Form

Unknown document format

der-right:1pt none #D9D9D9 ;padding:0pt;">

Other income producing property

(2)

(51)

(7)

(102)

(309)

Consumer

(4,480)

(3,261)

(3,597)

(3,574)

(3,501)

Total charge offs

(6,012)

(5,149)

(5,902)

(6,180)

(7,516)

Recoveries:

Real estate:

Commercial non owner occupied

1,351

1,100

1,424

443

811

Consumer

411

516

433

387

340

Commercial owner occupied real estate

145

220

54

31

95

Commercial and industrial

256

343

292

844

264

Other income producing property

21

85

87

85

191

Consumer

811

689

943

1,011

873

Total recoveries

2,995

2,953

3,233

2,801

2,574

Net charge offs *

(3,017)

(2,196)

(2,669)

(3,379)

(4,942)

Provision for loan losses

10,763

8,684

5,539

2,930

5,150

Allowance for loan losses at December 31

$

51,194

$

43,448

$

36,960

$

34,090

$

34,539

Average loans, net of unearned income **

$

7,179,467

$

5,914,252

$

4,741,294

$

3,785,243

$

3,151,482

Ratio of net charge offs to average loans, net of unearned income

0.04

%

0.04

%

0.06

%

0.09

%

0.16

%

Allowance for loan losses as a percentage of total non acquired loans

0.65

%

0.67

%

0.71

%

0.81

%

1.00

%

* Net charge offs at December 31, 2018, 2017, 2016, 2015, and 2014 include automated overdraft protection (“AOP”) principal net charge offs of $2.3 million, $1.7 million, $1.8 million, $1.6 million, and $1.3 million, respectively, and insufficient fund (“NSF”) principal net charge offs of $572,000, $279,000, $335,000, $441,000, and $763,000, respectively that are included in the consumer classification above.

** Non acquired average loans, net of unearned income does not include loans held for sale.

The increase in non acquired provision for loan losses in 2018 was primarily due to loan growth and increases in certain loan types during the period that require higher reserves. Non acquired loans grew by more than $1.4 billion, or 22.2%, in 2018. Asset quality in the non-acquired loan portfolio remained strong and stable in 2018 with nonperforming assets increasing only $1.7 million to $19.1 million and past due loans decreasing $1.5 million to $14.6 million during 2018 compared with December 31, 2017. The following provides highlights for the years ended December 31, 2018 and 2017:

- Total net charge offs increased $821,000, or 37.4%, to $3.0 million for the year ended December 31, 2018 compared to year ended December 31, 2017. This compares to a $473,000, or 17.7%, decrease in 2017 compared to the year ended December 31, 2016. Of the $3.0 million in net charge-offs in 2018, $2.8 million were related to overdrafts and ready reserve accounts which increased $875,000 in 2018 compared to 2017. Net charge-offs related to the non-acquired loan portfolio excluding overdrafts and ready reserves actually declined by $54,000 for the year ended December 31, 2018 compared to 2017.
- Gross charge offs increased from the 2017 levels by $863,000, or 16.8%, to $6.0 million. Of the $6.0 million in gross charge-offs in 2018, $3.7 million were related to overdrafts and ready reserve accounts which increased $995,000 in 2018 compared to 2017. Gross charge-offs related to the non-acquired loan portfolio excluding overdrafts and ready reserves declined by $132,000 for the year ended December 31, 2018 compared to 2017.
- Gross recoveries increased from the 2017 levels by $42,000, or 1.4%, to $3.0 million. Of the $3.0 million in gross recoveries in 2018, $760,000 were related to overdrafts and ready reserve accounts which increased $120,000 in 2018 compared to 2017. Gross recoveries related to the non-acquired loan portfolio

Table of Contents

excluding overdrafts and ready reserves declined by $78,000 for the year ended December 31, 2018 compared to 2017.

- The decrease in net charge offs excluding overdrafts and ready reserve accounts of $54,000 from December 31, 2017 to December 31, 2018 was due to increases in commercial owner occupied real estate by $734,000, other income producing property by $15,000 and consumer by $222,000. These increases were partially offset by the following decreases in net charge offs: commercial non-owner occupied real estate of $721,000, consumer owner occupied real estate of $115,000, and commercial and industrial of $189,000.
- For the twelve months ended December 31, 2018 and 2017, the ratio of net charge offs to average loans was 0.04%.
- The ratio of the ALLL to cover non acquired nonperforming loans increased from 293.0% at December 31, 2017 to 340.9% at December 31, 2018.

The ALLL increased from December 31, 2017 compared to December 31, 2018 due primarily to loan growth, increased risk and uncertainty in new and expanded markets from our mergers in 2017, and increases in certain loan types during the period that require higher reserves. From a general perspective, we generally consider a three-year historical loss rate on all loan portfolios, unless circumstances within a portfolio loan type require the use of an alternate historical loss rate to better capture the risk within the portfolio. We also consider qualitative factors such as economic risk, model risk and operational risk when determining the ALLL. We adjust our qualitative factors to account for uncertainty and certain risk inherent in the portfolio that cannot be measured with historical loss rates. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio. Overall, the general reserve increased by $7.7 million compared to the balance at December 31, 2017.

The three year historical loss rate average on an overall basis decreased from December 31, 2017 due to the removal of higher historical loss rates in our rolling averages being replaced with recent lower historical loss rates. This resulted in a decrease of one basis point in the ALLL as a percentage of non-acquired loans during 2018. Compared to the third quarter of 2018, the rate also declined by one basis point.

Economic risk declined by one basis point at the end of 2018 as compared to 2017. A decrease of one basis point was reflected in the economic risk factor for unemployment, while real estate market exposure and home sales both remained consistent. Compared to the third quarter of 2018, there was no adjustment in the economic risk factor.

Model risk overall remained consistent and was unchanged compared to December 31, 2017, and was based upon our experience with the current model which is a more automated solution. This risk comes from the fact that our ALLL model is not all inclusive. Risk inherent with new products, new markets, and timeliness of information are examples of this type of exposure. Our model has been reviewed by management, the audit committee, and the bank's primary regulators (including the FDIC and the SCBFI), and we believe it adequately addresses the various inherent risks in our loan portfolio.

Operational risk consists of the underwriting, documentation, closing and servicing associated with any loan. This risk is managed through policies and procedures, portfolio management reports, best practices and the approval process. The risk factors evaluated include the following: exposure outside our deposit footprint, changes in underwriting standards, levels of past due loans and classified assets, loan growth, supervisory loan to value exceptions, results of external loan reviews, our centralized loan documentation process and significant loan concentrations. Operational risk remained consistent during 2018 compared to December 31, 2017.

On a specific reserve basis, the allowance for loan losses at December 31, 2018 increased by approximately $4,000 from December 31, 2017. The loan balances being evaluated for specific reserves during the year declined from $63.4 million at December 31, 2017 to $57.0 million at December 31, 2018.

Table of Contents

The following table presents changes in the allowance for loan losses on acquired non credit impaired loans for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

Table 18—Summary of Acquired Non Credit Impaired Loan Loss Experience

	Year Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Allowance for loan losses at January 1	$ —	$ —	$ —	$ —	$ —
Charge offs:					
Real estate:					
Commercial non owner occupied	(107)	(82)	—	—	(150)
Consumer	(506)	(1,009)	(428)	(2,022)	(680)
Commercial owner occupied real estate	(28)	—	39	—	—
Commercial and industrial	(1,108)	(71)	(66)	(118)	(456)
Other income producing property	—	—	—	(4)	(14)
Consumer	(465)	(468)	(532)	(643)	(231)
Other loans		—	—	—	—
Total charge offs	(2,214)	(1,630)	(987)	(2,787)	(1,531)
Recoveries:					
Real estate:					
Commercial non owner occupied	8	4	4	4	1
Consumer	166	434	211	339	282
Commercial owner occupied real estate	—	2	—	—	—
Commercial and industrial	63	6	9	19	312
Other income producing property	—	8	43	4	—
Consumer	68	23	51	21	9
Other loans	—	—	—	—	—
Total recoveries	305	477	318	387	604
Net charge offs	(1,909)	(1,153)	(669)	(2,400)	(927)
Provision for loan losses	1,909	1,153	669	2,400	927
Allowance for loan losses at December 31	$ —	$ —	$ —	$ —	$ —
Average loans, net of unearned income	$ 3,032,182	$ 1,768,493	$ 943,005	$ 1,180,723	$ 1,458,309
Ratio of net charge offs to average loans, net of unearned income	0.06 %	0.07 %	0.07 %	0.20 %	0.06 %

The provision for loan losses on the acquired non-credit impaired loan portfolio was $1.9 million for the year ended December 31, 2018 compared to $1.2 million in 2017. This was an increase of $756,000, or 65.6%. This increase in the provision was mainly related to a $1.0 million increase in commercial and industrial charge-offs during 2018 and a $268,000 decline in consumer real estate recoveries, partially offset by a $503,000 decrease in consumer real estate charge-offs during 2018 compared to 2017. The increase in the commercial and industrial charge-offs in 2018 was

primarily the result of a specific relationship, and was not representative of a particular trend within any of our markets.

Table of Contents

The following table presents changes in the allowance for loan losses on acquired credit impaired loans for the five years at December 31,

Table 19—Summary of Acquired Credit Impaired Loan Loss Experience

	Year Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Balance, beginning of the period	$ 4,627	$ 3,395	$ 3,706	$ 7,365	$ 11,618
Provision for loan losses before benefit attributable to FDIC loss share agreements:					
Commercial real estate	532	247	1	(499)	(457)
Commercial real estate—construction and development	657	163	—	(68)	(621)
Residential real estate	(892)	1,662	(129)	99	(406)
Consumer	303	(83)	533	336	(111)
Commercial and industrial	511	64	183	(118)	(314)
Single pay	—	—	—	(2)	2
Total provision for loan losses before benefit attributable to FDIC loss share agreements	1,111	2,053	588	(252)	(1,907)
Benefit attributable to FDIC loss share agreements:					
Commercial real estate	—	—	—	459	547
Commercial real estate—construction and development	—	—	—	74	792
Residential real estate	—	—	23	228	571
Consumer	—	—	—	(107)	141
Commercial and industrial	—	—	—	131	371
Single pay	—	—	—	1	(2)
Total benefit attributable to FDIC loss share agreements	—	—	23	786	2,420
Total provision for loan losses charged to operations	1,111	2,053	611	534	513
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(786)	(2,420)
Reductions due to loan removals:					
Commercial real estate	(19)	—	(16)	(1,024)	(83)
Commercial real estate—construction and development	(120)	(122)	(38)	(91)	(1,285)
Residential real estate	(415)	(528)	(438)	(1,500)	(339)
Consumer	(3)	(14)	(288)	(298)	(153)
Commercial and industrial	(577)	(157)	(119)	(426)	(449)
Single pay	—	—	—	(68)	(37)
Total reductions due to loan removals	(1,134)	(821)	(899)	(3,407)	(2,346)
Balance, end of the period	$ 4,604	$ 4,627	$ 3,395	$ 3,706	$ 7,365

During 2018, the valuation allowance on acquired credit impaired loans declined by $23,000, or 0.5%. This was the result of impairments of $1.1 million which were recorded through the provision for loan losses, being offset by loan removals due to loans being paid off, fully charged off or transferred to OREO of $1.1 million. This compares to impairments of $2.1 million being recorded through the provision for loan losses during 2017, being partially offset by loan removals due to loans being paid off, fully charged off or transferred to OREO of $821,000. Impairments are recognized immediately and releases are generally spread over time.

Table of Contents

Loss Share

The following table presents the projected total losses compared to the original estimated losses on acquired assets covered under loss share agreements as of December 31, 2016:

Table 20—Projected Total Losses under FDIC Loss Share Agreements

(Dollars in thousands)	FDIC Threshold or ILE	Original Estimated Gross Losses	Original Estimated Covered Losses	Losses Incurred* By FFHI Through July 26, 2013	Losses Incurred** By South State Through the End of Loss Share
CBT	$ 233,000	$ 340,039	$ 334,082	$ —	$ 312,158
Habersham	94,000	124,363	119,978	—	91,553
BankMeridian	70,827	70,190	67,780	—	31,682
Cape Fear****	110,000	12,921	8,213	76,122	3,556
Plantation****	70,178	24,273	16,176	35,190	12,758
Total	$ 578,005	$ 571,786	$ 546,229	$ 111,312	$ 451,707

* For Cape Fear and Plantation, claimed or claimable loan and OREO losses excluding expenses, net of revenues, from bank failure date through July 26, 2013.

** Claimed or claimable loan and OREO losses excluding expenses, net of revenues, since bank failure date under South State ownership.

**** For Cape Fear and Plantation, the original estimated gross losses and the original estimated covered losses represent estimated losses subsequent to July 26, 2013.

During the second quarter of 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its loss share agreements. As a result, all assets previously classified as covered became uncovered effective June 23, 2016. At the time of the agreement, SSB had $87.4 million in acquired covered loans and $3.0 million in covered OREO that became uncovered at the date of the agreement. The Bank will now recognize the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts.

Liquidity

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Our Asset Liability Management Committee (“ALCO”) is charged with the responsibility of monitoring policies that are designed to ensure acceptable

composition of our asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. As reported in Table 7, less than one percent of the investment portfolio contractually matures in one year or less. This segment of the portfolio consists mostly of government sponsored entities debt and municipal obligations. There is also an additional amount of securities that could be called or prepaid; as well as expected monthly paydowns of mortgage backed securities. Normally, changes in the earning asset mix are of a longer term nature and are not utilized for day to day corporate liquidity needs.

Our liabilities provide liquidity on a day to day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our Bank;

- Pricing deposits, including certificates of deposit, at rate levels that will attract and /or retain balances of deposits that will enhance our bank's asset/liability management and net interest margin requirements; and
- Continually working to identify and introduce new products that will attract customers or enhance our bank's appeal as a primary provider of financial services.

Our non-acquired loan portfolio increased by approximately $1.4 billion, or approximately 22.2%, compared to the balance at December 31, 2017. The acquired loan portfolio decreased by $1.0 billion, or 25.3%, from the balance at December 31, 2017 through principal paydowns, charge-offs, foreclosures and renewals of acquired loans.

Our investment securities portfolio decreased $131.1 million compared to the balance at December 31, 2017. The reason for the decline since December 31, 2017 was that the total of mortgage paydowns of $212.8 million, calls of $14.5 million and sales of $89.0 million have outpaced our purchases of $209.8 million as well as the unrealized loss in the investment portfolio increased $16.7 million during 2018. Net amortization of premiums was $7.6 million during 2018. Total cash and cash equivalents was $409.0 million at December 31, 2018 as compared to $377.6 million at December 31, 2017.

At December 31, 2018 and December 31, 2017, the Company had $7.6 million and $43.6 million, respectively, in traditional, out of market brokered deposits and $72.2 million and $113.3 million, respectively, of reciprocal brokered deposits. Total deposits increased $114.2 million, or 1.0%, from December 31, 2017, to $11.6 billion. The Company's deposit growth since December 31, 2017 included an increase in interest-bearing transaction accounts of $43.3 million, savings and money market accounts of $19.7 million, certificates of deposit of $36.9 million and noninterest-bearing transaction account of $14.3 million. Other borrowings has increased $50.7 million or 23.5% to $266.1 million from the balance at December 31, 2017. This balance mainly consists of junior subordinated debt of $115.2 million and FHLB borrowings of $150.1 million. The Company borrowed $150.0 million in FHLB advances with a one year maturity at a rate of 2.64% in December 2018 to provide liquidity for operations and to cover the stock repurchases made in the fourth quarter of 2018. The Company borrowed $100.0 million in FHLB short term advances in December 2017 to provide liquidity related to the PSC acquisition but such debt was paid off in the second quarter of 2018. To the extent that we employ other types of non deposit funding sources, typically to accommodate retail and correspondent customers, we continue to take in occasional shorter maturities of such funds. Our current approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, typically including some level of reverse repurchase agreements, federal funds sold, balances at the Federal Reserve Bank, and/or other short term investments; asset quality; well capitalized position; and profitable operating results. Cyclical and other economic trends and conditions can disrupt our bank's desired liquidity position at any time. We expect that these conditions would generally be of a short term nature. Under such circumstances, our bank's reverse repurchase agreements and federal funds sold positions, or balances at the Federal Reserve Bank, if any, serves as the primary source of immediate liquidity. At December 31, 2018, our bank had total federal funds credit lines of $556.0 million with no outstanding advances. If additional liquidity were needed, the bank would turn to short term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. At December 31, 2018, our bank had $370.0 million of credit available at the Federal Reserve Bank's discount window, but had no outstanding advances as of the end of 2018. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At December 31, 2018, our bank had a total FHLB credit facility of $1.9 billion with $150.1 million in outstanding advances, $73,000 in credit enhancements from participation in the FHLB's Mortgage Partnership Finance Program, and outstanding FHLB letters of credit to secure certain public funds deposits of $11.5 million. The Company has a $10.0 million unsecured line of credit with U.S. Bank National Association with no outstanding advances. We believe that our liquidity position continues to be very adequate and readily available.

Our contingency funding plan describes several potential stages based on stressed liquidity levels. Our board of directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulators. Our bank maintains various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, the bank would utilize these alternative sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the

Table of Contents

range of interest rates charged to our bank. This could increase our bank's cost of funds, impacting net interest margins and net interest spreads.

Derivatives and Securities Held for Trading

The SEC has adopted rules that require comprehensive disclosure of accounting policies for derivatives as well as enhanced quantitative and qualitative disclosures of market risk for derivatives and other financial instruments. The market risk disclosures are classified into two categories: financial instruments entered into for trading purposes and all other instruments (non trading purposes). We do not maintain a derivatives or securities trading portfolio.

Asset Liability Management and Market Risk Sensitivity

Our earnings and the economic value of our shareholders' equity may vary in relation to changes in interest rates and the accompanying fluctuations in market prices of certain of our financial instruments. We use a number of methods to measure interest rate risk, including simulating the effect on earnings of fluctuations in interest rates and monitoring the present value of asset and liability portfolios under various interest rate scenarios. The earnings simulation models take into account our contractual agreements with regard to investments, loans, deposits, borrowings, and derivatives. While the simulation models are subject to the accuracy of the assumptions that underlie the process, we believe that such modeling provides a better illustration of the interest sensitivity of earnings than does a static or even a beta adjusted interest rate sensitivity gap analysis. The simulation models assist in measuring and achieving growth in net interest income by providing the Asset Liability Management Committee ("ALCO") a reasonable basis for quantifying and managing interest rate risk. Numerous simulations incorporate an array of interest rate changes as well as projected changes in the mix and volume of balance sheet assets and liabilities. Accordingly, the simulations are considered to provide a measurement of the degree of earnings risk we have, or may incur in future periods, arising from interest rate changes or other market risk factors.

From time to time we enter into interest rate swaps to hedge some of our interest rate risks. For further discussion of the Company's interest rate swaps, see Note 27—Derivative Financial Instruments in the consolidated financial statements.

Our primary management tool and policy, established by ALCO and the board of directors, is to monitor exposure to interest rate increases and decreases of 100 basis points instantaneously. Our policy guideline prescribes 10% as the maximum negative impact on net interest income over a one-year horizon associated with an instantaneous change in interest rates of 100 basis points. Our principal simulation also uses a strategy (or dynamic) balance sheet that forecasts growth, not a static or frozen balance sheet. We traditionally have maintained a risk position well within the policy guideline level. As of December 31, 2018, the earnings simulations indicated that the impact of a 100 basis point increase / decrease in rates would result in an estimated 3.8% increase (up 100) and 4.7% decrease (down 100) in net interest income as compared with a flat base case interest rate environment. These simulations in declining rate scenarios of larger magnitude are viewed by us and many other depository institutions as being more remote and not as meaningful. We consider smaller declining rate scenarios in our overall analysis which also illustrate that we are asset sensitive. Current simulations indicate that our rate sensitivity is somewhat asset sensitive to the indicated changes in interest rates over an one year horizon. Comparatively, as of December 31, 2017, the earnings simulations indicated that the impact of an instantaneous 100 basis point increase in rates would have resulted in an approximate 5% increase in net interest income—as compared with a base case interest rate environment.

The shape and non parallel shifts of the fixed income yield curve can also influence interest rate risk sensitivity. Therefore, we run a number of other rate scenario simulations to provide additional assessments of our interest rate risk posture. For example, in our strategy balance sheet analysis at December 31, 2018, we simulated a curve that flattens with short-term rates rising by approximately 50 basis points with other rates beyond that point rising proportionally to a level that matches the December 31, 2018 30-year yield. This resulted in estimated net interest

income increasing somewhat from a base case. This is largely attributable to our position in short term assets rising quickly in yield. A simulation of a curve that steepened, caused by a 140 basis points rise in 30 year yields, and then sloping downward proportionally to the current one month rate, would have estimated results that were slightly less beneficial but still positive on net interest income as deposit rates would rise only modestly and longer term loan yields (like mortgages) would increase.

77

Table of Contents

In addition to simulation analysis, we use Economic Value of Equity ("EVE") analysis as an indicator of the extent to which the present value of our capital could change, given potential changes in interest rates. This measure assumes no growth or decline in the balance sheet (no management influence) but does assume mortgage related prepayments and certain other cash flows occur. It provides a measure of rate risk extending beyond the analysis horizon contained in the simulation analyses. The EVE model is essentially a discounted cash flow fair value of all of the Company's tangible assets, liabilities, and derivatives. The difference represented by the present value of tangible assets minus the present value of liabilities is defined as the economic value of equity. At December 31, 2018, the Company's ratio of EVE to assets was 18.5% in a current forward rate curve. In hypothetical environments where rates increased / decreased by 200 basis points instantaneously the ratio was 18.9% (up 200) and 16.4% (down 200).

Deposits

We rely on deposits by our customers as the primary source of funds for the continued growth of our loan and investment securities portfolios. Customer deposits are categorized as either noninterest bearing deposits or interest bearing deposits. Noninterest bearing deposits (or demand deposits) are transaction accounts that provide the Company with "interest free" sources of funds. Interest bearing deposits include savings deposit, interest bearing transaction accounts, certificates of deposits, and other time deposits. Interest bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

During 2018, all categories of deposits increased from 2017 except for savings deposits. Total deposits increased $114.2 million, or 1.0%, to $11.6 billion during 2018. The Company's deposit growth since December 31, 2017 included an increase in interest-bearing demand deposits of $107.1 million, certificates of deposit of $36.9 million and noninterest-bearing transaction account of $14.3 million while saving deposits declined $44.1 million. During 2018, we continued our focus on increasing core deposits (excluding certificates of deposits and other time deposits), which are normally lower cost funds from certificate of deposit balances.

The following table presents total deposits for the five years at December 31:

Table 21—Total Deposits

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Demand deposits	$ 3,061,769	$ 3,047,432	$ 2,199,046	$ 1,976,480	$ 1,639,953
Savings deposits	1,399,815	1,443,918	799,615	735,961	655,132
Interest bearing demand deposits	5,407,175	5,300,108	3,461,004	3,293,942	2,927,820
Total savings and interest bearing demand deposits	6,806,990	6,744,026	4,260,619	4,029,903	3,582,952
Certificates of deposit	1,775,095	1,738,384	872,773	1,092,750	1,237,140
Other time deposits	3,079	2,924	1,985	1,295	1,000
Total time deposits	1,778,174	1,741,308	874,758	1,094,045	1,238,140
Total deposits	$ 11,646,933	$ 11,532,766	$ 7,334,423	$ 7,100,428	$ 6,461,045

Overall deposits grew through organic growth during 2018 from December 31, 2017. The following are key highlights regarding overall growth in total deposits:

- Total deposits increased $114.2 million, or 1.0%, for the year ended December 31, 2018, driven by organic growth as mentioned above. For the year ended December 31, 2017, total deposits increased $4.2 billion, or 57.2% from the year ended December 31, 2016, driven primarily by deposits obtained in the SBFC and PSC acquisitions, totaling $3.6 billion.
- Noninterest bearing deposits (demand deposits) increased by $14.3 million, or 0.5%, for the year ended December 31, 2018, when compared with December 31, 2017.
- Money market (Market Rate Checking) and other interest bearing demand deposits (NOW, IOLTA, and others) increased $107.1 million, or 2.0%, for the year ended December 31, 2018, while savings deposits decreased $44.1 million, or 3.0%, when compared with December 31, 2017.

Table of Contents

· At December 31, 2018, the ratio of savings, interest bearing, and time deposits to total deposits was 73.7%, consistent with the ratio of 73.6% at the end of 2017.

The following are key highlights regarding overall growth in average total deposits:

· Total deposits averaged $11.6 billion in 2018, an increase of $2.4 billion, or 26.4%, from 2017. This increase was mainly due to the acquisition of PSC in the fourth quarter of 2017. With the PSC merger in the fourth quarter of 2017, the Company acquired interest-bearing deposits of $1.9 billion.
· Average interest bearing deposits increased by $1.9 billion, or 28.9%, to $8.5 billion in 2018 compared to 2017.
· Average noninterest bearing demand deposits increased by $516.6 million, or 19.9%, to $3.1 billion in 2018 compared to 2017.

The following table provides a maturity distribution of certificates of deposit of $250,000 or more for the next twelve months as of December 31:

Table 22—Maturity Distribution of Certificates of Deposits of $250 Thousand or More

	December 31,			
(Dollars in thousands)	2018	2017	% Change	
Within three months	$ 60,135	$ 57,124	5.3	%
After three through six months	44,732	39,550	13.1	%
After six through twelve months	123,248	106,810	15.4	%
After twelve months	91,896	121,823	(24.6)	%
	$ 320,011	$ 325,307	9.2	%

Short Term Borrowed Funds

Our short term borrowed funds consist of federal funds purchased and securities sold under repurchase agreements and short-term FHLB Advances. Note 9—Federal Funds Purchased and Securities Sold Under Agreements to Repurchase in our audited financial statements provides a profile of these funds for the last three years at each year end, the average amounts outstanding during each period, the maximum amounts outstanding at any month end, and the weighted average interest rates on year end and average balances in each category. Federal funds purchased and securities sold under agreements to repurchase most typically have maturities within one to three days from the transaction date. Certain of these borrowings have no defined maturity date. Not 10—Other Borrowings in our audited financial statements provide provides a profile of short-term FHLB advances for the last three years at each year end, the average amounts outstanding during each period and the weighted average interest rates on year end and average balances in each category. Short-term FHLB advances have a maturity of less than one year.

Capital and Dividends

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of December 31, 2018, shareholders' equity was $2.4 billion, an increase of $57.4 million, or 2.5%, from at December 31, 2017. The driving factor for this increase from 2017 is net income of $178.9 million. The increase from net income was partially offset in 2018 by the dividend paid to common shareholders of $50.6 million, an increase in the accumulated other comprehensive losses of $14.5 million mainly related to losses within investment securities and a reduction in capital of $68.4 million from the repurchase of common stock through the Company's stock buyback plan. Our equity to assets ratio increased to 16.12% at December 31, 2018 from 15.96% at

December 31, 2017 due to the percentage increase in equity of 2.5% being greater than the percentage increase in total assets of 1.4%.

In March 2017, the board of directors approved and reset the number of shares available to be repurchased under the 2004 stock repurchase program to 1,000,000. During 2018, the Company repurchased all 1,000,000 shares in open market transactions under the plan at an average price of $68.40 for a total of $68.4 million. The board of directors made the determination to repurchase the shares after considering the Company’s liquidity needs and capital resources as

79

Table of Contents

well as the estimated current value of the Company's net assets. The number of shares to be purchased and the timing of the purchases during 2018 were based on a variety of factors, including, but not limited to, the level of cash balances, general business conditions, regulatory requirements, the market price of the Company's common stock, and the availability of alternative investment opportunities. In January 2019, the board of directors approved a new program to repurchase up to 1,000,000 of our common shares. The Company is not obligated to repurchase any additional shares under the 2019 stock repurchase program, and any repurchases under the 2019 stock repurchase program after December 23, 2019 would require additional Federal Reserve approval.

The Federal Reserve Board in March of 2005 announced changes to its capital adequacy rules, including the capital treatment of trust preferred securities. The Federal Reserve's rule, which took effect in early April 2005, permitted bank holding companies to treat outstanding trust preferred securities as Tier 1 Capital for the first 25 years of the 30 year term of the related junior subordinated debt securities. We issued $40.0 million of these types of junior non consolidated securities during 2005, positively impacting Tier I Capital. In November of 2007, we acquired the Scottish Bank and an additional $3.0 million of non consolidated junior subordinated debt securities. In December of 2012, we acquired $9.2 million of non consolidated junior subordinated debt securities through the Savannah Bancorp, Inc. acquisition. In July of 2013, we acquired an additional $46.1 million of non consolidated junior subordinated debt securities through the FFHI merger which we redeemed in January of 2015. In January 2017, we acquired $18.5 million of non-consolidated junior subordinated debt securities through the SBFC merger and in November 2017, we acquired $40.9 million of non-consolidated junior subordinated debt securities through the PSC merger. (See Note 1—Summary of Significant Accounting Policies in the audited consolidated financial statements for a more detailed explanation of our trust preferred securities.)

Pursuant to the Basel III capital rules adopted by the bank regulatory agencies in July 2013, financial institutions with less than $15 billion in total assets, such as the Company, may continue to include their TRUPs issued prior to May 19, 2010 in Tier 1 capital, but cannot include in Tier 1 capital any TRUPs issued after such date. A financial institution may continue to include its TRUPs in Tier 1 capital if it exceeds $15 billion in total assets through organic growth but if it exceeds $15 billion in total assets through an acquisition or enters into an acquisition after exceeding $15 billion in total assets through organic growth, then the TRUPs would no longer be included in Tier 1 capital.

Table 23—Capital Adequacy Ratios

	December 31,		
(In percent)	2018	2017	2016
Common equity Tier 1 risk-based capital	12.05	11.59	11.66
Tier 1 risk based capital	13.05	12.60	12.43
Total risk based capital	13.56	13.04	13.04
Tier 1 leverage	10.65	10.36	9.88

The Tier 1 leverage ratio increased compared to December 31, 2017 due to the increase in our capital outpacing the increase in our average asset size. The Common equity Tier 1 risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios all increased compared to December 31, 2017 due to our capital increasing outpacing the increase in our risk-based assets. The increase in our capital was mainly attributable to net income in 2018 of $178.9 million. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

We are subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

In July 2013, the Federal Reserve and FDIC announced approval of final rules to implement certain regulatory capital reforms, which we refer to Basel III, developed by the Basel Committee on Banking Supervision, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules were effective January 1, 2015, subject to a phase-in period for certain aspects of the rules.

Table of Contents

The capital rules framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. As applied to the Company and the Bank, Basel III requires a minimum ratio of common equity Tier 1 capital, or CET1, to risk-weighted assets of 4.5%. In terms of quality of capital, Basel III emphasizes CET1 capital and implements strict eligibility criteria for regulatory capital instruments. Basel III also requires a minimum ratio of Tier 1 capital to risk-weighted assets of 6%. Our minimum required leverage ratio under Basel III is 4%. Our minimum required total capital to risk-weighted assets ratio is 8% under Basel III.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under Basel III a covered banking organization is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer consists solely of common equity Tier 1, and the buffer applies to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer became fully effective on January 1, 2019, and consists of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

Under the Basel III rules, AOCI is presumptively included in common equity Tier 1 capital and can operate to reduce this category of capital. When implemented, Basel III provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI, which election the Bank and the Company have made. As a result, the Company and the Bank retained its pre-existing treatment for AOCI.

The Bank is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

We pay cash dividends to shareholders from funds provided mainly by dividends received from our Bank. Dividends paid by our bank are subject to certain regulatory restrictions. The approval of the SCBFI is required to pay dividends that exceed 100% of net income in any calendar year. As of December 31, 2018, approximately $31.2 million of the bank's current year net income was available for distribution to the Company as dividends without prior regulatory approval. No special dividend approval was needed from the SCBFI during 2018, 2017 or 2016. The Federal Reserve Board, the FDIC, and the OCC have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current earnings.

The following table provides the amount of dividends and payout ratios for the years ended December 31:

Table 24—Dividends Paid to Common Shareholders

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Dividend payments to common shareholders	$ 50,558	$ 38,623	$ 29,285
Dividend payout ratios	28.27 %	44.11 %	28.91 %

We retain earnings to have capital sufficient to grow our loan and investment portfolios and to support certain acquisitions or other business expansion opportunities. The dividend payout ratio is calculated by dividing dividends paid during the year by net income for the year.

Asset Credit Risk and Concentrations

The quality of our interest earning assets is maintained through our management of certain concentrations of credit risk. We review each individual earning asset including investment securities and loans for credit risk. To facilitate this review, we have established credit and investment policies that include credit limits, documentation, periodic examination, and follow up. In addition, we examine these portfolios for exposure to concentration in any one industry, government agency, or geographic location.

81

Table of Contents

Loan and Deposit Concentration

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. At December 31, 2018 and 2017, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

Concentration of Credit Risk

Each category of earning assets has a certain degree of credit risk. We use various techniques to measure credit risk. Credit risk in the investment portfolio can be measured through bond ratings published by independent agencies. In the investment securities portfolio, the investments consist of U.S. government sponsored entity securities, tax free securities, or other securities having ratings of "AAA" to "Not Rated". All securities, with the exception of those that are not rated, were rated by at least one of the nationally recognized statistical rating organizations. The credit risk of the loan portfolio can be measured by historical experience. We maintain our loan portfolio in accordance with credit policies that we have established. Although the subsidiary has a diversified loan portfolio, a substantial portion of their borrowers' abilities to honor their contracts is dependent upon economic conditions within South Carolina, North Carolina, Georgia and the surrounding regions.

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25 percent of total risk based capital. Based on this criteria, we had three such credit concentrations at December 31, 2018, including loans on hotels and motels, loans to lessors of nonresidential buildings (except mini warehouses) and loans to lessors of residential buildings (investment properties and multi-family). The risk for these loans and for all loans is managed collectively through the use of credit underwriting practices developed and updated over time. The loss estimate for these loans is determined using our standard ALLL methodology.

Banking regulators have established guidelines for the construction, land development and other land loans to total less than 100% of total risk-based capital and for total commercial real estate loans to total less than 300% of total risk-based capital. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by the Bank's total risk-based capital. At December 31, 2018 and 2017, the Bank's construction, land development and other land loans as a percentage of total risk-based capital were 69.5% and 90.5%, respectively. Commercial real estate loans (which includes construction, land development and other land loans along with other non-owner occupied commercial real estate and multifamily loans) as a percentage of total risk-based capital were 216.0% and 227.3% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Bank was below the established regulatory guidelines. When a bank's ratios are in excess of one or both of these commercial real estate loan ratio guidelines, banking regulators generally require an increased level of monitoring in these lending areas by bank management. Therefore, we monitor these two ratios as part of our concentration management processes.

Off Balance Sheet Arrangements

Through the operations of our bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. We evaluate each customer's credit worthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant

and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

At December 31, 2018, the bank had issued commitments to extend credit and standby letters of credit and financial guarantees of $2.8 billion through various types of lending arrangements. We believe that we have adequate sources of liquidity to fund commitments that are drawn upon by the borrowers.

Table of Contents

In addition to commitments to extend credit, we also issue standby letters of credit, which are assurances to third parties that they will not suffer a loss if our customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled $32.7 million at December 31, 2018. Past experience indicates that many of these standby letters of credit will expire unused. However, through our various sources of liquidity, we believe that we will have the necessary resources to meet these obligations should the need arise.

Except as disclosed in this report, we are not involved in off balance sheet contractual relationships, unconsolidated related entities that have off balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

Effect of Inflation and Changing Prices

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measure of financial position and results of operations in terms of historical dollars, without consideration of changes in the relative purchasing power over time due to inflation. Unlike most other industries, the majority of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on a financial institution's performance than does the effect of inflation. Interest rates do not necessarily change in the same magnitude as the prices of goods and services.

While the effect of inflation on banks is normally not as significant as is its influence on those businesses which have large investments in plant and inventories, it does have an effect. During periods of high inflation, there are normally corresponding increases in money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses. Inflation also affects our bank's customers and may result in an indirect effect on our bank's business.

Contractual Obligations

The following table presents payment schedules for certain of our contractual obligations as of December 31, 2018. Long term debt obligations totaling $266.1 million include junior subordinated debt. Operating lease obligations of $52.0 million pertain to banking facilities and equipment. Certain lease agreements include payment of property taxes and insurance and contain various renewal options. Additional information regarding leases is contained in Note 20 of the audited consolidated financial statements.

Table 25—Obligations

(Dollars in thousands)	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Long term debt obligations*	$ 266,084	$ 150,007	$ 15	$ 16	$ 116,046
Operating lease obligations	51,956	7,497	15,003	12,946	16,510
Total	$ 318,040	$ 157,504	$ 15,018	$ 12,962	$ 132,556

* Represents principal maturities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

See "Asset Liability Management and Market Risk Sensitivity" on page 77 in Management's Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data.

See Table 1 on page 51 for our unaudited quarterly results of operations and the pages beginning with F 1 for our audited consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

83

Table of Contents

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2018, in accordance with Rule 13a 15 of the Securities Exchange Act of 1934. We applied our judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding our control objectives. Based upon that evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of December 31, 2018, were effective to provide reasonable assurance regarding our control objectives.

Management's Annual Report on Internal Control over Financial Reporting is included on page F 1 of this Report. The report of the Company's independent registered public accounting firm regarding the Company's internal control over financial reporting begins on page F 2 of this Report.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Report on Internal Controls over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 is included in Item 8 of this Report under the heading "Management's Report on Internal Controls Over Financial Reporting."

Our independent auditors have issued an audit report on management's assessment of internal controls over financial reporting. This report entitled "Report of Independent Registered Public Accounting Firm" appears in Item 8.

Item 9B. Other Information.

Not applicable.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required to be disclosed by this item will be disclosed in the Company's definitive proxy statement to be filed no later than 120 days after December 31, 2018 and in connection with the our 2019 Annual Meeting of Shareholders under the caption "Election of Directors," under the caption "The Board of Directors and Committees," in the subsection titled "Audit Committee" under the caption "The Board of Directors and Committees," in the subsection titled "Governance Committee" under the caption "The Board of Directors and Committees," and under the caption "Section 16(a) Beneficial Ownership Reporting Compliance." We incorporate such required information herein by reference.

Item 11. Executive Compensation.

The information required to be disclosed by this item will be disclosed in the Company's definitive proxy statement to be filed no later than 120 days after December 31, 2018 and in connection with our 2019 Annual Meeting of Shareholders under the caption "Executive Compensation," including the sections titled "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan Based Awards," "Outstanding Equity Awards at Fiscal Year End," "Option Exercises and Stock Vested," "Pension Benefits," "Deferred Compensation Plan," "Compensation Committee Report," "Potential Payments Upon Termination or Change of Control," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation." We incorporate such required information herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table contains certain information as of December 31, 2018, relating to securities authorized for issuance under our equity compensation plans:

Plan Category	A Number of securities to be issued upon exercise of Outstanding options, warrants, and Rights	B Weighted-average exercise price of Outstanding options, warrants, and Rights	C Number of Securities remaining available for future issuance under equity Compensation plans (excluding Securities reflected in column "A")
Equity compensation plans approved by security holders	213,866	$ 61.28	340,333
Equity compensation plans not approved by security holders	None	n/a	n/a

Included within the 340,333 number of securities available for future issuance in the table above are a total of 268,919 shares remaining from the authorized total of 1,684,000 under the Company's 2012 Stock Incentive Program and 71,414 shares remaining from the authorized total of 363,825 under the Company's 2002 Employee Stock Purchase Plan. Shares issued in respect to restricted stock and restricted stock units granted under the 2012 Stock Incentive Program count against the shares available for grant under the applicable plan as approximately two shares for every share granted. All securities totals for the outstanding and remaining available for future issuance amounts described in this Item 12 have been adjusted to give effect to stock dividends paid on March 23, 2007, January 1, 2005 and December 6, 2002.

Other information required to be disclosed by this item will be disclosed under the captions "Beneficial Ownership of Certain Parties" and "Beneficial Ownership of Directors and Executive Officers" in the definitive proxy statement of the Company to be filed no later than 120 days after December 31, 2018 and in connection with our 2019 Annual Meeting of Shareholders. We incorporate such required other information herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required to be disclosed by this item will be disclosed under the caption "Certain Relationships and Related Transactions" in the definitive proxy statement of the Company to be filed no later than 120 days after December 31, 2018 and in connection with our 2019 Annual Meeting of Shareholders. We incorporate such required information herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required to be disclosed by this item will be disclosed under the caption "Audit and Other Fees" in the definitive proxy statement of the Company to be filed no later than 120 days after December 31, 2018 and in connection with our 2019 Annual Meeting of Shareholders. We incorporate such required information herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)1. The financial statements and independent auditors' report referenced in "Item 8—Financial Statements and Supplementary Data" are listed below:

South State Corporation and Subsidiary

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2.Financial Schedules Filed: None

3.Exhibits

In most cases, documents incorporated by reference to exhibits that have been filed with the Company's reports or proxy statements under the Securities Exchange Act of 1934 are available to the public over the Internet from the SEC's web site at www.sec.gov. You may also read and copy any such document at the SEC's public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549 under the Company's SEC file number (001 12669).

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of South State Corporation, filed October 24, 2014 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8 K filed on October 28, 2014)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of South State Corporation, dated October 26, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8 K filed on October 27, 2017)
3.3	Amended and Restated Bylaws of South State Corporation, dated January 21, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8 K filed on January 27, 2016)
4.1	Specimen South State Corporation Common Stock Certificate (incorporated by reference as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K filed on February 27, 2015)

86

Table of Contents

Exhibit No.	Description of Exhibit
4.2	Articles of Incorporation (included as Exhibits 3.1 and 3.2)
4.3	Bylaws (included as Exhibit 3.3)
10.1*	SCBT Financial Corporation Stock Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed in connection with its 2004 Annual Meeting of Shareholders)
10.2*	Second Amended and Restated Employment and Noncompetition Agreement between SCBT Financial Corporation and Robert R. Hill, Jr., dated as of December 31, 2008 (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.3*	Second Amended and Restated Employment and Non Competition Agreement between SCBT Financial Corporation and John C. Pollok, dated and effective as of December 31, 2008 (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.4*	Second Amended and Restated Employment and Non Competition Agreement between SCBT Financial Corporation and Joseph E. Burns, dated and effective as of December 31, 2008 (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.5*	Amended and Restated Employment and Non Competition Agreement between SCBT Financial Corporation and John Windley, dated and effective as of December 31, 2008 (incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.6*	Form of Amendment to the Supplemental Executive Retirement Agreements between SCBT, N.A. and Robert R. Hill, Jr., John C. Pollok, and Joseph E. Burns effective as of December 30, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.7*	Form of Amendment to the Supplemental Executive Retirement Agreements between SCBT, N.A. and Thomas S. Camp, Richard C. Mathis, Dane H. Murray, and John F. Windley, effective as of December 31, 2008 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.8*	Amendment to the 2004 Stock Incentive Plan, dated December 18, 2008 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8 K filed on January 6, 2009)
10.9*	Amended and Restated SCBT, N.A. Deferred Income Plan, executed on November 30, 2010, to be effective as of December 1, 2010 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on December 6, 2010)
10.10*	Employment and Noncompetition Agreement for Renee R. Brooks, effective January 27, 2011 (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on February 2, 2011)
10.11*	Employment and Noncompetition Agreement for John S. Goettee, effective January 31, 2011

10.12*	Employment and Noncompetition Agreement for Greg A. Lapointe, effective January 31, 2011
10.13*	Employment and Noncompetition Agreement for Jonathan Kivett, effective May 7, 2018

87

Table of Contents

Exhibit No.	Description of Exhibit
10.14*	South State Corporation Omnibus Stock and Performance Plan (Originally approved by shareholders on April 24, 2012, as Amended and Restated Effective as of April 20, 2017) (incorporated by reference as Appendix A to the Registrant's Definitive Proxy Statement filed in connection with its 2017 Annual Meeting of Shareholders)
10.15*	Form of Restricted Stock Agreement under the South State Corporation Omnibus Stock and Performance Plan (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on January 22, 2013)
10.16*	Form of Stock Option Agreement under the South State Corporation Omnibus Stock and Performance Plan (incorporated by reference as Exhibit 10.2 to the Registrant's Current Report on Form 8 K filed on January 22, 2013)
10.17*	Form of Restricted Stock Unit Agreement under the South State Corporation Omnibus Stock and Performance Plan
10.18*	SCBT Financial Corporation 2002 Employee Stock Purchase Plan (Amended and Restated) (Effective April 30, 2017) (incorporated by reference as Exhibit 10.16 to the Registrant's Annual Report on Form 10 K filed on February 23, 2018)
10.19	Credit Agreement, dated as of October 28, 2013, by and between First Financial Holdings, Inc., as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on October 29, 2013)
10.20	Amendment No. 1, dated as of October 27, 2014, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.2 to the Registrant's Current Report on Form 8 K filed on October 31, 2014)
10.21	Amendment No. 2, dated as of November 5, 2015, executed an amendment to its credit agreement with the Lender, U.S. Bank National Association to extend its $20.0 million unsecured line of credit through November 15, 2015 (incorporated by reference to the information set forth under Item 5. Other information, of South State Corporation's Form 10-Q, filed on November 6, 2015.
10.22	Amendment No. 3, dated as of November 16, 2015, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.4 to the Registrant's Current Report on Form 8 K filed on November 20, 2015)
10.23	Amendment No. 4, dated as of November 15, 2016, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.5 to the Registrant's Current Report on Form 8 K filed on November 17, 2016)
10.24	Amendment No. 5, dated as of November 15, 2017, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender

(incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on November 17, 2017)

Table of Contents

Exhibit No.	Description of Exhibit
10.25	Amendment No. 6, dated as of November 15, 2018, to Credit Agreement, dated as of October 28, 2013, by and between South State Corporation, as borrower, and U.S. Bank National Association, as lender (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on November 15, 2018)
10.26*	Employment Agreement, effective March 1, 2019, between South State Bank, South State Corporation and John F. Windley (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8 K filed on July 19, 2018)
10.27*	Consulting Agreement, effective September 1, 2019, between South State Bank, South State Corporation and Joseph E. Burns (incorporated by reference as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 19, 2018)
10.28*	Annual Incentive Plan dated March 23, 2018 (incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 27, 2018)
21	Subsidiaries of the Registrant
23	Consent of Dixon Hughes Goodman LLP
24.1	Power of Attorney (contained herein as part of the signature pages)
31.1	Rule 13a 14(a) Certification of the Principal Executive Officer
31.2	Rule 13a 14(a) Certification of the Principal Financial Officer
32	Section 1350 Certifications
101	The following financial statements from the Annual Report on Form 10 K of South State Corporation, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017, (ii) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (v) Consolidated Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and (vi) Notes to Consolidated Financial Statements.

* Denotes a management compensatory plan or arrangement.

(b) See Exhibit Index following the Annual Report on Form 10 K for a listing of exhibits filed herewith.
(c) Not Applicable.
The South State Corporation and certain of its consolidated subsidiaries are parties to long-term debt instruments with respect to trust preferred securities under which the total amount of securities authorized does not exceed 10% of the total assets of South State Corporation and its subsidiaries on a consolidated basis. Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, South State Corporation agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

89

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.11*	Employment and Noncompetition Agreement for John S. Goettee, effective January 31, 2011
10.12*	Employment and Noncompetition Agreement for Greg A. Lapointe, effective January 31, 2011
10.13*	Employment and Noncompetition Agreement for Jonathan Kivett, effective May 7, 2018
10.17*	Form of Restricted Stock Unit Agreement under the South State Corporation Omnibus Stock and Performance Plan
21	Subsidiaries of the Registrant
23	Consent of Dixon Hughes Goodman LLP
24.1	Power of Attorney (contained herein as part of the signature pages)
31.1	Rule 13a 14(a) Certification of the Principal Executive Officer
31.2	Rule 13a 14(a) Certification of the Principal Financial Officer
32	Section 1350 Certifications
101	The following financial statements from the Annual Report on Form 10 K of South State Corporation, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017, (ii) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016, (v) Consolidated Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016 and (vi) Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Columbia and State of South Carolina, on the 22nd day of February, 2019.

South State Corporation
(Registrant)

By: /s/ Robert R. Hill, Jr.
Robert R. Hill, Jr.
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert R. Hill, Jr., his true and lawful attorney in fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10 K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney in fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney in fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated.

Signature	Title	Date
/s/ Robert R. Hill, Jr. Robert R. Hill, Jr.	Chief Executive Officer and Director	February 22, 2019
/s/ John C. Pollok John C. Pollok	Senior Executive Vice President, Chief Financial Officer, and Director	February 22, 2019
/s/ Keith S. Rainwater Keith S. Rainwater	Executive Vice President and Principal Accounting Officer	February 22, 2019
/s/ Robert R. Horger Robert R. Horger	Chairman of the Board of Directors	February 22, 2019
/s/ Jimmy E. Addison Jimmy E. Addison	Director	February 22, 2019
/s/ James C. Cherry		

James C. Cherry	Director	February 22, 2019
/s/ Jean E. Davis Jean E. Davis	Director	February 22, 2019
/s/ Martin B. Davis Martin B. Davis	Director	February 22, 2019

91

Table of Contents

Signature	Title	Date
/s/ Paula Harper Bethea Paula Harper Bethea	Director	February 22, 2019
/s/ Robert H. Demere, Jr. Robert H. Demere, Jr.	Director	February 22, 2019
/s/ Cynthia A. Hartley Cynthia A. Hartley	Director	February 22, 2019
/s/ Thomas J. Johnson Thomas J. Johnson	Director	February 22, 2019
/s/ Grey B. Murray Grey B. Murray	Director	February 22, 2019
/s/ James W. Roquemore James W. Roquemore	Director	February 22, 2019
/s/ Thomas E. Suggs Thomas E. Suggs	Director	February 22, 2019
/s/ Kevin P. Walker Kevin P. Walker	Director	February 22, 2019

Table of Contents

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of South State Corporation (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting. Management has assessed the effectiveness of internal control over financial reporting using the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company   (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company   and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the testing performed using the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management of the Company believes that the Company’s internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by Dixon Hughes Goodman LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ South State Corporation

Columbia, South Carolina

February 22, 2019

www.SouthStateBank.com

(800) 277 2175 | P.O. Box 1030 | Columbia, South Carolina | 29202 1030

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of South State Corporation

Opinion on Internal Control Over Financial Reporting

We have audited South State Corporation's (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, South State Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of South State Corporation as of December 31, 2018 and 2017, and for each of the years in the three years ended December 31, 2018, and our report dated February 22, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia

February 22, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

South State Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of South State Corporation (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2007.

Atlanta, Georgia

February 22, 2019

Table of Contents

South State Corporation and Subsidiary

Consolidated Balance Sheets

(Dollars in thousands, except share and par value)

	December 31, 2018	2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 251,411	$ 255,775
Interest-bearing deposits with banks	124,895	117,635
Federal funds sold and securities purchased under agreements to resell	32,677	4,217
Total cash and cash equivalents	408,983	377,627
Investment securities:		
Securities held to maturity (fair value of $0 and $2,556, respectively)	—	2,529
Securities available for sale, at fair value	1,517,067	1,648,193
Other investments	25,604	23,047
Total investment securities	1,542,671	1,673,769
Loans held for sale	22,925	70,890
Loans:		
Acquired credit impaired, net of allowance for loan losses	485,119	618,803
Acquired non-credit impaired	2,594,826	3,507,907
Non-acquired	7,933,286	6,492,155
Less allowance for non-acquired loan losses	(51,194)	(43,448)
Loans, net	10,962,037	10,575,417
Other real estate owned	11,410	11,203
Premises and equipment, net	241,076	255,565
Bank owned life insurance	230,105	225,132
Deferred tax assets	37,128	45,902
Mortgage servicing rights	34,727	31,119
Core deposit and other intangibles	62,900	73,789
Goodwill	1,002,900	999,586
Other assets	119,466	126,590
Total assets	$ 14,676,328	$ 14,466,589
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 3,061,769	$ 3,047,432
Interest-bearing	8,585,164	8,485,334
Total deposits	11,646,933	11,532,766
Federal funds purchased and securities sold under agreements to repurchase	270,649	286,857
Other borrowings	266,084	216,385
Other liabilities	126,366	121,661
Total liabilities	12,310,032	12,157,669
Shareholders' equity:		

Common stock - $2.50 par value; authorized 80,000,000 shares; 35,829,549 and 36,759,656 shares issued and outstanding, respectively	89,574	91,899
Surplus	1,750,495	1,807,601
Retained earnings	551,108	419,847
Accumulated other comprehensive loss	(24,881)	(10,427)
Total shareholders' equity	2,366,296	2,308,920
Total liabilities and shareholders' equity	$ 14,676,328	$ 14,466,589

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

Table of Contents

South State Corporation and Subsidiary

Consolidated Statements of Income

(in thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Interest income:			
Loans, including fees	$ 521,478	$ 389,535	$ 308,461
Investment securities:			
Taxable	35,563	28,165	18,025
Tax-exempt	6,152	5,591	3,884
Federal funds sold and securities purchased under agreements to resell	4,015	2,709	2,793
Total interest income	567,208	426,000	333,163
Interest expense:			
Deposits	45,452	12,353	5,803
Federal funds purchased and securities sold under agreements to repurchase	2,356	1,080	574
Other borrowings	6,184	3,581	1,940
Total interest expense	53,992	17,014	8,317
Net interest income	513,216	408,986	324,846
Provision for loan losses	13,783	11,890	6,819
Net interest income after provision for loan losses	499,433	397,096	318,027
Noninterest income:			
Fees on deposit accounts	81,649	80,764	73,771
Mortgage banking income	13,590	17,954	20,547
Trust and investment services income	30,229	25,401	19,764
Securities gains (losses), net	(655)	1,421	122
Other-than-temporary impairment losses	—	(753)	—
Recoveries on acquired loans	9,117	8,572	6,465
Amortization of FDIC indemnification asset, net	—	—	(5,902)
Other	11,819	6,670	6,437
Total noninterest income	145,749	140,029	121,204
Noninterest expense:			
Salaries and employee benefits	233,130	194,446	164,663
Net occupancy expense	30,816	25,357	21,712
Information services expense	34,322	25,462	20,549
Furniture and equipment expense	18,349	15,568	12,403
OREO expense and loan related	3,510	6,721	6,307
Bankcard expense	1,783	2,180	2,597
Amortization of intangibles	14,209	10,353	7,577
Supplies, printing and postage expense	5,839	6,148	6,279
Professional fees	8,883	5,975	6,702
FDIC assessment and other regulatory charges	8,405	3,924	3,896

Advertising and marketing	4,221	3,963	3,092
Merger and branch consolidation related expense	29,868	44,503	8,081
Other	27,592	23,720	21,331
Total noninterest expense	420,927	368,320	285,189
Earnings:			
Income before provision for income taxes	224,255	168,805	154,042
Provision for income taxes	45,384	81,251	52,760
Net income	$ 178,871	$ 87,554	$ 101,282
Earnings per common share:			
Basic	$ 4.90	$ 2.95	$ 4.22
Diluted	$ 4.86	$ 2.93	$ 4.18
Dividends per common share	$ 1.38	$ 1.32	$ 1.21
Weighted average common shares outstanding:			
Basic	36,530	29,686	23,998
Diluted	36,776	29,922	24,219

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

Table of Contents

South State Corporation and Subsidiary

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	$ 178,871	$ 87,554	$ 101,282
Other comprehensive income:			
Unrealized losses on securities:			
Unrealized holding losses arising during period	(17,322)	(3,486)	(6,821)
Tax effect	3,843	1,329	2,600
Reclassification adjustment for (gains) losses and OTTI included in net income	655	(668)	(122)
Tax effect	(145)	255	47
Net of tax amount	(12,969)	(2,570)	(4,296)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges:			
Unrealized holding gains (losses) arising during period	42	(22)	(55)
Tax effect	(9)	9	21
Reclassification adjustment for losses included in interest expense	155	275	275
Tax effect	(34)	(105)	(105)
Net of tax amount	154	157	136
Change in pension plan obligation:			
Change in pension and retiree medical plan obligation during period	490	(589)	(1,202)
Tax effect	(108)	224	453
Reclassification adjustment for changes included in net income	1,187	908	920
Tax effect	(261)	(346)	(351)
Net of tax amount	1,308	197	(180)
Other comprehensive loss, net of tax	(11,507)	(2,216)	(4,340)
Comprehensive income	$ 167,364	$ 85,338	$ 96,942

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

Table of Contents

South State Corporation and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except share and per share data)

	Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2015	24,162,657	$ 60,407	$ 703,929	$ 298,919	$ (3,871)	$ 1,059,384
Comprehensive income:						
Net income	—	—	—	101,282	—	101,282
Other comprehensive loss, net of tax effects	—	—	—	—	(4,340)	(4,340)
Total comprehensive income						96,942
Cash dividends declared on common stock at $1.21 per share	—	—	—	(29,285)	—	(29,285)
Employee stock purchases	14,516	36	889	—	—	925
Stock options exercised	63,527	158	2,046	—	—	2,204
Restricted stock awards	42,226	106	(106)	—	—	—
Stock issued pursuant to restricted stock units	35,903	90	(90)	—	—	—
Common stock repurchased -2004 buyback plan	(32,900)	(82)	(2,048)	—	—	(2,130)
Common stock repurchased	(55,537)	(139)	(3,712)	—	—	(3,851)

Excess tax benefits in connection with equity awards	—	—	4,178	—	—	4,178
Share-based compensation expense	—	—	6,221	—	—	6,221
Balance, December 31, 2016	24,230,392	$ 60,576	$ 711,307	$ 370,916	$ (8,211)	$ 1,134,588
Comprehensive income:						
Net income	—	—	—	87,554	—	87,554
Other comprehensive loss, net of tax effects	—	—	—	—	(2,216)	(2,216)
Total comprehensive income						85,338
Cash dividends declared on common stock at $1.32 per share	—	—	—	(38,623)	—	(38,623)
Employee stock purchases	12,798	32	1,023	—	—	1,055
Stock options exercised	59,480	149	1,816	—	—	1,965
Restricted stock awards	21,628	53	(53)	—	—	—
Stock issued pursuant to restricted stock units	37,802	95	(95)	—	—	—
Common stock issued for Southeastern Bank Financial Corp. acquisition	4,978,338	12,446	422,163	—	—	434,609
Common stock issued for Park Sterling Corporation acquisition	7,480,343	18,701	669,865			688,566
Common stock repurchased	(61,125)	(153)	(5,359)	—	—	(5,512)
Share-based compensation expense	—	—	6,934	—	—	6,934
Balance, December 31, 2017	36,759,656	$ 91,899	$ 1,807,601	$ 419,847	$ (10,427)	$ 2,308,920
Comprehensive income:						

Net income	—	—	—	178,871	—	178,871
Other comprehensive loss, net of tax effects	—	—	—	—	(11,507)	(11,507)
Total comprehensive income						167,364
Cash dividends declared at $1.38 per share	—	—	—	(50,557)	—	(50,557)
AOCI reclassification to retained earnings from adoption of ASU 2018-02	—	—	—	2,947	(2,947)	—
Employee stock purchases	18,110	45	1,286	—	—	1,331
Stock options exercised	33,424	84	948	—	—	1,032
Restricted stock awards	4,069	10	(10)	—	—	—
Stock issued pursuant to restricted stock units	39,541	99	(99)	—	—	—
Common stock repurchased - buyback plan	(1,000,000)	(2,500)	(65,904)	—	—	(68,404)
Common stock repurchased	(25,251)	(63)	(2,110)	—	—	(2,173)
Share-based compensation expense	—	—	8,783	—	—	8,783
Balance, December 31, 2018	35,829,549	$ 89,574	$ 1,750,495	$ 551,108	$ (24,881)	$ 2,366,296

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

Table of Contents

South State Corporation and Subsidiary

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 178,871	$ 87,554	$ 101,282
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,696	28,704	21,582
Provision for loan losses	13,783	11,890	6,819
Deferred income taxes	15,176	5,640	9,378
Revision of provisional amount related to the revaluation of deferred taxes from the Tax Reform Act	(991)	26,558	—
Other-than-temporary impairment on securities	—	753	—
(Gain) loss on sale of securities, net	655	(1,421)	(122)
Share-based compensation expense	8,783	6,934	6,220
Amortization of FDIC indemnification asset	—	—	3,566
Accretion of discount related to performing acquired loans	(27,756)	(15,893)	(5,187)
(Gain) loss on disposal of premises and equipment	1,568	177	(60)
(Gain) loss on sale of OREO	(1,969)	101	(1,735)
Net amortization of premiums on investment securities	7,567	6,853	5,409
OREO write downs	1,420	2,249	4,401
Fair value adjustment for loans held for sale	(521)	752	495
Originations and purchases of loans held for sale	(631,328)	(682,403)	(771,105)
Proceeds from sales of loans	679,811	745,871	761,688
Net change in:			
Accrued interest receivable	(3,269)	(2,198)	(1,536)
Prepaid assets	1,951	6	(804)
FDIC indemnification asset	—	—	3,177
Miscellaneous other assets	(1,168)	(32,324)	(13,799)
Accrued interest payable	1,930	(948)	(831)
Accrued income taxes	143	1,959	105
Miscellaneous other liabilities	3,359	7,076	9,068
Net cash provided by operating activities	283,711	197,890	138,011
Cash flows from investing activities:			
Proceeds from sales of investment securities available for sale	73,054	374,938	137
Proceeds from maturities and calls of investment securities held to maturity	2,530	3,570	3,225
Proceeds from maturities and calls of investment securities available for sale	224,713	235,757	383,577
Proceeds from sales of other investment securities	15,938	15,302	71
Purchases of investment securities available for sale	(191,313)	(241,274)	(385,813)
Purchases of other investment securities	(18,494)	(4,553)	(660)

Net increase in loans	(391,428)	(636,836)	(690,495)
Net cash received from acquisitions	—	185,163	—
Payment to terminate FDIC Loss Share Agreements	—	—	(2,342)
Recoveries of loans previously charged off	3,300	3,430	3,552
Purchases of premises and equipment	(14,538)	(15,163)	(25,796)
Proceeds from sale of OREO	13,943	18,751	23,565
Proceeds from sale of premises and equipment	146	15	60
Net cash used in investing activities	(282,149)	(60,900)	(690,919)
Cash flows from financing activities:			
Net increase in deposits	114,779	226,045	233,993
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	(16,208)	(27,930)	25,542
Proceeds from FHLB advances	590,001	100,000	—
Repayment of other borrowings	(540,007)	(390,811)	(14)
Common stock issuance	1,331	1,055	925
Common stock repurchase	(70,577)	(5,512)	(5,981)
Dividends paid on common stock	(50,557)	(38,623)	(29,285)
Excess tax benefits in connection with equity awards	—	—	4,178
Stock options exercised	1,032	1,965	2,204
Net cash (used in) provided by financing activities	29,794	(133,811)	231,562
Net increase (decrease) in cash and cash equivalents	31,356	3,179	(321,346)
Cash and cash equivalents at beginning of period	377,627	374,448	695,794
Cash and cash equivalents at end of period	$ 408,983	$ 377,627	$ 374,448
Supplemental Disclosures:			
Cash Flow Information:			
Cash paid for:			
Interest	$ 52,062	$ 17,962	$ 9,148
Income taxes	31,941	48,028	39,490
Schedule of Noncash Investing Transactions:			
Acquisitions:			
Fair value of tangible assets acquired	$ (7,247)	$ 4,900,334	$ —
Other intangible assets acquired	3,321	44,295	—
Liabilities assumed	(612)	4,477,801	—
Net identifiable assets acquired over liabilities assumed	(3,314)	466,828	—
Common stock issued in acquisition	—	1,123,175	—
Loans sold that have not settled	—	28,663	—
Real estate acquired in full or in partial settlement of loans	13,391	11,558	13,993

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

Table of Contents

Note 1—Summary of Significant Accounting Policies

Nature of Operations

South State Corporation (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, South State Bank (the "Bank"). The Bank also operates Minis & Co., Inc. and South State Advisory (formerly First Southeast 401k Fiduciaries), both wholly-owned registered investment advisors. The Bank provides general banking services within 29 counties in South Carolina, 9 counties in North Carolina, 19 counties in Georgia and four counties in Virginia. The accounting and reporting policies of the Company and its consolidated subsidiary conform to accounting principles generally accepted in the United States of America ('U.S. GAAP"). There are thirteen unconsolidated subsidiaries of the Company that were established for the purpose of issuing in the aggregate $115.0 million of trust preferred securities. The thirteen capital trusts include the following: SCBT Capital Trust I at $12.0 million; SCBT Capital Trust II at $8.0 million; SCBT Capital Trust III at $20.0 million; TSB Statutory Trust I at $3.0 million; SAVB Capital Trust I at $6.0 million; SAVB Capital Trust II at $4.0 million; Southeastern Bank Financial Statutory Trust I at $10.0 million; Southeastern Bank Financial Statutory Trust II at $10.0 million; Provident Community Bancshares Capital Trust I at $4.0 million; FCRV Statutory Trust I at $5.0 million; Community Capital Statutory Trust I at $10.0 million; CSBC Statutory Trust I at $15.0 million and Provident Community Bancshares Capital Trust II at $8.0 million.

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 Bank, a South Carolina banking corporation.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. Assets held by the Company in trust are not assets of the Company and are not included in the accompanying consolidated financial statements.

Segments

The Company, through its subsidiary, provides a broad range of financial services to individuals and companies in South Carolina, North Carolina, Georgia and Virginia. These services include demand, time and savings deposits; lending and credit card servicing; ATM processing; mortgage banking services; and wealth management and trust services. While the Company's decision makers monitor the revenue streams of the various financial products and services, operations are managed and financial performance is evaluated on an organization wide basis. Accordingly, the Company's banking and finance operations are not considered by management to constitute more than one reportable operating segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, fair values of assets and liabilities acquired in business combinations, loss estimates related to loans and other real estate acquired, evaluating other than temporary impairment of investment

securities, goodwill impairment tests and valuation of deferred tax assets

In connection with the determination of the allowance for loan losses, management has identified specific loans as well as adopted a policy of providing amounts for loan valuation purposes which are not identified with any specific loan but are derived from actual loss experience ratios, loan types, loan volume, economic conditions and industry standards. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of the examination process, periodically review

Table of Contents

the banking subsidiary's allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

Concentrations of Credit Risk

The Company's subsidiary grants agribusiness, commercial, and residential loans to customers throughout South Carolina, North Carolina, Virginia and Georgia. Although the subsidiary has a diversified loan portfolio, a substantial portion of their borrowers' abilities to honor their contracts is dependent upon economic conditions within South Carolina, North Carolina, Georgia and the surrounding regions.

The Company considers concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk based capital, or $375.9 million at December 31, 2018. Based on this criteria, the Company had three such credit concentrations at December 31, 2018, including $609.3 million of loans to lessors of residential buildings (investment properties and multi-family), $1.3 billion of loans to lessors of nonresidential buildings (except mini warehouses), and $457.2 million of loans on hotels and motels.

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from banks, interest bearing deposits with banks, purchases of securities under agreements to resell, and federal funds sold. Due from bank balances are maintained in other financial institutions. Federal funds sold are generally purchased and sold for one-day periods, but may, from time to time, have longer terms.

The Company enters into purchases of securities under agreements to resell substantially identical securities typically for the purpose of obtaining securities on a short term basis for collateralizing certain customer deposit relationships. Securities purchased under agreements to resell at December 31, 2018 and 2017 consisted of U.S. government sponsored entities and agency mortgage backed securities. It is the Company's policy to take possession of securities purchased under agreements to resell. The securities are delivered into the Company's account maintained by a third party custodian designated by the Company under a written custodial agreement that explicitly recognizes the Company's interest in the securities. The Company monitors the market value of the underlying securities, including accrued interest, which collateralizes the related receivable on agreements to resell. At December 31, 2018, these agreements were considered to be cash equivalents with maturities of three months or less.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and carried at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and carried at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses realized on sales of securities available for sale are determined using the specific identification method. The Company evaluates securities for other than temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In estimating OTTI losses, management considers: (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. (see Note 3—Investment Securities).

Other investments include stock acquired for regulatory purposes, investments in unconsolidated subsidiaries and other nonmarketable investment securities. Stock acquired for regulatory purposes include Federal Home Loan Bank

Table of Contents

of Atlanta ("FHLB") stock. These securities do not have a readily determinable fair value because their ownership is restricted and they lack a market for trading. As a result, these securities are carried at cost and are periodically evaluated for impairment. Investments in unconsolidated subsidiaries represent a minority investment in SCBT Capital Trust I, SCBT Capital Trust II, SCBT Capital Trust III, TSB Statutory Trust I, SAVB Capital Trust I, SAVB Capital Trust II, Southeastern Bank Financial Statutory Trust I, Southeastern Bank Financial Statutory Trust II, Provident Community Bancshares Capital Trust I, FCRV Statutory Trust I, Community Capital Statutory Trust I, CSBC Statutory Trust I and Provident Community Bancshares Capital Trust II. These investments are recorded at cost and the Company receives quarterly dividend payments on these investments. Other nonmarketable investment securities consists of Business Development Corporation stock and stock in Banker's Banks. These investments also do not have a readily determinable fair value because their ownership is restricted and they lack a market for trading. As a result, these securities are carried at cost and are periodically evaluated for impairment.

Loans Held for Sale

Loans originated and intended for sale are carried at the estimated fair value in the aggregate. Estimated fair value is determined on the basis of existing forward commitments, or the current market value of similar loans. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans held for sale are sold to investors either under guaranteed delivery or with the best effort intent and ability to sell loans as long as they meet the underwriting standards of the potential investor.

Loans

Loans that management has originated and has the intent and ability to hold for the foreseeable future or until maturity or pay off generally are reported at their unpaid principal balances, less unearned income and net of any deferred loan fees and costs. Unearned income on installment loans is recognized as income over the terms of the loans by methods that generally approximate the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

We place non acquired loans and acquired non-credit impaired loans on nonaccrual once reasonable doubt exists about the collectability of all principal and interest due. Generally, this occurs when principal or interest is 90 days or more past due, unless the loan is well secured and in the process of collection.

A loan is considered impaired when, in management's judgment, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines when loans become impaired through its normal loan administration and review functions. Loans identified as nonaccrual are potentially impaired loans. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired, provided that management expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest income recognition on non acquired impaired loans is discontinued when the loans meet the criteria for nonaccrual status described above. Large groups of smaller balance homogeneous non acquired loans are collectively evaluated for loss and a general reserve is established accordingly.

Acquired credit impaired loans are initially recorded at a discount to recognize the difference in the fair value of the loans and the contractual balance. The discount includes a component to recognize the absolute difference between the

contractual value and the amount expected to be collected (total cash flow) as well as a component to recognize the net present value of that future amount to be collected. The net present value component is accretable into income, and therefore generates a yield on all acquired credit impaired loans, regardless of past due status. Therefore, acquired credit impaired loans are considered to be accruing loans. Acquired credit impaired loans that are greater than 90 days past due are placed into the greater than 90 days past due and still accruing category when analyzing the aging status of the loan portfolio. See Note 4—Loans and Allowance for Loan Losses for further detail.

Table of Contents

Troubled Debt Restructurings (“TDRs”)

The Bank designates loan modifications as TDRs when, for economic or legal reasons related to the borrower’s financial difficulties, it grants a concession to the borrower that it would not otherwise consider. Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of modification are initially classified as accruing TDRs at the date of modification, if the note is reasonably assured of repayment and performance is in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the modification date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accruing status when there is economic substance to the restructuring, there is well documented credit evaluation of the borrower’s financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months).

Allowance for Loan Losses

The allowance for loan losses is established for estimated loan losses through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and specific reserves. The general reserves are determined, for loans not identified as impaired, by applying loss percentages to the portfolio that are based on historical loss experience 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. The specific reserves are determined, for impaired loans, on a loan by loan basis based on management’s evaluation of the Company’s exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. Management evaluates nonaccrual loans and TDRs regardless of accrual status to determine whether or not they are impaired. For such loans that are 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. The Company requires updated appraisals on at least an annual basis for impaired loans that are collateral dependent. 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.

Although management uses available information to estimate losses on loans, because of uncertainties associated with local, regional, and national economic conditions, collateral values, and future cash flows on impaired loans, and subjection of the model to the review of regulatory authorities, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other Real Estate Owned

Other real estate owned ("OREO"), consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans and property originally acquired for further branch expansion (formerly classified as premises and equipment), is reported at the lower of cost or fair value, determined on the basis of current valuations obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses.

Table of Contents

Subsequent declines in the fair value of OREO below the new cost basis are recorded through valuation adjustments. Significant judgments and complex estimates are required in estimating the fair value of other real estate, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. In response to market conditions and other economic factors, management may utilize liquidation sales as part of its problem asset disposition strategy. As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from sales transactions could differ significantly from the valuations used to determine the fair value of OREO. Management reviews the value of OREO each quarter and adjusts the values as appropriate. Revenue and expenses from OREO operations as well as gains or losses on sales and any subsequent adjustments to the value are recorded as OREO expense and loan related expense, a component of non interest expense.

Business Combinations and Method of Accounting for Loans Acquired

The Company accounts for its acquisitions under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, Fair Value Measurements and Disclosures. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Acquired credit impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310 30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan's or pool's cash flows expected to be collected over the fair value for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable yield). In accordance with FASB ASC Topic 310 30, the Company aggregated acquired loans that have common risk characteristics into pools within the following loan categories: commercial real estate, commercial real estate—construction and development, residential real estate, consumer, commercial and industrial, and single pay. Single pay loans consist of those instruments for which repayment of principal and interest is expected at maturity.

Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310 30, but for which a discount is attributable at least in part to credit quality are generally accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flow of the acquired loans. Certain acquired loans, such as lines of credit (consumer and commercial) and loans for which there was no discount attributable to credit are accounted for in accordance with FASB ASC Topic 310 20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable yield and are accreted into interest income on a

level yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses.

Probable and significant increases in cash flows (in a loan pool where an allowance for acquired loan losses was previously recorded) reduces the remaining allowance for acquired loan losses before recalculating the amount of accretable yield percentage for the loan pool in accordance with ASC 310-30.

Table of Contents

FDIC Indemnification Asset

On June 23, 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its outstanding loss share agreements. All assets previously classified as covered became uncovered, and the Bank will now recognize the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts. With the termination of the loss share agreements, the Company no longer carries a FDIC indemnification asset.

With the early termination agreement with the FDIC, the Bank recorded a pre-tax charge of $4.4 million, which resulted from a $2.3 million payment to the FDIC as consideration for the early termination, plus the amortization of the remaining FDIC indemnification asset of $2.1 million, net of the clawback, as of March 31, 2016. The entire pre-tax charge was recorded in noninterest income through "Amortization of the FDIC indemnification asset" on the consolidated statements of income.

During 2016, the Bank paid a net $853,000 to the FDIC, prior to the termination of the agreements. The indemnification asset was amortized through March 31, 2016. All assets previously classified as covered became uncovered effective June 23, 2016, and as a result the Bank recognizes the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts.

Related to periods before the termination of the loss share agreements, the FDIC indemnification asset was measured separately from the related covered asset as it was not contractually embedded in the assets and was not transferable with the assets had the Company chosen to dispose of them. Fair value was estimated at the acquisition date using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements did not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The Company offset any recorded provision for loan losses related to acquired covered loans by recording an increase in the FDIC indemnification asset by the increase in expected cash flow, which was the result of a decrease in expected cash flow of acquired loans. An increase in cash flows on acquired loans resulted in a decrease in cash flows on the FDIC indemnification asset, which was recognized in the future as negative accretion through non interest income over the shorter of the remaining life of the FDIC indemnification asset or the underlying loans.

The Company incurred expenses related to the assets indemnified by the FDIC, and pursuant to the loss share agreement certain costs were reimbursable by the FDIC. These costs were included in monthly and quarterly claims made by the Company. The estimates of reimbursements were netted against these covered expenses in the income statement.

Premises and Equipment

Land is carried at cost. Office equipment, furnishings, and buildings are carried at cost less accumulated depreciation computed principally on the declining balance and straight line methods over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases including lease renewals only when the Company is reasonably assured of the aggregate term of the lease. Additions to premises and equipment and major replacements are added to the accounts at cost. Maintenance and repairs and minor replacements are charged to expense when incurred. Gains and losses on routine dispositions are reflected in current operations.

F-15

Table of Contents

Bank Owned Life Insurance

Bank owned life insurance (BOLI) are comprised of long-term life insurance contracts on the lives of certain current and past employees where the insurance policy benefits and ownership are retained by the employer. Its cash surrender value is an asset that the Company uses to partially offset the future cost of employee benefits. The cash value accumulation on BOLI is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Intangible Assets

Intangible assets consist of goodwill, core deposit intangibles, client list intangibles, and noncompetition agreement ("noncompete") intangibles that result from the acquisition of other banks or branches from other financial institutions. Core deposit intangibles represent the value of long term deposit relationships acquired in these transactions. Client list intangibles represent the value of long term client relationships for the wealth and trust management business. Noncompete intangibles represent the value of key personnel relative to various competitive factors such as ability to compete, willingness or likelihood to compete, and feasibility based upon the competitive environment, and what the Bank could lose from competition. Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two step test. The first step, used to identify potential impairment, involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill assigned to that reporting unit is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment of goodwill assigned to that reporting unit.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has two reporting units.

The Company evaluated the carrying value of goodwill as of April 30, 2018, its annual test date, and determined that no impairment charge was necessary. The Company updated its valuation of the carrying value of goodwill as of December 31, 2018 based on the drop in the Company's stock price in the fourth quarter of 2018 and still determined that no impairment charge was necessary. Should the Company's future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, included in core deposit and other intangibles, are amortized over the estimated useful lives of the deposit accounts acquired (generally 10 to 13 years) on either (1) the straight line method or (2) an accelerated basis method which reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness.

Noncompete intangibles, included in core deposit and other intangibles are amortized over the life of the underlying noncompete agreements (generally 2 to 3 years) on the straight line method. The estimated useful lives are periodically reviewed for reasonableness.

Client list intangibles, included in core deposit and other intangibles, are amortized over the estimated useful lives of the client lists acquired (generally 15 years) on the straight line method. The estimated useful lives are periodically reviewed for reasonableness.

Table of Contents

Mortgage Servicing Rights

The Company has a mortgage loan servicing portfolio with related mortgage servicing rights. Mortgage servicing rights (“MSRs”) represent the present value of the future net servicing fees from servicing mortgage loans. Servicing assets and servicing liabilities must be initially measured at fair value, if practicable. For subsequent measurements, an entity can choose to measure servicing assets and liabilities either based on fair value or lower of cost or market. The Company uses the fair value measurement option for MSRs.

The methodology used to determine the fair value of MSRs is subjective and requires the development of a number of assumptions, including anticipated prepayments of loan principal. Fair value is determined by estimating the present value of the asset’s future cash flows utilizing estimated market based prepayment rates and discount rates, interest rates and other economic factors and assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Risks inherent in the MSRs valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. The value of MSRs is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of mortgage servicing rights declines due to increasing prepayments attributable to increased mortgage refinance activity. Conversely, during periods of rising interest rates, the value of servicing rights generally increases due to reduced refinance activity. MSRs are carried at fair value with changes in fair value recorded as a component of mortgage banking income each period in the Consolidated Statements of Income. The Company also uses derivative instruments to mitigate the income statement effect of changes in fair value due to changes in valuation inputs and assumptions of its MSRs.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over the transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The Company reviews all sales of loans by evaluating specific terms in the sales documents and believes that the criteria discussed above to qualify for sales treatment have been met as loans have been transferred for cash and the notes and mortgages for all loans in each sale are endorsed and assigned to the transferee. As stated in the commitment document, the Buyer has no recourse with these loans except in the case of fraud. In certain sales, mortgage servicing rights may be retained and in other programs potential loss exposure from the credit enhancement obligation may be retained, both of which are evaluated and appropriately measured at the date of sale.

The Company packages most of the 30 year fixed rate conforming mortgage loans as securities to investors issued through Fannie Mae and sold to third party investors or sells them to satisfy cash forward mandatory commitments to Fannie Mae. The Company records loan securitizations or cash forwards as a sale when the transferred loans are legally isolated from its creditors and the accounting criteria for a sale are met. Gains or losses recorded on loan securitizations and cash forwards depend in part on the net carrying amount of the loans sold, which is allocated between the loans sold and retained interests based on their relative fair values at the date of sale. The Company generally retains mortgage servicing rights on residential mortgage loans sold in the secondary market. Loans transferred to “held-for-sale” with the intention of disposal through a bulk loan sale will be sold with servicing released. Since quoted market prices are not typically available, the fair value of retained interests is estimated through the services of a third party service provider to determine the net present value of expected future cash flows. Such models incorporate management’s best estimates of key variables, such as prepayment speeds and discount rates that would be used by market participants and are appropriate for the risks involved. Gains and losses incurred on loans sold to third party investors are included in mortgage banking income in the Consolidated Statements of Income.

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 years 2018, 2017 and 2016, gross interchange and debit card transaction fees totaled $33.0 million, $35.6 million and $31.8 million, respectively while related network costs totaled $12.1 million, $9.1 million and $9.1 million, respectively. On a net basis we reported $20.9 million, $26.5 million and $22.7 million, respectively, as interchange and debit card transactions fees in the accompanying Consolidated Statements of Income as noninterest income for the years ended December 31, 2018, 2017 and 2016. 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, 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 $30.2 million for the year ended December 31, 2018. The Bank contracts with our customers to perform deposit account services. Total revenue recognized from these contracts with customers is $82.6 million for the year ended December 31, 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 809,000 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 $113.6 million year ended December 31, 2018. Total revenue derived from contracts in which services are transferred over time was $19.2 million for the year ended December 31, 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

Table of Contents

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.

Advertising Costs

The Company expenses advertising costs as they are incurred and advertising communication costs the first time the advertising takes place. The Company may establish accruals for anticipated advertising expenses within the course of a fiscal year.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as (1) unrealized gains and losses on available for sale securities (2) unrealized gains and losses on effective portions of derivative financial instruments accounted for as cash flow hedges and (3) net change in unrecognized amounts related to pension and post retirement benefits, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of total comprehensive income (see Consolidated Statements of Comprehensive Income on page F 7).

Employee Benefit Plans

The Company's defined benefit pension and other post retirement plans are accounted for in accordance with FASB ASC 715, Compensation—Retirement Benefits, which requires the Company to recognize the funded status in its statement of financial position. See Note 16 for information regarding the defined benefit pension plan and Note 17 for information regarding our post retirement benefit plans. The expected costs of the plans are being expensed over the period that employees provide service.

The Employee Stock Purchase Plan ("ESPP") allows for a look back option which establishes the purchase price as an amount based on the lesser of the stock's market price at the grant date or its market price at the exercise (or purchase) date. For the shares issued in exchange for employee services under the plan, the Company accounts for the plan under the FASB ASC 718, Compensation—Stock Compensation, in which the fair value measurement method is used to estimate the fair value of the equity instruments, based on the share price and other measurement assumptions at the grant date. See Note 18 for the amount the Company recognized as expense for the years ended December 31, 2018, 2017 and 2016.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the tax basis

and financial statement basis of gains on acquisitions, available for sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, mortgage servicing rights, and pension plan and post retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In 2017, as a result of the Tax Reform Act signed into law on December 22, 2017, the Company revalued its deferred tax assets and liabilities using a provisional amount in 2017, and finalized its accounting

for the tax reform effects during 2018. Additional information about the impact of the Tax Reform Act can be found in Note 11 of the Company's consolidated financial statements.

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income tax accounts. As of December 31, 2018 and 2017, there were no material accruals for uncertain tax positions. The Company and its subsidiaries file a consolidated federal income tax return. Additionally, income tax returns are filed by the Company or its subsidiaries in the state of South Carolina, Georgia, North Carolina, Florida, Virginia, Alabama, and Mississippi. Generally, the Company's federal and state income tax returns are no longer subject to examination by taxing authorities for years prior to 2015.

Earnings Per Share

Basic earnings per share ("EPS") represents income available to common shareholders divided by the weighted average number of shares outstanding during the year. Diluted earnings per share reflects additional shares that would have been outstanding if dilutive potential shares had been issued. Potential shares that may be issued by the Company relate solely to outstanding stock options, restricted stock and restricted stock units (non vested shares), and warrants, and are determined using the treasury stock method. Under the treasury stock method, the number of incremental shares is determined by assuming the issuance of stock for the outstanding stock options and warrants, reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price for the year of the Company's stock. Weighted average shares for the basic and diluted EPS calculations have been reduced by the average number of unvested restricted shares.

Derivative Financial Instruments

The Company's interest rate risk management strategy incorporates the use of a derivative financial instrument, specifically an interest rate swap, to essentially convert a portion of its variable rate debt to a fixed rate. Cash flows related to variable rate debt will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the variable rate debt will generally be offset by changes in cash flows of the derivative instrument designated as a hedge. This strategy is referred to as a cash flow hedge.

The Company also maintains one loan swap which is accounted for as a fair value hedge. This derivative protects the company from interest rate risk caused by changes in the LIBOR curve in relation to a certain designated fixed rate loan. This fair value hedge converts the fixed rate to a floating rate (see Note 27 – Derivative Financial Instruments).

The Company's risk management strategy for its mortgage banking activities incorporates derivative instruments used to hedge both the value of the mortgage servicing rights and the mortgage pipeline. These derivative instruments are not designated as hedges and are not speculative in nature. The derivative instruments that are used to hedge the value of the mortgage servicing rights include financial forwards, futures contracts, and options written and purchased. When issued securities and mandatory cash forward trades are typically used to hedge the mortgage pipeline. These instruments derive their cash flows, and therefore their values, by reference to an underlying instrument, index or referenced interest rate.

The Company's risk management strategy also incorporates the use of interest rate swap contracts that help in managing interest rate risk within the loan portfolio and foreign currency exchange. These derivative are not designated as hedges and are not speculative, and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge

accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings (See Note 27 – Derivative Financial Instruments).

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the fair value gain in a derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company is obligated to

pay the counterparty and, therefore, has no repayment risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high quality counterparties that are reviewed periodically by the Company.

The Company's derivative activities are monitored by its Asset Liability Management Committee as part of that committee's oversight of the Company's asset/liability and treasury functions. The Company's Asset Liability Management Committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk management process.

The Company recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive income rather than net income. Changes in fair value of derivative instruments that are not intended as a hedge are accounted for in the net income in the period of the change (see Note 27—Derivative Financial Instruments for further disclosure).

Reclassification

Certain amounts previously reported have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income and shareholders' equity.

Subsequent Events

The Company has evaluated subsequent events for accounting and disclosure purposes through the date the financial statements are issued. See Note 30- Subsequent Events for further information.

Recent Accounting and Regulatory Pronouncements

Accounting Standards Adopted in 2018

In February 2018, the Financial Accounting Standards Board ("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 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

Table of Contents

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 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. 2017-07, 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. 2017-01, 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) 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

Table of Contents

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 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 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 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

Table of Contents

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.

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, 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.

Issued But Not Yet Adopted Accounting Standards

In December 2018, the FASB issued ASU No. 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors ("ASU 2018-20"). ASU 2018-20 updates the new lease standard (Leases (Topic 842) ("ASU 2016-02") by addressing several issues related to lessors which should reduce lessors' implementation and ongoing costs related to the new lease standard. These improvements will not have a material impact on the Company's consolidated financial statements. For public business entities, the guidance in ASU 2016-02, ASU 2018-11 and ASU 2018-20 is 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, ASU 2018-11 and ASU 2018-20 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 evaluation, the Company will record a right to use asset and a lease liability of approximately $82 million as of January 1, 2019 when the standard becomes effective. The guidance will not have a material impact on the Company's statement of income.

In October 2018, the FASB issued ASU No. 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Derivatives and Hedging - Topic 815) ("ASU 2018-16"). The amendments in this ASU permit the OIS rate based on SOFR as a U.S. benchmark interest rate. Including the OIS rate based on SOFR as an eligible benchmark interest rate during the early stages of the marketplace transition will facilitate the London Interbank Offered Rate (LIBOR) to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. 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 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

---

Table of Contents

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. The Company is still assessing the impact of this new guidance and is considering early adopting as of January 1, 2019, but does not believe it 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 has evaluated 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 on the Company's consolidated financial statements. Based on the Company's current evaluation, the Company expects to adopt the standard at the date of the adoption method.

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

Table of Contents

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. This guidance will become effective on January 1, 2019 and the Company has determined that the implementation of this standard will not have a material impact to 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 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 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. The Company is still assessing the impact of this new guidance, but at this point in time, does not believe it will 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 provide macroeconomic forecast for the markets served relative to each loan segment. 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. These economic conditions and forecasts could be significantly different in future periods.

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

Table of Contents

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 has evaluated 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 on the Company's consolidated financial statements. Based on the Company's current evaluation, the Company estimates that it will record a right to use asset and a lease liability of approximately $82 million as of January 1, 2019 when the standard becomes effective. The guidance will not have a material impact on the Company's statement of operations.

Note 2—Mergers and Acquisitions

The following are business combinations which have occurred over the past three 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

On November 30, 2017, SSB acquired all of the outstanding common stock of Park Sterling Corporation ("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 Company's common stock in exchange for each share of PSC stock resulting in the Company issuing 7,480,343 shares of its 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.

Table of Contents

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.

(Dollars in thousands)	As Recorded by Park	Initial Fair Value Adjustments		Subsequent Fair Value Adjustments		As Recorded by the Company
Assets						
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)	2,123	(g)	31,682
Other assets	21,595	(476)	(h)	—		21,119
Total assets	$ 3,175,486	$ (66,854)		$ (3,926)		$ 3,104,706
Liabilities						
Deposits:						
Noninterest-bearing	$ 561,874	$ —		$ —		$ 561,874
Interest-bearing	1,886,810	2,692	(i)	(612)	(i)	1,888,890
Total deposits	2,448,684	2,692		(612)		2,450,764
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
Total liabilities	2,802,112	16,512		(612)		2,818,012
Net identifiable assets acquired over (under) liabilities assumed	373,374	(83,366)		(3,314)		286,694
Goodwill	—	402,951		3,314		406,265
Net assets acquired over liabilities assumed	$ 373,374	$ 319,585		$ —		$ 692,959
Consideration:						
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
Fair value of total consideration transferred						$ 692,959

Explanation of fair value adjustments

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

(b)—Adjustment reflects a reclass 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 reclass related to the Shared National Credits noted in (b).

(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.

Table of Contents

(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.

(h)—Adjustment reflects the write-off of accrued interest receivable and 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.

Southeastern Bank Financial Corporation

On January 3, 2017, SSB acquired all of the outstanding common stock of Southeastern Bank financial Corporation (“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 the Company’s common stock in exchange for each share of SBFC stock resulting in the Company issuing 4,978,338 shares of its 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.

Table of Contents

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 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
Assets						
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)	24,077
Intangible assets	140	17,980	(d)	—		18,120
OREO and repossessed assets	580	(30)	(e)	(100)	(e)	450
Bank owned life insurance	44,513	—		—		44,513
Deferred tax asset	16,247	(687)	(f)	515	(f)	16,075
Other assets	7,545	(482)	(g)	—		7,063
Total assets	$ 1,832,581	$ 2,131		$ 1,285		$ 1,835,997
Liabilities						
Deposits:						
Noninterest-bearing	$ 262,967	$ —		$ —		$ 262,967
Interest-bearing	1,257,953	—		—		1,257,953
Total deposits	1,520,920	—		—		1,520,920
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)	27,743
Total liabilities	1,652,534	4,433		2,210		1,659,177
Net identifiable assets acquired over (under) liabilities assumed	180,047	(2,302)		(925)		176,820
Goodwill	—	257,370		925		258,295
Net assets acquired over liabilities assumed	$ 180,047	$ 255,068		$ —		$ 435,115
Consideration:						
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

Fair value of total consideration transferred	$ 435,115

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 allowance for loan losses ("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 other real estate owned ("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.

(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.

Comparative and Pro Forma Financial Information for Acquisitions in 2017

The results of the Company for the year ended December 31, 2017, include the results of the acquired assets and assumed liabilities for the 362 days subsequent to the acquisition date of January 3, 2017 related to the SBFC acquisition and for 31 days subsequent to the acquisition date of November 30, 2017 related to the PSC acquisition.

Table of Contents

Merger-related charges of $44.5 million are recorded in the consolidated statement of income for year ended December 31, 2017 and include incremental costs related to closing of the acquisitions, including legal, accounting and auditing, investment banker cost, termination of certain employment related contracts, travel costs, printing, supplies and other costs. Merger-related charges of $28.6 million are recorded in the consolidated statement of income for the year ended December 31, 2018 and include incremental costs related to closing of the acquisitions, including legal, accounting and auditing, termination of certain employment and vendor related contracts, travel costs, printing, supplies and other costs.

The following table discloses the impact of the mergers (excluding the impact of merger-related expenses and of the revaluation of the net deferred tax asset due to the Tax Reform Act) with SBFC since the acquisition on January 3, 2017 through December 31, 2017 and with PSC since the acquisition on November 30, 2017 through December 31, 2017. The table also presents certain pro forma information as if SBFC and PSC had been acquired on January 1, 2017 and January, 1 2016. These results combine the historical results of SBFC and 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 or January 1, 2016. The Company could not reasonably disclose the impact of the mergers with SBFC and PSC on the year ended December 31, 2018. During 2018, the assets and liabilities of SBFC and PSC became fully integrated into the Company to the point where it became impracticable to be able to break out the individual effects from each merger on the Company's income statement.

Merger-related costs of $50.0 million from the SBFC and PSC acquisitions were incurred during the year ended December 31, 2017, and were excluded from pro forma information below. In addition, no adjustments have been made to the pro formas to eliminate the provision for loan losses for the years ended December 31, 2017 and 2016 of SBFC and PSC in the amount of $325,000 and $3.5 million, respectively. No adjustments have been made to reduce the impact of any OREO write downs, investment securities sold or repayment of borrowings recognized by SBFC and PSC in either the years ended December 31, 2017 or 2016. The pro forma net adjusted income available to the common shareholder for December 31, 2017 includes the Company's $26.6 million of income tax expense recorded as a result of the revaluation of the Company's net deferred tax asset in connection with the Tax Reform Act signed into law during 2017. Expenses related to systems conversions and other costs of integration were recorded during 2018 for the PSC merger. During 2018, the Company achieved further operating cost savings and other business synergies as a result of the acquisitions which were not reflected in the pro forma amounts below:

(Dollars in thousands)	SBFC Actual since Acquisition (January 3, 2017 through December 31, 2017)	PSC Actual since Acquisition (November 30, 2017 through December 31, 2017)	Pro Forma Year Ended December 31, 2017	Pro Forma Year Ended December 31, 2016
Total revenues (net interest income plus noninterest income)	$ 67,823	$ 14,052	$ 690,716	$ 684,532
Net adjusted income available to the common shareholder	$ 25,790	$ 4,829	$ 146,821	$ 164,479

Note 3—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
December 31, 2018:				
State and municipal obligations	$ —	$ —	$ —	$ —
December 31, 2017:				
State and municipal obligations	$ 2,529	$ 27	$ —	$ 2,556

Table of Contents

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
December 31, 2018:				
Government-sponsored entities debt*	$ 48,982	$ 21	$ (752)	$ 48,251
State and municipal obligations	200,184	1,709	(1,125)	200,768
Mortgage-backed securities**	1,291,484	697	(24,133)	1,268,048
	$ 1,540,650	$ 2,427	$ (26,010)	$ 1,517,067
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
	$ 1,655,107	$ 5,903	$ (12,817)	$ 1,648,193

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

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

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

(Dollars in thousands)	Carrying Value
December 31, 2018:	
Federal Home Loan Bank stock	$ 19,524
Investment in unconsolidated subsidiaries	3,563
Other nonmarketable investment securities	2,517
	$ 25,604
December 31, 2017:	
Federal Home Loan Bank stock	$ 16,967
Investment in unconsolidated subsidiaries	3,563
Other nonmarketable investment securities	2,517
	$ 23,047

The Company's other investment securities consist of non-marketable equity securities that have no readily determinable market value. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of December 31, 2018, the Company has determined that there was no impairment on its other investment securities.

Table of Contents

The amortized cost and fair value of debt and equity securities at December 31, 2018 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 9,858	$ 9,808
Due after one year through five years	—	—	91,009	90,624
Due after five years through ten years	—	—	370,143	365,751
Due after ten years	—	—	1,069,640	1,050,884
	$ —	$ —	$ 1,540,650	$ 1,517,067

The following table summarizes information with respect to sales of available for sale securities:

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Securities Available for Sale:			
Sale proceeds	$ 73,054	$ 374,938	$ 137
Gross realized gains	$ 31	$ 1,832	$ 122
Gross realized losses	(686)	(411)	—
Net realized gain	$ (655)	$ 1,421	$ 122

There were no sales of held-to-maturity securities for year ended December 31, 2018, 2017 or 2016.

The Company had 384 securities with gross unrealized losses at December 31, 2018. Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2018:				

Securities Available for Sale				
Government-sponsored entities debt	$ 100	$ 10,571	$ 652	$ 32,959
State and municipal obligations	760	40,387	365	14,231
Mortgage-backed securities	5,182	405,055	18,951	755,223
	$ 6,042	$ 456,013	$ 19,968	$ 802,413
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
	$ 5,020	$ 654,893	$ 7,797	$ 374,582

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. 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.

Table of Contents

The unrealized loss position of the debt securities continued to increase during 2018 from the unrealized loss position in 2017. This change was primarily related to the mortgage-backed securities category, and was the result of the increase in interest rates during the year. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the investments. 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 December 31, 2018. Management continues to monitor all of its securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

At December 31, 2018 and 2017, investment securities with a carrying value of $888.8 million and $766.0 million, respectively, were pledged to secure public funds deposits and for other purposes required and permitted by law. At December 31, 2018 and 2017, the carrying amount of the securities pledged to collateralize repurchase agreements was $205.3 million and $211.1 million, respectively.

Note 4 - Loans and Allowance for Loan Losses

The following is a summary of non acquired loans:

	December 31,	
(Dollars in thousands)	2018	2017
Non-acquired loans:		
Commercial non-owner occupied real estate:		
Construction and land development	$ 841,445	$ 830,875
Commercial non-owner occupied	1,415,551	1,008,893
Total commercial non-owner occupied real estate	2,256,996	1,839,768
Consumer real estate:		
Consumer owner occupied	1,936,265	1,530,260
Home equity loans	495,148	437,642
Total consumer real estate	2,431,413	1,967,902
Commercial owner occupied real estate	1,517,551	1,262,776
Commercial and industrial	1,054,952	815,187
Other income producing property	214,353	193,847
Consumer	448,664	378,985
Other loans	9,357	33,690
Total non-acquired loans	7,933,286	6,492,155
Less allowance for loan losses	(51,194)	(43,448)
Non-acquired loans, net	$ 7,882,092	$ 6,448,707

The above table includes deferred fees, net of deferred costs, totaling $697,000 and $466,000 at December 31, 2018 and 2017, respectively.

F-34

Table of Contents

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

(Dollars in thousands)	December 31, 2018	2017
FASB ASC Topic 310-20 acquired loans:		
Commercial non-owner occupied real estate:		
Construction and land development	$ 165,070	$ 403,357
Commercial non-owner occupied	679,253	817,166
Total commercial non-owner occupied real estate	844,323	1,220,523
Consumer real estate:		
Consumer owner occupied	628,813	710,611
Home equity loans	242,425	320,591
Total consumer real estate	871,238	1,031,202
Commercial owner occupied real estate	421,841	521,818
Commercial and industrial	212,537	398,696
Other income producing property	133,110	196,669
Consumer	111,777	137,710
Other	—	1,289
Total FASB ASC Topic 310-20 acquired loans	$ 2,594,826	$ 3,507,907

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)	December 31, 2018	2017
FASB ASC Topic 310-30 acquired loans:		
Commercial real estate	$ 196,764	$ 234,595
Commercial real estate—construction and development	32,942	49,649
Residential real estate	207,482	260,787
Consumer	42,492	51,453
Commercial and industrial	10,043	26,946
Total FASB ASC Topic 310-30 acquired loans	489,723	623,430
Less allowance for loan losses	(4,604)	(4,627)
FASB ASC Topic 310-30 acquired loans, net	$ 485,119	$ 618,803

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.

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

Table of Contents

or as revolving lines of credit (commercial or consumer) as of the acquisition date of Park 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.

(Dollars in thousands)	January 3, 2017 Loans Impaired at Acquisition
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 of Southeastern and will be accounted for under FASB ASC Topic 310-20.

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of total acquired credit impaired loans as of December 31, 2018 and 2017 are as follows:

	December 31,	
(Dollars in thousands)	2018	2017
Contractual principal and interest	$ 631,295	$ 795,850
Non-accretable difference	(24,818)	(39,324)
Cash flows expected to be collected	606,477	756,526
Accretable yield	(116,754)	(133,096)
Carrying value	$ 489,723	$ 623,430
Allowance for acquired loan losses	$ (4,604)	$ (4,627)

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

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

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Balance at beginning of period	$ 618,803	$ 602,546	$ 733,870
Fair value of acquired loans	—	126,781	—
Net reductions for payments, foreclosures, and accretion	(133,707)	(109,292)	(131,635)
Change in the allowance for loan losses on acquired loans	23	(1,232)	311
Balance at end of period, net of allowance for loan losses on acquired loans	$ 485,119	$ 618,803	$ 602,546

Table of Contents

The following are changes in the carrying amount of accretable yield for acquired credit impaired loans:

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Balance at beginning of period	$ 133,096	$ 155,379	$ 201,538
Addition from the SBFC acquisition	—	4,910	—
Addition from the PSC acquisition	—	8,829	—
PSC acquisition Day 1 adjustment	(1,460)		
Contractual interest income	(33,115)	(36,690)	(39,873)
Accretion on acquired loans	(19,004)	(20,841)	(32,883)
Reclass of nonaccretable difference due to improvement in expected cash flows	37,501	21,987	25,808
Other changes, net	(264)	(478)	789
Balance at end of period	$ 116,754	$ 133,096	$ 155,379

The table above reflects the changes in the carrying amount of accretable yield for the acquired credit impaired loans and shows both the contractual interest income and incremental accretion for each year. In 2018, the accretable yield balance declined by $16.3 million as total contractual interest and accretion income of $52.1 million was recognized and an adjustment was made reducing the PSC day 1 balance for $1.5 million. This was partially offset by improved expected cash flows of $37.5 million. The improved cash flows for previous years were adjusted to accurately reflect the split between income types.

As of December 31, 2018, the table above excludes $2.6 billion ($2.6 billion in contractual principal less a $33.4 million discount) in acquired loans which are accounted for under FASB ASC Topic 310-20. These loans were identified as either performing with no discount related to the credit or as a revolving lines of credit (commercial or consumer) at acquisition. As of December 31, 2017, the balance of these acquired loans totaled $3.5 billion ($3.6 billion in contractual principal less a $65.4 million remaining discount).

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

appropriate level.

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

Table of Contents

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, the Company segregated the 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 allowance for loan losses on these loans will be measured and recorded consistent with non acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of 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 allowance for loan losses. Management analyzes the acquired loan pools using various assessments of risk to determine an expected loss. The expected loss is derived based upon a loss given default based upon the collateral type and/or detailed review by loan officers and the probability of default that is determined based upon historical data at the loan level. 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. Prior to the termination of our loss share agreements in June 2016, offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC was adjusted to reflect the indemnified portion of the post acquisition exposure with a corresponding credit to the provision for loan losses. (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 1—Summary of Significant Accounting Policies and Note 2—Mergers and Acquisitions.)

Table of Contents

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
Year Ended December 31, 2018:				
Balance at beginning of period	$ 43,448	$ —	$ 4,627	$ 48,075
Loans charged-off	(6,012)	(2,214)	—	(8,226)
Recoveries of loans previously charged off	2,995	305	—	3,300
Net charge-offs	(3,017)	(1,909)	—	(4,926)
Provision for loan losses charged to operations	10,763	1,909	1,111	13,783
Reduction due to loan removals	—	—	(1,134)	(1,134)
Balance at end of period	$ 51,194	$ —	$ 4,604	$ 55,798
Year Ended December 31, 2017:				
Balance at beginning of period	$ 36,960	$ —	$ 3,395	$ 40,355
Loans charged-off	(5,149)	(1,630)	—	(6,779)
Recoveries of loans previously charged off	2,953	477	—	3,430
Net charge-offs	(2,196)	(1,153)	—	(3,349)
Provision for loan losses charged to operations	8,684	1,153	2,053	11,890
Reduction due to loan removals	—	—	(821)	(821)
Balance at end of period	$ 43,448	$ —	$ 4,627	$ 48,075
Year Ended December 31, 2016:				
Balance at beginning of period	$ 34,090	$ —	$ 3,706	$ 37,796
Loans charged-off	(5,902)	(987)	—	(6,889)
Recoveries of loans previously charged off	3,233	318	—	3,551
Net charge-offs	(2,669)	(669)	—	(3,338)
Provision for loan losses	5,539	669	588	6,796
Benefit attributable to FDIC loss share agreements	—	—	23	23
Total provision for loan losses charged to operations	5,539	669	611	6,819
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(23)
Reduction due to loan removals	—	—	(899)	(899)
Balance at end of period	$ 36,960	$ —	$ 3,395	$ 40,355

Table of Contents

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 Loan
$ 5,921	$ 6,525	$ 8,128	$ 9,668	$ 3,250	$ 5,488	$ 1,375	$ 2,788	$ 30
(76)	—	(659)	(80)	(215)	(500)	(2)	(4,480)	—
1,340	11	145	132	279	256	21	811	—
(1,503)	2,218	1,755	2,193	120	2,210	52	3,982	(26
$ 5,682	$ 8,754	$ 9,369	$ 11,913	$ 3,434	$ 7,454	$ 1,446	$ 3,101	$ 41
$ 788	$ 70	$ 27	$ 41	$ 142	$ 416	$ 142	$ 2	$ —
$ 4,894	$ 8,684	$ 9,342	$ 11,872	$ 3,292	$ 7,038	$ 1,304	$ 3,099	$ 41
$ 37,913	$ 1,025	$ 4,142	$ 6,761	$ 2,826	$ 1,291	$ 2,872	$ 188	$ —
803,532	1,414,526	1,513,409	1,929,504	492,322	1,053,661	211,481	448,476	9,3
$ 841,445	$ 1,415,551	$ 1,517,551	$ 1,936,265	$ 495,148	$ 1,054,952	$ 214,353	$ 448,664	$ 9,3
$ 4,091	$ 4,980	$ 8,022	$ 7,820	$ 3,211	$ 4,842	$ 1,542	$ 2,350	$ 10
(546)	—	—	(185)	(330)	(776)	(51)	(3,261)	—
968	132	220	306	210	343	85	689	—
1,408	1,413	(114)	1,727	159	1,079	(201)	3,010	20
$ 5,921	$ 6,525	$ 8,128	$ 9,668	$ 3,250	$ 5,488	$ 1,375	$ 2,788	$ 30
$ 1,063	$ 125	$ 64	$ 37	$ 135	$ 15	$ 178	$ 7	$ —
$ 4,858	$ 6,400	$ 8,064	$ 9,631	$ 3,115	$ 5,473	$ 1,197	$ 2,781	$ 30

$ 43,230	$ 1,375	$ 5,642	$ 5,632	$ 3,011	$ 1,156	$ 3,138	$ 239	$ —
787,645	1,007,518	1,257,134	1,524,628	434,631	814,031	190,709	378,746	33,
$ 830,875	$ 1,008,893	$ 1,262,776	$ 1,530,260	$ 437,642	$ 815,187	$ 193,847	$ 378,985	$ 33,
$ 4,116	$ 3,568	$ 8,341	$ 7,212	$ 2,929	$ 3,974	$ 1,963	$ 1,694	$ 29
(159)	(111)	(118)	(226)	(808)	(876)	(7)	(3,597)	—
912	512	54	134	299	292	87	943	—
(778)	1,011	(255)	700	791	1,452	(501)	3,310	(19
$ 4,091	$ 4,980	$ 8,022	$ 7,820	$ 3,211	$ 4,842	$ 1,542	$ 2,350	$ 10
$ 348	$ 170	$ 67	$ 80	$ 40	$ 386	$ 242	$ 4	$ —
$ 3,743	$ 4,810	$ 7,955	$ 7,740	$ 3,171	$ 4,456	$ 1,300	$ 2,346	$ 10
$ 3,033	$ 806	$ 6,245	$ 5,673	$ 1,674	$ 1,263	$ 2,372	$ 145	$ —
577,431	713,909	1,171,500	1,191,948	381,544	670,135	175,866	324,093	13,
$ 580,464	$ 714,715	$ 1,177,745	$ 1,197,621	$ 383,218	$ 671,398	$ 178,238	$ 324,238	$ 13,

Table of Contents

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

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other	Total
Year Ended December 31, 2018										
Allowance for loan losses:										
Balance at beginning of period	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	(107)	—	(28)	(70)	(436)					