

SOUTH STATE Corp  
Form 10-Q  
November 04, 2016  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from                      to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

(State or other jurisdiction of incorporation)

57-0799315

(IRS Employer Identification No.)

520 Gervais Street

Columbia, South Carolina

(Address of principal executive offices)

29201

(Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

Class	Outstanding as of October 31, 2016
Common Stock, \$2.50 par value	24,218,820

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South State Corporation and Subsidiary

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	September 30, 2016 (Unaudited)	December 31, 2015 (Note 1)	September 30, 2015 (Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents:			
Cash and due from banks	\$ 168,774	\$ 178,664	\$ 156,489
Interest-bearing deposits with banks	66,335	218,883	492,346
Federal funds sold and securities purchased under agreements to resell	272,408	298,247	240,545
Total cash and cash equivalents	507,517	695,794	889,380
Investment securities:			
Securities held to maturity (fair value of \$7,076, \$9,723 and \$9,758, respectively)	6,851	9,314	9,314
Securities available for sale, at fair value	925,374	1,009,541	885,798
Other investments	9,482	8,893	9,031
Total investment securities	941,707	1,027,748	904,143
Loans held for sale	57,052	41,649	48,985
Loans:			
Acquired credit impaired (covered of \$0, \$98,459 and \$103,329, respectively; non-covered of \$632,617, \$635,411 and \$665,277, respectively), net of allowance for loan losses	632,617	733,870	768,606
Acquired non-credit impaired (covered of \$0, \$8,047 and \$7,990, respectively; non-covered of \$885,657, \$1,041,491 and \$1,099,450, respectively)	885,657	1,049,538	1,107,440
Non-acquired	5,008,113	4,220,726	3,994,716
Less allowance for non-acquired loan losses	(37,319)	(34,090)	(35,116)
Loans, net	6,489,068	5,970,044	5,835,646
FDIC indemnification asset	—	4,401	7,942
Other real estate owned (covered of \$0, \$5,751 and \$5,465, respectively; non-covered of \$22,211, \$24,803 and \$25,913, respectively)	22,211	30,554	31,378
Premises and equipment, net	179,450	174,537	174,662
Bank owned life insurance	103,427	101,588	100,967
Deferred tax assets	25,357	37,827	40,090

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Mortgage servicing rights	23,064	26,202	24,665
Core deposit and other intangibles	41,738	47,425	49,982
Goodwill	338,340	338,340	338,342
Other assets	68,234	61,239	53,694
Total assets	\$ 8,797,165	\$ 8,557,348	\$ 8,499,876
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Noninterest-bearing	\$ 2,176,155	\$ 1,976,480	\$ 1,927,309
Interest-bearing	5,071,251	5,123,948	5,150,700
Total deposits	7,247,406	7,100,428	7,078,009
Federal funds purchased and securities sold under agreements to repurchase	305,268	288,231	260,521
Other borrowings	55,306	55,158	55,107
Other liabilities	65,053	54,147	57,927
Total liabilities	7,673,033	7,497,964	7,451,564
Shareholders' equity:			
Preferred stock - \$.01 par value; authorized 10,000,000 shares; no shares issued and outstanding	—	—	—
Common stock - \$2.50 par value; authorized 40,000,000 shares; 24,209,122, 24,162,657 and 24,211,793 shares issued and outstanding, respectively	60,523	60,407	60,529
Surplus	705,124	703,929	706,227
Retained earnings	354,490	298,919	279,681
Accumulated other comprehensive income (loss)	3,995	(3,871)	1,875
Total shareholders' equity	1,124,132	1,059,384	1,048,312
Total liabilities and shareholders' equity	\$ 8,797,165	\$ 8,557,348	\$ 8,499,876

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	\$ 77,344	\$ 79,857	\$ 231,752	\$ 238,111
Investment securities:				
Taxable	4,309	4,106	13,579	11,590
Tax-exempt	962	1,112	2,970	3,262
Federal funds sold and securities purchased under agreements to resell	666	487	2,174	1,362
Total interest income	83,281	85,562	250,475	254,325
Interest expense:				
Deposits	1,412	1,811	4,380	5,550
Federal funds purchased and securities sold under agreements to repurchase	137	95	418	296
Other borrowings	487	641	1,431	2,138
Total interest expense	2,036	2,547	6,229	7,984
Net interest income	81,245	83,015	244,246	246,341
Provision for loan losses	912	1,075	6,198	5,038
Net interest income after provision for loan losses	80,333	81,940	238,048	241,303
Noninterest income:				
Fees on deposit accounts	20,776	19,212	62,439	53,403
Mortgage banking income	6,286	4,817	16,104	18,532
Trust and investment services income	4,877	5,489	14,573	15,474
Securities gains, net	—	—	122	—
Amortization of FDIC indemnification asset, net	—	(1,871)	(5,901)	(7,120)
Recoveries on acquired loans	2,207	879	5,130	2,099
Other	1,194	1,245	5,032	3,970
Total noninterest income	35,340	29,771	97,499	86,358
Noninterest expense:				
Salaries and employee benefits	41,972	40,013	123,941	120,754
Net occupancy expense	5,464	5,395	16,364	15,678
Information services expense	5,237	4,736	15,353	13,076
Furniture and equipment expense	3,234	2,554	9,157	8,461
OREO expense and loan related	2,085	2,717	4,733	7,750
Bankcard expense	2,940	2,448	8,859	6,713
Amortization of intangibles	1,891	2,078	5,687	6,058
Supplies, printing and postage expense	1,345	1,377	4,910	4,391
Professional fees	1,758	1,383	4,663	4,377
FDIC assessment and other regulatory charges	1,001	1,248	3,162	3,685



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Advertising and marketing	790	1,054	2,293	2,918
Branch consolidation and merger-related expense	709	3,091	3,240	5,328
Other	4,765	5,100	16,712	16,019
Total noninterest expense	73,191	73,194	219,074	215,208
Earnings:				
Income before provision for income taxes	42,482	38,517	116,473	112,453
Provision for income taxes	14,387	13,377	39,368	38,515
Net income	\$ 28,095	\$ 25,140	\$ 77,105	\$ 73,938
Earnings per common share:				
Basic	\$ 1.17	\$ 1.05	\$ 3.21	\$ 3.09
Diluted	\$ 1.16	\$ 1.04	\$ 3.18	\$ 3.05
Dividends per common share	\$ 0.31	\$ 0.25	\$ 0.89	\$ 0.72
Weighted average common shares outstanding:				
Basic	24,016	23,984	23,989	23,956
Diluted	24,278	24,285	24,229	24,235

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 28,095	\$ 25,140	\$ 77,105	\$ 73,938
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	(4,388)	5,991	12,162	2,981
Tax effect	1,673	(2,284)	(4,638)	(1,137)
Reclassification adjustment for gains included in net income	—	—	(122)	—
Tax effect	—	—	47	—
Net of tax amount	(2,715)	3,707	7,449	1,844
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains ( losses) arising during period	51	(154)	(147)	(245)
Tax effect	(19)	59	56	93
Reclassification adjustment for losses included in interest expense	69	89	209	230
Tax effect	(27)	(34)	(80)	(88)
Net of tax amount	74	(40)	38	(10)
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	204	225	612	674
Tax effect	(78)	(86)	(233)	(256)
Net of tax amount	126	139	379	418
Other comprehensive income (loss), net of tax	(2,515)	3,806	7,866	2,252
Comprehensive income	\$ 25,580	\$ 28,946	\$ 84,971	\$ 76,190

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

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South State Corporation and Subsidiary

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

Nine months ended September 30, 2016 and 2015

(Dollars in thousands, except for share data)

	Preferred Stock Shares	Common Stock Amount	Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	—	\$ —	24,150,702	\$ 60,377	\$ 701,764	\$ 223,156	\$ (377)	\$ 984,920
Comprehensive income:								
Net income	—	—	—	—	—	73,938	—	73,938
Other comprehensive income, net of tax effects	—	—	—	—	—	—	2,252	2,252
Total comprehensive income								76,190
Cash dividends declared on common stock at \$0.72 per share	—	—	—	—	—	(17,413)	—	(17,413)
Employee stock purchases	—	—	6,971	17	427	—	—	444
Stock options exercised	—	—	30,560	77	881	—	—	958
Restricted stock awards	—	—	41,105	102	(102)	—	—	—
Common stock repurchased	—	—	(17,545)	(44)	(1,057)	—	—	(1,101)
Share-based compensation expense	—	—	—	—	4,314	—	—	4,314
Balance, September 30, 2015	—	\$ —	24,211,793	\$ 60,529	\$ 706,227	\$ 279,681	\$ 1,875	\$ 1,048,312
	—	\$ —	24,162,657	\$ 60,407	\$ 703,929	\$ 298,919	\$ (3,871)	\$ 1,059,384

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Balance, December 31, 2015								
Comprehensive income:								
Net income	—	—	—	—	—	77,105	—	77,105
Other comprehensive income, net of tax effects	—	—	—	—	—	—	7,866	7,866
Total comprehensive income								84,971
Cash dividends declared at \$0.89 per share	—	—	—	—	—	(21,534)	—	(21,534)
Employee stock purchases			7,793	19	455			474
Stock options exercised	—	—	44,491	111	1,402	—	—	1,513
Restricted stock awards	—	—	39,431	99	(99)	—	—	—
Stock issued pursuant to restricted stock units	—	—	35,903	90	(90)	—	—	—
Common stock repurchased - buyback plan			(32,900)	(82)	(2,048)			(2,130)
Common stock repurchased	—	—	(48,253)	(121)	(3,129)	—	—	