina, the bank holding company for Park Sterling Bank (“PSB”), in a stock transaction. PSC common shareholders received 0.14 shares of the SSB’s common stock in exchange for each share of PSC stock resulting in SSB issuing 7,480,343 shares of common stock. In total, the purchase price for PSC was \$693.0 million including the value of “in the money” outstanding stock options totaling \$4.3 million.

The PSC transaction 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. The following table presents the assets acquired and liabilities assumed as of November 30, 2017 and their initial and subsequent fair value estimates, as recorded by the Company. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition for new information obtained about facts and circumstances

that existed at the acquisition date.

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(Dollars in thousands)	As Recorded by Park	Initial Fair Value Adjustments		Subsequent Fair Value Adjustments	As Recorded by the Company
<b>Assets</b>					
Cash and cash equivalents	\$ 116,454	\$ —		\$ —	\$ 116,454
Investment securities	461,261	1,444	(a)	219	(a) 462,924
Loans held for sale	2,200	68,686	(b)	(4)	(b) 70,882
Loans, net of allowance and mark	2,346,612	(95,878)	(c)	(9,408)	(c) 2,241,326
Premises and equipment	61,059	(4,882)	(d)	(387)	(d) 55,790
Intangible assets	73,090	(46,915)	(e)	3,321	(e) 29,496
OREO and repossessed assets	2,549	(429)	(f)	210	(f) 2,330
Bank owned life insurance	72,703	—		—	72,703
Deferred tax asset	17,963	11,596	(g)	2,124	(g) 31,683
Other assets	21,595	(476)	(h)	—	21,119
<b>Total assets</b>	<b>\$ 3,175,486</b>	<b>\$ (66,854)</b>		<b>\$ (3,925)</b>	<b>\$ 3,104,707</b>
<b>Liabilities</b>					
<b>Deposits:</b>					
Noninterest-bearing	\$ 561,874	\$ —		\$ —	\$ 561,874
Interest-bearing	1,886,810	2,692	(i)	(612)	(i) 1,888,890
<b>Total deposits</b>	<b>2,448,684</b>	<b>2,692</b>		<b>(612)</b>	<b>2,450,764</b>
Federal funds purchased and securities sold under agreements to repurchase	—	—		—	—
Other borrowings	329,249	11,689	(j)	—	340,938
Other liabilities	24,179	2,131	(k)	—	26,310
<b>Total liabilities</b>	<b>2,802,112</b>	<b>16,512</b>		<b>(612)</b>	<b>2,818,012</b>
Net identifiable assets acquired over (under) liabilities assumed	373,374	(83,366)		(3,313)	286,695
Goodwill	—	402,951		3,313	406,264
<b>Net assets acquired over liabilities assumed</b>	<b>\$ 373,374</b>	<b>\$ 319,585</b>		<b>\$ —</b>	<b>\$ 692,959</b>
<b>Consideration:</b>					
South State Corporation common shares issued					7,480,343
Purchase price per share of the SSB's common stock					\$ 92.05
SSB common stock issued (\$688,566) and cash exchanged for fractional shares (\$88)					\$ 688,654
Cash paid for stock option redemptions					4,305
<b>Fair value of total consideration transferred</b>					<b>\$ 692,959</b>

## Explanation of fair value adjustments

(a)—Adjustment reflects marking the securities portfolio to fair value as of the acquisition date.



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(b)—Adjustment reflects a reclassification of \$68.7 million by SSB of Shared National Credits (loans) from loans held for investment to loans held for sale.

(c)—Adjustment reflects the fair value adjustments (discount) of \$70.4 million based on the Company's evaluation of the acquired loan portfolio. This amount excludes the allowance for loan losses ("ALLL") and fair value adjustment (discount) of \$12.5 million and \$21.3 million, respectively, recorded by PSC and is net of the \$68.7 million reclassification related to the Shared National Credits noted in (b), above.

(d)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.

(e)—Adjustment reflects the recording of a 1.66% Core Deposit Intangible ("CDI") on the acquired deposit accounts that totaled \$29.5 million offset by a write-off of \$73.1 million of existing goodwill and CDI acquired from PSC.

(f)—Adjustment reflects the fair value adjustments to other real estate owned ("OREO") based on the Company's evaluation of the acquired OREO portfolio.

(g)—Adjustment to record deferred tax asset related to the fair value adjustments and an adjustment from the PSC tax rate to the SSB tax rate.

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- (h)—Adjustment reflects the write-off of accrued interest receivable along with certain prepaid expenses.
- (i)—Adjustment reflects the premium for fixed maturity time deposits of \$2.3 million offset by the write-off of existing fair value marks of \$253,000 acquired from PSC.
- (j)—Adjustment reflects the fair value adjustment (discount) of \$2.4 million on PSC’s Trust Preferred Securities offset by the write-off of the existing PSC discount on its senior debt and TRUPs of \$14.0 million.
- (k)—Adjustment reflects the fair value adjustments to employee benefit plans of \$1.5 million along with other adjustments of miscellaneous liabilities.

Comparative and Pro Forma Financial Information for the PSC Acquisition

The adjusted results of the Company for the periods ended September 30, 2018, include the adjusted results of the acquired assets and assumed liabilities since the acquisition date of November 30, 2017 related to the PSC acquisition. Merger-related charges of \$4.5 million and \$29.9 million, respectively, are recorded in the consolidated statement of income for the three and nine months ended September 30, 2018; and include incremental costs related to the conversion of systems, termination of contracts, branch closures and severance cost.

The following table discloses the impact of the merger with PSC (excluding the impact of merger-related expenses) for the three and nine months ended September 30, 2018. The table also presents certain pro forma information as if PSC had been acquired on January 1, 2017. These results combine the historical results of PSC in the Company’s consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2017.

Merger-related costs of \$860,000 and \$23.6 million from the SBFC acquisition were incurred during the three and nine months ended September 30, 2017 and were excluded from the pro forma information below. In addition, no adjustments have been made to the pro formas to eliminate the provision for loan losses for the three and nine months ended September 30, 2017 of PSC in the amount of \$(353,000) and \$325,000, respectively. No adjustments have been made to reduce the impact of any OREO write downs, investment securities sold or repayment of borrowings recognized by PSC in the three and nine months ended September 30, 2017. The Company does not expect any material or significant merger-related expense in the fourth quarter of 2018 from the merger with PSC. The achieved operating cost savings and other business synergies as a result of the acquisitions are not reflected in the pro forma amounts below:

PSC		PSC	
Estimated/Actual	Pro Forma	Estimated/Actual	Pro Forma
For the Three	Three	For the Nine	Nine
Months	Months	Months	Months

(Dollars in thousands)

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	Ended September 30, 2018	Ended September 30, 2017	Ended September 30, 2018	Ended September 30, 2017
Total revenues (net interest income plus noninterest income)	\$ 28,155	\$ 171,795	\$ 94,163	\$ 509,523
Net adjusted income available to the common shareholder	\$ 15,054	\$ 47,559	\$ 50,108	\$ 136,402

Southeastern Bank Financial Corporation Acquisition

On January 3, 2017, SSB acquired all of the outstanding common stock of SBFC of Augusta, Georgia, the bank holding company for Georgia Bank & Trust Company of Augusta (“GB&T”), in a stock transaction. SBFC common shareholders received 0.7307 shares of SSB’s common stock in exchange for each share of SBFC stock resulting in SSB issuing 4,978,338 shares of common stock. In total, the purchase price for SBFC was \$435.1 million including the value of “in the money” outstanding stock options totaling \$490,000.

The SBFC transaction 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.

The following table presents the assets acquired and liabilities assumed as of January 3, 2017 at their initial and subsequent fair value estimates, as recorded by the Company. The fair value estimates were subject to refinement for up

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to one year after the closing date of the acquisition for new information obtained about facts and circumstances that existed at the acquisition date.

(Dollars in thousands)	As Recorded by SBFC	Initial Fair Value Adjustments		Subsequent Fair Value Adjustments	As Recorded by the Company
<b>Assets</b>					
Cash and cash equivalents	\$ 72,043	\$ —		\$ —	\$ 72,043
Investment securities	591,824	(1,770)	(a)	—	590,054
Loans held for sale	13,652	—		—	13,652
Loans, net of allowance and mark	1,060,618	(10,668)	(b)	—	1,049,950
Premises and equipment	25,419	(2,212)	(c)	870	(c)
Intangible assets	140	17,980	(d)	—	18,120
OREO and repossessed assets	580	(30)	(e)	(100)	(e)
Bank owned life insurance	44,513	—		—	44,513
Deferred tax asset	16,247	(687)	(f)	515	(f)
Other assets	7,545	(482)	(g)	—	7,063
<b>Total assets</b>	<b>\$ 1,832,581</b>	<b>\$ 2,131</b>		<b>\$ 1,285</b>	<b>\$ 1,835,997</b>
<b>Liabilities</b>					
<b>Deposits:</b>					
Noninterest-bearing	\$ 262,967	\$ —		\$ —	\$ 262,967
Interest-bearing	1,257,953	—		—	1,257,953
<b>Total deposits</b>	<b>1,520,920</b>	<b>—</b>		<b>—</b>	<b>1,520,920</b>
Federal funds purchased and securities sold under agreements to repurchase	1,014	—		—	1,014
Other borrowings	110,620	(1,120)	(h)	—	109,500
Other liabilities	19,980	5,553	(i)	2,210	(i)
<b>Total liabilities</b>	<b>1,652,534</b>	<b>4,433</b>		<b>2,210</b>	<b>1,659,177</b>
Net identifiable assets acquired over (under) liabilities assumed	180,047	(2,302)		(925)	176,820
Goodwill	—	257,370		925	258,295
<b>Net assets acquired over liabilities assumed</b>	<b>\$ 180,047</b>	<b>\$ 255,068</b>		<b>\$ —</b>	<b>\$ 435,115</b>
<b>Consideration:</b>					
South State Corporation common shares issued					4,978,338
Purchase price per share of the Company's common stock					\$ 87.30
Company common stock issued (\$434,609) and cash exchanged for fractional shares (\$16)					\$ 434,625
Cash paid for stock option redemptions					490
<b>Fair value of total consideration transferred</b>					<b>\$ 435,115</b>

Explanation of fair value adjustments

- (a)—Adjustment reflects marking the securities portfolio to fair value as of the acquisition date.
- (b)—Adjustment reflects the fair value adjustments of \$30.7 million based on the Company's evaluation of the acquired loan portfolio and excludes the ALLL of \$20.1 million recorded by SBFC.
- (c)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.
- (d)—Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts that totaled \$18.1 million.
- (e)—Adjustment reflects the fair value adjustments to OREO and repossessed assets based on the Company's evaluation of the acquired OREO and repossessed assets portfolio.
- (f)—Adjustment to record deferred tax asset related to the fair value adjustments.
- (g)—Adjustment reflects uncollectible portion of accrued interest receivable and loan fees receivable along with the write-off of certain prepaid expenses.

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(h)—Adjustment reflects the fair value adjustments based on the Company’s evaluation of other borrowings of Trust Preferred Securities with a discount of \$2.1 million, netted with premium on certain Federal Home Loan Bank (“FHLB”) advances of \$1.0 million.

(i)—Adjustment reflects the fair value adjustments to employee benefit plans of \$8.3 million netted against an adjustment of other miscellaneous liabilities of \$496,000

## Note 5 — Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018:				
State and municipal obligations	\$ 500	\$ —	\$ —	\$ 500
December 31, 2017:				
State and municipal obligations	\$ 2,529	\$ 27	\$ —	\$ 2,556
September 30, 2017:				
State and municipal obligations	\$ 3,678	\$ 54	\$ —	\$ 3,732

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018:				
Government-sponsored entities debt*	\$ 54,397	\$ —	\$ (1,852)	\$ 52,545
State and municipal obligations	207,723	1,114	(2,613)	206,224
Mortgage-backed securities**	1,336,778	115	(44,381)	1,292,512
	\$ 1,598,898	\$ 1,229	\$ (48,846)	\$ 1,551,281
December 31, 2017:				
Government-sponsored entities debt*	\$ 86,535	\$ 51	\$ (1,077)	\$ 85,509
State and municipal obligations	216,812	3,749	(124)	220,437
Mortgage-backed securities**	1,350,200	2,103	(11,616)	1,340,687
Corporate securities	1,560	—	—	1,560

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	\$ 1,655,107	\$ 5,903	\$ (12,817)	\$ 1,648,193
September 30, 2017:				
Government-sponsored entities debt*	\$ 86,521	\$ 72	\$ (642)	\$ 85,951
State and municipal obligations	199,898	4,584	(188)	204,294
Mortgage-backed securities**	1,027,827	4,673	(5,023)	1,027,477
Corporate stocks	1,556	176	—	1,732
	\$ 1,315,802	\$ 9,505	\$ (5,853)	\$ 1,319,454

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\* - 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").

\*\* - All of the mortgage-backed securities are issued by government-sponsored entities; there are no private-label holdings. Also, included in the Company's mortgage-backed securities are debt securities offered by the Small Business Administration ("SBA"), which have the full faith and credit backing of the United States Government.

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018:				
Federal Home Loan Bank stock	\$ 13,149	\$ —	\$ —	\$ 13,149
Investment in unconsolidated subsidiaries	3,563	—	—	3,563
Other nonmarketable investment securities	2,517	—	—	2,517
	\$ 19,229	\$ —	\$ —	\$ 19,229
December 31, 2017:				
Federal Home Loan Bank stock	\$ 16,967	\$ —	\$ —	\$ 16,967
Investment in unconsolidated subsidiaries	3,563	—	—	3,563
Other nonmarketable investment securities	2,517	—	—	2,517
	\$ 23,047	\$ —	\$ —	\$ 23,047
September 30, 2017:				
Federal Home Loan Bank stock	\$ 10,177	\$ —	\$ —	\$ 10,177
Investment in unconsolidated subsidiaries	2,262	—	—	2,262
Other nonmarketable investment securities	1,225	—	—	1,225
	\$ 13,664	\$ —	\$ —	\$ 13,664

The amortized cost and fair value of debt securities at September 30, 2018 by contractual maturity are detailed below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

(Dollars in thousands)	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —	\$ 4,366	\$ 4,362
Due after one year through five years	—	—	84,160	83,239
Due after five years through ten years	500	500	377,504	366,790
Due after ten years	—	—	1,132,868	1,096,890
	\$ 500	\$ 500	\$ 1,598,898	\$ 1,551,281



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Information pertaining to the Company's securities with gross unrealized losses at September 30, 2018, December 31, 2017 and September 30, 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

(Dollars in thousands)	Less Than Twelve Months Gross Unrealized Losses		Twelve Months or More Gross Unrealized Losses	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
September 30, 2018:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 538	\$ 20,253	\$ 1,314	\$ 32,293
State and municipal obligations	2,313	89,908	300	8,104
Mortgage-backed securities	25,077	876,430	19,304	389,045
Corporate securities	—	—	—	—
	\$ 27,928	\$ 986,591	\$ 20,918	\$ 429,442
December 31, 2017:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 403	\$ 27,442	\$ 674	\$ 52,324
State and municipal obligations	124	17,400	—	—
Mortgage-backed securities	4,493	610,051	7,123	322,258
Corporate securities	—	—	—	—
	\$ 5,020	\$ 654,893	\$ 7,797	\$ 374,582
September 30, 2017:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 473	\$ 68,366	\$ 169	\$ 11,830
State and municipal obligations	188	21,851	—	—
Mortgage-backed securities	4,457	455,145	566	35,917
Corporate stocks	—	—	—	—
	\$ 5,118	\$ 545,362	\$ 735	\$ 47,747

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 debt securities available for sale in an unrealized loss position as of September 30, 2018 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 September 30, 2018.

Management continues to monitor all of the Company's 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 its securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

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## Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 902,836	\$ 830,875	\$ 766,957
Commercial non-owner occupied	1,279,328	1,008,893	949,870
Total commercial non-owner occupied real estate	2,182,164	1,839,768	1,716,827
Consumer real estate:			
Consumer owner occupied	1,844,203	1,530,260	1,454,758
Home equity loans	473,381	437,642	419,760
Total consumer real estate	2,317,584	1,967,902	1,874,518
Commercial owner occupied real estate	1,449,069	1,262,776	1,278,487
Commercial and industrial	991,842	815,187	781,757
Other income producing property	209,983	193,847	194,335
Consumer	438,789	378,985	371,758
Other loans	17,047	33,690	12,645
Total non-acquired loans	7,606,478	6,492,155	6,230,327
Less allowance for loan losses	(49,869)	(43,448)	(41,541)
Non-acquired loans, net	\$ 7,556,609	\$ 6,448,707	\$ 6,188,786

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)	September 30, 2018	December 31, 2017	September 30, 2017
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 222,562	\$ 403,357	\$ 76,886
Commercial non-owner occupied	684,793	817,166	199,704
Total commercial non-owner occupied real estate	907,355	1,220,523	276,590
Consumer real estate:			
Consumer owner occupied	647,064	710,611	492,615
Home equity loans	259,558	320,591	164,291
Total consumer real estate	906,622	1,031,202	656,906
Commercial owner occupied real estate	455,803	521,818	207,572
Commercial and industrial	247,922	398,696	101,427

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Other income producing property	150,371	196,669	76,924
Consumer	118,029	137,710	136,136
Other	—	1,289	—
Total FASB ASC Topic 310-20 acquired loans	\$ 2,786,102	\$ 3,507,907	\$ 1,455,555

The unamortized discount related to the acquired non-credit impaired loans totaled \$37.1 million, \$65.2 million, and \$20.7 million at September 30, 2018, December 31, 2017, and September 30, 2017, respectively.

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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)	September 30, 2018	December 31, 2017	September 30, 2017
FASB ASC Topic 310-30 acquired loans:			
Commercial real estate	\$ 209,518	\$ 234,595	\$ 207,521
Commercial real estate—construction and development	34,312	49,649	46,248
Residential real estate	218,019	260,787	249,666
Consumer	44,081	51,453	53,302
Commercial and industrial	10,671	26,946	25,796
Total FASB ASC Topic 310-30 acquired loans	516,601	623,430	582,533
Less allowance for loan losses	(3,968)	(4,627)	(3,670)
FASB ASC Topic 310-30 acquired loans, net	\$ 512,633	\$ 618,803	\$ 578,863

The table below reflects refined contractual loan payments (principal and interest), estimates of the amounts not expected to be collected (non-accretable difference), accretable yield (interest income recognized over time), and the resulting fair values at the acquisition date for PSC (November 30, 2017) for loans accounted for using FASB ASC Topic 310-30. During the second quarter of 2018, the initial fair value of loans at acquisition were adjusted to reflect movement of loans between the ASC Topic 310-20 portfolio and the ASC Topic 310-30 portfolio and the movement in interest rates from the initial valuation.

(Dollars in thousands)	November 30, 2017 Loans Impaired at Acquisition
Contractual principal and interest	\$ 113,584
Non-accretable difference	(27,248)
Cash flows expected to be collected	86,336
Accretable difference	(7,369)
Carrying value	\$ 78,967

The table above excludes \$2.1 billion (\$2.2 billion in contractual principal less a \$46.5 million fair value adjustment) in acquired loans at fair value that were identified as either performing with no discount related to the credit or as revolving lines of credit (commercial or consumer) as of the acquisition date and will be accounted for under FASB ASC Topic 310-20.

The table below reflects refined contractual loan payments (principal and interest), estimates of the amounts not expected to be collected (non-accretable difference), accretable yield (interest income recognized over time), and the resulting fair values at the acquisition date for SBFC (January 3, 2017) for loans accounted for using FASB ASC Topic 310-30. During the third quarter of 2017, the initial fair values of the acquired loan portfolios were adjusted to reflect movement of loans between the ASC Topic 310-20 portfolio and the ASC Topic 310-30 portfolio

	January 3, 2017
	Loans Impaired at Acquisition
(Dollars in thousands)	
Contractual principal and interest	\$ 78,963
Non-accretable difference	(13,072)
Cash flows expected to be collected	65,891
Accretable difference	(4,910)
Carrying value	\$ 60,981

The table above excludes \$986.5 million (\$1.0 billion in contractual principal less a \$18.8 million fair value adjustment) in acquired loans at fair value that were identified as either performing with no discount related to the credit or as revolving lines of credit (commercial or consumer) as of the acquisition date and will be accounted for under FASB ASC Topic 310-20.

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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 September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Contractual principal and interest	\$ 670,008	\$ 795,850	\$ 741,268
Non-accretable difference	(38,422)	(39,324)	(26,160)
Cash flows expected to be collected	631,586	756,526	715,108
Accretable yield	(114,985)	(133,096)	(132,575)
Carrying value	\$ 516,601	\$ 623,430	\$ 582,533
Allowance for acquired loan losses	\$ (3,968)	\$ (4,627)	\$ (3,670)

Income on acquired credit impaired loans that are not impaired at the acquisition date but is accounted for under FASB ASC Topic 310-30 is recognized in the same manner as loans impaired at the acquisition date. 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)	Nine Months Ended September 30,	
	2018	2017
Balance at beginning of period	\$ 618,803	\$ 602,546
Fair value of acquired loans	—	55,850
Net reductions for payments, foreclosures, and accretion	(106,829)	(79,258)
Change in the allowance for loan losses on acquired loans	659	(275)
Balance at end of period, net of allowance for loan losses on acquired loans	\$ 512,633	\$ 578,863

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

(Dollars in thousands)	Nine Months Ended September 30,	
	2018	2017
Balance at beginning of period	\$ 133,096	\$ 155,379
Addition from the SBFC acquisition	—	4,603
PSC acquisition Day 1 adjustment	(1,460)	—

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Accretion	(36,918)	(43,873)
Reclass of nonaccretable difference due to improvement in expected cash flows	20,538	16,772
Other changes, net	(271)	(306)
Balance at end of period	\$ 114,985	\$ 132,575

In the third quarter of 2018, the accretable yield balance declined by \$6.8 million as loan accretion (income) of \$11.7 million was recognized. This was partially offset by improved expected cash flows of \$5.0 million during the third quarter of 2018.

Our loan loss policy adheres to GAAP as well as interagency guidance. The ALLL is based upon estimates made by management. We maintain an ALLL 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, as noted above, 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



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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 ALLL 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.

Beginning with the First Financial Holdings, Inc. acquisition in 2013, the Company segregates the acquired loan portfolio into performing loans ("non-credit impaired) and purchased 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 ALLL 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 purchased 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 yield and recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an ALLL. 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. All acquired loans managed by Special Asset Management are reviewed quarterly and assigned a loss given default. Acquired loans not managed by Special Asset Management are reviewed twice a year in a similar method to the Company's originated portfolio of loans which follow review thresholds based on risk rating categories. In the fourth quarter of 2015, the Company modified its methodology to a more granular approach in determining loss given default on substandard loans with a net book balance between \$100,000 and \$500,000 by adjusting the loss given default to 90% of the most current collateral valuation based on appraised value. Substandard loans greater than \$500,000 were individually assigned loss given defaults each quarter. 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.



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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 September 30, 2018:				
Balance at beginning of period	\$ 47,874	\$ —	\$ 4,426	\$ 52,300
Loans charged-off	(1,891)	(97)	—	(1,988)
Recoveries of loans previously charged off (1)	555	27	—	582
Net charge-offs	(1,336)	(70)	—	(1,406)
Provision for loan losses charged to operations	3,331	70	(284)	3,117
Reduction due to loan removals	—	—	(174)	(174)
Balance at end of period	\$ 49,869	\$ —	\$ 3,968	\$ 53,837
Three Months Ended September 30, 2017:				
Balance at beginning of period	\$ 40,149	\$ —	\$ 3,741	\$ 43,890
Loans charged-off	(1,383)	(275)	—	(1,658)
Recoveries of loans previously charged off (1)	836	279	—	1,115
Net charge-offs	(547)	4	—	(543)
Provision for loan losses charged to operations	1,939	(4)	127	2,062
Reduction due to loan removals	—	—	(198)	(198)
Balance at end of period	\$ 41,541	\$ —	\$ 3,670	\$ 45,211

(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Nine Months Ended September 30, 2018:				
Balance at beginning of period	\$ 43,448	\$ —	\$ 4,627	\$ 48,075
Loans charged-off	(4,300)	(1,614)	—	(5,914)
Recoveries of loans previously charged off (1)	2,408	279	—	2,687
Net charge-offs	(1,892)	(1,335)	—	(3,227)
Provision for loan losses charged to operations	8,313	1,335	401	10,049
Reduction due to loan removals	—	—	(1,060)	(1,060)
Balance at end of period	\$ 49,869	\$ —	\$ 3,968	\$ 53,837
Nine Months Ended September 30, 2017:				
Balance at beginning of period	\$ 36,960	\$ —	\$ 3,395	\$ 40,355
Loans charged-off	(3,972)	(1,165)	—	(5,137)
Recoveries of loans previously charged off (1)	2,041	414	—	2,455
Net charge-offs	(1,931)	(751)	—	(2,682)
	6,512	751	819	8,082

Total provision for loan losses charged to operations

Reduction due to loan removals	—	—	(544)	(544)
Balance at end of period	\$ 41,541	\$ —	\$ 3,670	\$ 45,211

(1) – Recoveries related to acquired credit impaired loans are recorded through other noninterest income on the consolidated statement of income and do not run through the ALLL.

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

	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans
2018	\$ 6,187	\$ 7,209	\$ 8,607	\$ 10,945	\$ 3,368	\$ 6,711	\$ 1,413	\$ 3,071	\$ 363
	—	—	(578)	(76)	(40)	(34)	—	(1,163)	—
	178	2	105	43	11	27	3	186	—
	(352)	774	943	468	102	219	(6)	1,089	94
8	\$ 6,013	\$ 7,985	\$ 9,077	\$ 11,380	\$ 3,441	\$ 6,923	\$ 1,410	\$ 3,183	\$ 457
	\$ 723	\$ 81	\$ 40	\$ 28	\$ 171	\$ 475	\$ 133	\$ 6	\$ —
	\$ 5,290	\$ 7,904	\$ 9,037	\$ 11,352	\$ 3,270	\$ 6,448	\$ 1,277	\$ 3,177	\$ 457
	\$ 35,776	\$ 1,315	\$ 4,551	\$ 5,420	\$ 3,026	\$ 1,409	\$ 2,930	\$ 213	\$ —
	867,060	1,278,013	1,444,518	1,838,783	470,355	990,433	207,053	438,576	17,04
	\$ 902,836	\$ 1,279,328	\$ 1,449,069	\$ 1,844,203	\$ 473,381	\$ 991,842	\$ 209,983	\$ 438,789	\$ 17,04
2017	\$ 5,746	\$ 6,164	\$ 7,539	\$ 8,569	\$ 3,247	\$ 5,143	\$ 1,379	\$ 2,532	\$ (170)
	(19)	—	—	—	(17)	(440)	(10)	(897)	—
	333	80	92	65	38	31	29	168	—
	(88)	(7)	479	492	(171)	469	(10)	889	(114)
7	\$ 5,972	\$ 6,237	\$ 8,110	\$ 9,126	\$ 3,097	\$ 5,203	\$ 1,388	\$ 2,692	\$ (284)
	\$ 1,266	\$ 133	\$ 64	\$ 47	\$ 116	\$ 18	\$ 211	\$ 7	\$ —
	\$ 4,706	\$ 6,104	\$ 8,046	\$ 9,079	\$ 2,981	\$ 5,185	\$ 1,177	\$ 2,685	\$ (284)

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\$ 42,638	\$ 716	\$ 5,874	\$ 4,455	\$ 2,623	\$ 627	\$ 3,605	\$ 254	\$ —
724,319	949,154	1,272,613	1,450,303	417,137	781,130	190,730	371,504	12,64
\$ 766,957	\$ 949,870	\$ 1,278,487	\$ 1,454,758	\$ 419,760	\$ 781,757	\$ 194,335	\$ 371,758	\$ 12,64

(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
Nine Months Ended September 30, 2018 Allowance for loan losses:								
Balance, December 31, 2017	\$ 5,921	\$ 6,525	\$ 8,128	\$ 9,668	\$ 3,250	\$ 5,488	\$ 1,375	\$ 2,788
Charge-offs	(35)	—	(659)	(80)	(111)	(178)	—	(3,237)
Recoveries	1,167	6	76	169	139	241	14	596
Provision (benefit)	(1,040)	1,454	1,532	1,623	163	1,372	21	3,036
Balance, September 30, 2018	\$ 6,013	\$ 7,985	\$ 9,077	\$ 11,380	\$ 3,441	\$ 6,923	\$ 1,410	\$ 3,183
Nine Months Ended September 30, 2017 Allowance for loan losses:								
Balance, December 31, 2016	\$ 4,091	\$ 4,980	\$ 8,022	\$ 7,820	\$ 3,211	\$ 4,842	\$ 1,542	\$ 2,350
Charge-offs	(493)	—	—	(185)	(241)	(629)	(17)	(2,407)
Recoveries	555	128	197	141	133	264	77	546
Provision (benefit)	1,819	1,129	(109)	1,350	(6)	726	(214)	2,203
Balance, September 30, 2017	\$ 5,972	\$ 6,237	\$ 8,110	\$ 9,126	\$ 3,097	\$ 5,203	\$ 1,388	\$ 2,692



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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	Income Consumer	Total
Three Months Ended September 30, 2018									
Allowance for loan losses:									
Balance at beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Charge-offs	—	—	—	—	(4)	(30)	—	(63)	(97)
Recoveries	1	—	—	1	6	5	—	14	27
Provision (benefit)	(1)	—	—	(1)					