SOUTH STATE Corp
Form 10-K
February 22, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
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 or organization)	57 0799315 (I.R.S. 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)

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $2.50 par value per share	The NASDAQ Global Select MarketSM

Securities registered pursuant to Section 12 (g) of the Act: None.

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company

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

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

The aggregate market value of the voting stock of the registrant held by non affiliates was $3,126,386,000 based on the closing sale price of $86.25 per share on June 30, 2018. For purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of common stock outstanding as of February 20, 2019 was 35,370,054.

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10 14 of this form 10 K.

Table of Contents

South State Corporation

Index to Form 10 K

		Page
PART I		
Item 1.	Business	2
Item 1A.	Risk Factors	18
Item 1B.	Unresolved Staff Comments	36
Item 2.	Properties	36
Item 3.	Legal Proceedings	36
Item 4.	Mine Safety Disclosures	36
PART II		
Item 5.	Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	37
Item 6.	Selected Financial Data	40
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	43
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	83
Item 8.	Financial Statements and Supplementary Data	83
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	83
Item 9A.	Controls and Procedures	84
Item 9B.	Other Information	84
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance(1)	85
Item 11.	Executive Compensation(1)	85
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters(1)	85
Item 13.	Certain Relationships and Related Transactions, and Director Independence(1)	86
Item 14.	Principal Accounting Fees and Services(1)	86
PART IV		

Item 15.	Exhibits, Financial Statement Schedules	86
	Signatures	91

(1) All or portions of this item are incorporated by reference to the Registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Shareholders.

Table of Contents

Forward Looking Statements

The disclosures set forth in this Report are qualified by Part I, Item 1A. Risk Factors and the section captioned "Forward Looking Statements" in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and other cautionary statements set forth elsewhere in this Report.

PART I

Item 1. Business.

South State Corporation, headquartered in Columbia, South Carolina, is a bank holding company incorporated in 1985 under the laws of South Carolina. We provide a wide range of banking services and products to our customers through our wholly owned bank subsidiary, South State Bank (the "Bank"), a South Carolina chartered commercial bank that opened for business in 1934. The Bank operates South State Advisory, Inc. (formerly First Southeast 401k Fiduciaries), a wholly-owned registered investment advisor. We merged Minis & Co., Inc., another registered investment advisor that was wholly-owned by the Bank, with and into South State Advisory effective January 1, 2019. We will continue to use the name Minis & Co., Inc. as a Doing Business As (DBA) going forward. We do not engage in any significant operations other than the ownership of our banking subsidiary.

Unless otherwise mentioned or unless the context requires otherwise, references herein to "South State," the "Company" "we," "us," "our" or similar references mean South State Corporation and its consolidated subsidiaries. References to the "Bank" means South State Bank.

The Company is a legal entity separate and distinct from the Bank. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operation and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. The Company's operating revenues and net income are derived primarily from cash dividends received from our Bank.

Our Bank provides a full range of retail and commercial banking services, mortgage lending services, trust and wealth management, and consumer loans through financial centers in South Carolina, North Carolina, Georgia and Virginia . At December 31, 2018, we had approximately $14.7 billion in assets, $11.0 billion in loans, $11.6 billion in deposits, $2.4 billion in shareholders' equity, and a market capitalization of approximately $2.1 billion.

Our Bank began operating in 1934 in Orangeburg, South Carolina and has maintained our ability to provide high quality customer service while also leveraging our size to offer some products more common to larger banks. We have pursued a growth strategy that relies on organic growth supplemented by the acquisition of select financial institutions or branches in certain market areas.

In recent years, we have continued to grow our business under our guiding principles of soundness, profitability and growth. Below are highlights of our expansion efforts over the past three years:

· On November 30, 2017, the Company 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-for-stock merger. PSC common shareholders received 0.14 shares of the Company's common stock in exchange for each share of PSC common 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. As a result of the merger, we added 53 locations to the Bank's footprint, consisting of five offices in Georgia, 23 offices in South Carolina, 17 offices in North Carolina and eight offices in Virginia.

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On January 3, 2017, the Company 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-for-stock merger. SBFC common shareholders received 0.7307 shares of the Company’s common stock in exchange for each share of SBFC common 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. As a result of the merger, we added 12 offices in the Augusta, Georgia and Aiken, South Carolina markets.
Our principal executive offices are located at 520 Gervais Street, Columbia, South Carolina 29201. Our mailing address at this facility is Post Office Box 1030, Columbia, South Carolina 29202 and our telephone number is (800) 277 2175.

Available Information

We provide our Annual Reports on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) on our website at www.southstatebank.com under the Investor Relations section. These filings are made accessible as soon as reasonably practicable after they have been filed electronically with the Securities and Exchange Commission (the “SEC”). These filings are also accessible on the SEC’s website at www.sec.gov. In addition, we make available under the Investor Relations section on our website (www.southstatebank.com) the following, among other things: (i) Corporate Governance Guidelines, (ii) Code of Ethics, which applies to our directors and all employees, and (iii) the charters of the Audit, Compensation, Executive, Wealth Management and Trust, Risk, and Corporate Governance & Nominating Committees of our board of directors. These materials are available to the general public on our website free of charge. Printed copies of these materials are also available free of charge to shareholders who request them in writing. Please address your request to: Investor Relations, Attn: Fred Austin, South State Corporation, 520 Gervais Street, Columbia, South Carolina 29201. Statements of beneficial ownership of equity securities filed by directors, officers, and 10% or greater shareholders under Section 16 of the Exchange Act are also available through our website, www.southstatebank.com. The information on our website is not incorporated by reference into this report.

Products and Services

Lending Activities

We believe we have a strong team of consumer and commercial bankers to execute on a client-centered, relationship-driven banking model. Our commercial banking team focuses on businesses with an advisory approach that emphasizes understanding the client’s business and offering a broad suite of loan, deposit and treasury management products and services. Our consumer banking team consists of experienced professionals that focus on knowing their individual clients in order to best meet their financial needs, offering a full complement of loan, deposit and online banking solutions. We strive to do business in the areas served by our branches, which are also where our marketing is focused, and the vast majority of our new loan customers are located in existing market areas.

Our loan portfolio includes commercial real estate loans, residential real estate loans, commercial and industrial loans and consumer loans. The principal risk associated with each category of loans we make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the attributes of the borrower and the borrower’s market or industry. Attributes of the relevant business market or industry include the competitive environment, customer and supplier availability, the threat of substitutes and barriers to entry and exit.

Commercial Real Estate Loans. As of December 31, 2018, $5.6 billion, or 51%, of our bank loan portfolio consisted of loan secured by commercial real estate (including owner occupied and non-owner occupied commercial real estate and construction and land development lending). We offer construction financing, acquisition or refinancing of properties, commercial lines of credit and other loans that are secured by commercial real estate.

Residential Real Estate Loans. As of December 31, 2018, $3.5 billion, or 32%, of our bank loan portfolio consisted of residential real estate loans. We provide one-to-four family residential real estate loans with terms ranging from 10 to

30 years, with either fixed or adjustable interest rates and home equity lines. It is not our normal business practice to originate subprime loans. Loans are typically closed-end first lien loans for purposes of property purchased, or for refinancing existing loans. The majority of our loans are owner occupied, full documentation loans.

Commercial and Industrial Loans (“C&I”). As of December 31, 2018, $1.3 billion, or 12%, of our total bank loan portfolio consisted of commercial and industrial loans. Our C&I loans include lines of credit, acquisition finance credit facilities and other types of commercial credit, and typically have maturities of five years or less.

Table of Contents

Other Consumer Loans. As of December 31, 2018, $603 million, or 5%, of our bank loan portfolio consisted of other types of consumer loans. We offer consumer loans to our customers for personal, family and household purposes, including auto, boat and personal installment loans.

Deposit Products, Treasury Services and Other Funding Sources

We offer our customers a variety of deposit products and services, including checking accounts, savings accounts, money market accounts, other deposit accounts and treasury and merchant services, through multiple channels, including our extensive network of 168 full-service branches, as of December 31, 2018, and our online, mobile and telephone banking platforms. As of December 31, 2018, our deposit portfolio was comprised of 26% noninterest-bearing deposits and 74% interest bearing deposits. We intend to continue our efforts to provide funding for our business from customer relationship deposits.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from depositors located in areas surrounding our branches, and we believe that we have attractive opportunities to capture additional retail and commercial deposits in our markets. In order to attract and retain deposits, we rely on providing quality service, offering a suite of retail and commercial products and services and introducing new products and services that meet our customers' needs as they evolve.

In addition to traditional banking activities and the other products and services specified above, we provide a broad array of financial services to our customers, including: debit card products, treasury management services, merchant services, automated clearing house services, lock-box services remote deposit capture services and other treasury services.

Wealth Management

Through South State Bank and South State Advisory, we offer wealth management and other fiduciary and private banking services targeted to affluent clients, including individuals, business owners, families and professional service companies. In addition to fiduciary and investment management fee income, we believe these services enable us to build new relationships and expand existing relationships to grow our deposits and loans. Through our wealth management line of business, we offer financial planning, retirement services and trust and investment management for affluent clients as well as clients with more modest resources. We offer a wide range of investment alternatives, including certificates of deposits, mutual funds, annuities, individual retirement accounts, money market accounts and other financial products.

Territory Served and Competition

We serve customers and conduct our business from 168 financial centers in 29 South Carolina counties, eight North Carolina counties, 17 Georgia counties and four Virginia counties. We compete in the highly competitive banking and financial services industry. Our profitability depends principally on our ability to effectively compete in the markets in which we conduct business. We expect competition in the industry to continue to increase mainly as a result of the improvement in financial technology used by both existing and new banking and financial services firms. Competition may further intensify as additional companies enter the markets where we conduct business and we enter mature markets in accordance with our expansion strategy.

We experience strong competition from both bank and non bank competitors in certain markets. Broadly speaking, we compete with national banks, super regional banks, smaller community banks, non traditional internet based banks, insurance companies and government sponsored entities. We compete for deposits and loans with commercial banks, credit unions and other non-bank competitors. In addition, we compete with other financial intermediaries and investment alternatives such as mortgage companies, credit card issuers, leasing companies, finance companies, money market mutual funds, brokerage firms, governmental and corporation bonds, and other securities firms. Many of these non bank competitors are not subject to the same degree of regulatory oversight, affording them a competitive advantage in some instances. In many cases, our competitors have substantially greater resources and offer certain services that we are unable to provide to our customers.

Table of Contents

We encounter strong competition in making loans and attracting deposits. We compete with other financial institutions to offer customers competitive interest rates on deposit accounts, competitive interest rates charged on loans and other credit products and reasonable service charges. We believe our customers also consider the quality and scope of the services provided and the convenience of banking facilities. Our customers may also take into account the fact that other banks offer different services from those that we provide. The larger national and super regional banks may have significantly greater lending limits and may offer additional products. However, by emphasizing customer service and by providing a wide variety of services, we believe that our Bank has generally been able to compete successfully with our competitors, regardless of their size.

Employees

As of December 31, 2018, we had 2,602 full time equivalent employees compared to 2,719 as of the same date in 2017. We consider our relationship with our employees instrumental to the success of our business. We provide many of our employees with a comprehensive employee benefit program which includes the following: group life, health and dental insurance, paid vacation, sick leave, educational opportunities, a cash incentive plan, a stock purchase plan, stock incentive plan for officers and key employees, deferred compensation plans for officers and key employees, a defined benefit pension plan for employees hired on or before December 31, 2005 (except for employees acquired in the SunBank acquisition in November of 2005), and a 401(k) plan with employer match.

Regulation and Supervision

As a financial institution, we operate in a highly regulated environment applicable to bank holding companies and banks and their subsidiaries. Below, we have provided some specific information relevant to the Company. The regulatory framework under which we operate is intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation's (the "FDIC") Deposit Insurance Fund and not for the protection of our security holders and creditors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

General

The current regulatory environment for financial institutions includes substantial enforcement activity by the federal banking agencies, the U.S. Department of Justice, the SEC, the Consumer Financial Protection Bureau ("CFPB") and other state and federal law enforcement agencies. This regulatory environment has associated risks of significant potential increases in compliance requirements and associated costs.

We are a bank holding company registered with the Board of Governors of the Federal Reserve System and are subject to the supervision of, and to regular inspection by, the Federal Reserve Board. In addition, as a South Carolina bank holding company organized under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions (the "SCBFI"). Our Bank is organized as a South Carolina chartered commercial bank. It is subject to regulation, supervision, and examination by the SCBFI and the FDIC. The following discussion summarizes certain aspects of banking and other laws and regulations that affect the Company and our Bank.

Under the Bank Holding Company Act (the "BHC Act"), our activities and those of our Bank are limited to banking, managing or controlling banks, furnishing services to or performing services for our Bank, or any other activity which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The BHC Act requires prior Federal Reserve Board approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another

bank holding company. The BHC Act also prohibits a bank holding company from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any company engaged in a non banking business unless such business is determined by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. Further, under South Carolina law, it is unlawful without the prior approval of the SCBFI for any South Carolina bank holding company (i) to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank or any other bank holding company, (ii) to acquire all or substantially all of the assets of a bank or any other bank holding company, or (iii) to merge or consolidate with any other bank holding company.

Table of Contents

The Gramm Leach Bliley Act, also known as the Financial Modernization Act of 1999, amended a number of federal banking laws affecting the Company and our Bank. In particular, the Gramm Leach Bliley Act permits a bank holding company to elect to become a “financial holding company,” provided certain conditions are met. A financial holding company, and the companies it controls, are permitted to engage in activities considered “financial in nature” as defined by the Gramm Leach Bliley Act and Federal Reserve Board interpretations (including, without limitation, insurance and securities activities), and therefore may engage in a broader range of activities than permitted by bank holding companies and their subsidiaries.

Interstate Banking

Federal legislation permits out-of-state acquisitions by bank holding companies, interstate branching by banks, and interstate merging by banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which was signed into law in July 2010 and is discussed more fully below (the “Dodd-Frank Act”), removed previous state law restrictions on de novo interstate branching in states such as South Carolina, North Carolina, and Georgia. This change effectively permits out of state banks to open de novo branches in states where the laws of such state would permit a bank chartered by that state to open a de novo branch.

Obligations of a Holding Company to its Subsidiary Banks

A number of obligations and restrictions are imposed by law, regulations and regulatory policies applicable to bank holding companies with regard to their depository institution subsidiaries that are designed to minimize potential loss to depositors and to the FDIC’s deposit insurance fund in the event that the depository institution becomes in danger of defaulting under its obligations to repay deposits. Under a policy of the Federal Reserve Board, which was confirmed in the Dodd Frank Act, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), to avoid receivership of its insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become “undercapitalized” within the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution’s total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

The Federal Reserve Board also has the authority under the BHC Act to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board’s determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal law grants federal bank regulatory authorities additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution’s financial condition.

In addition, the “cross guarantee” provisions of the Federal Deposit Insurance Act (“FDIA”) require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC’s claim for damages is superior to claims of shareholders of the insured depository institution or its holding company, but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of our Bank.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's

Table of Contents

bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Dodd Frank Wall Street Reform and Consumer Protection Act

The Dodd Frank Act was signed into law in July 2010 and impacts financial institutions in numerous ways, including:

- The creation of a Financial Stability Oversight Council responsible for monitoring and managing systemic risk,
- Granting additional authority to the Federal Reserve to regulate certain types of nonbank financial companies,
- Granting new authority to the FDIC as liquidator and receiver,
- Changing the manner in which deposit insurance assessments are made,
- Requiring regulators to modify capital standards,
- Establishing the CFPB,
- Capping interchange fees that banks with assets of $10 billion or more charge merchants for debit card transactions,
- Imposing more stringent requirements on mortgage lenders, and
- Limiting banks' proprietary trading activities.

There are many provisions in the Dodd Frank Act mandating regulators to adopt new regulations and conduct studies upon which future regulation may be based. While many have been issued, some remain to be issued. Governmental intervention and new regulations could materially and adversely affect our business, financial condition and results of operations.

Basel Capital Standards

Regulatory capital rules adopted in July 2013 to implement capital standards (which we refer to as the Basel III rules or Basel III), that were generally developed by an international committee known as the Basel Committee on Banking Supervision and adopted as part of the implementation of the Dodd-Frank Act, impose higher minimum capital requirements for bank holding companies and banks than those that were previously in place. The rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with more than $3 billion in total consolidated assets. More stringent requirements are imposed on "advanced approaches" banking organizations which are organizations with $250 billion or more in total consolidated assets, $10 billion or more in total foreign exposures, or that have opted into the Basel III capital regime. The requirements in the rules as applicable to us began to phase in on January 1, 2015 and were fully phased in as of January 1, 2019.

Basel III requires higher risk-based capital and leverage requirements than those previously in place. Specifically, the following minimum capital requirements apply to us:

- a common equity Tier 1, which we sometimes refer to as CET1, risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement);
- a total risk-based capital ratio of 8% (unchanged from the former requirement); and

Table of Contents

· a leverage ratio of 4% (also unchanged from the former requirement).

Under the rules, Tier 1 capital includes two components: Common Equity Tier 1 capital and additional Tier 1 capital. The highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, otherwise referred to as AOCI, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. Tier 2 capital generally consists of instruments that previously qualified before Basel III as Tier 2 capital plus instruments that the rules have disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is included only in Tier 2 capital under Basel III; except that the rules permit bank holding companies with less than $15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 Capital (but not in Common Equity Tier 1 capital), subject to certain restrictions. AOCI is presumptively included in Common Equity Tier 1 capital and often would 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. We made this opt-out election and, as a result, retained our pre-existing treatment for AOCI.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, under Basel III, a banking organization must maintain a “capital conservation buffer” on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three risk-based measurements (Common Equity Tier 1, Tier 1 capital and total capital). The 2.5% capital conservation buffer was phased in incrementally over time, and became fully effective for us on January 1, 2019, resulting in the following effective minimum capital plus capital conservation buffer ratios: (i) a Common Equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%.

In general, Basel III has had the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, certain loans past due 90 days or more or in nonaccrual status, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

Volcker Rule

Section 619 of the Dodd-Frank Act, known as the “Volcker Rule,” generally prohibits any bank, bank holding company, or affiliate (referred to collectively as “banking entities”) from engaging in two types of activities: “proprietary trading” and the ownership or sponsorship of private equity or hedge funds that are referred to as “covered funds.” Proprietary trading is, in general, trading in securities on a short-term basis for a banking entity’s own account. Funds subject to the ownership and sponsorship prohibition include those not required to register with the SEC because they have only qualified purchasers or no more than 100 investors. In December 2013, our primary federal regulators, the Federal Reserve Board and the FDIC, together with other federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. At December 31, 2018, the Company has evaluated our securities portfolio and has determined that we do not hold any covered funds.

Prompt Corrective Action

As an insured depository institution, the Bank is required to comply with the capital requirements promulgated under the FDIA and the prompt corrective action regulations thereunder, which set forth five capital categories, each with specific regulatory consequences. Under these regulations, the categories are:

· Well Capitalized — The institution exceeds the required minimum level for each relevant capital measure. A well-capitalized institution (i) has total risk-based capital ratio of 10% or greater, (ii) has a Tier 1 risk-based capital

ratio of 8% or greater, (iii) has a common equity Tier 1 risk-based capital ratio of 6.5% or greater, (iv) has a leverage capital ratio of 5% or greater, and (v) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

- Adequately Capitalized — The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution (i) has a total risk-based capital ratio of 8% or

Table of Contents

greater, (ii) has a Tier 1 risk-based capital ratio of 6% or greater, (iii) has a common equity Tier 1 risk-based capital ratio of 4.5% or greater, and (iv) has a leverage capital ratio of 4% or greater.

- Undercapitalized — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution (i) has a total risk-based capital ratio of less than 8%, (ii) has a Tier 1 risk-based capital ratio of less than 6%, (iii) has a common equity Tier 1 risk-based capital ratio of less than 4.5%, or (iv) has a leverage capital ratio of less than 4%.
- Significantly Undercapitalized — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution (i) has a total risk-based capital ratio of less than 6%, (ii) has a Tier 1 risk-based capital ratio of less than 4%, (iii) has a common equity Tier 1 risk-based capital ratio of less than 3%, or (iv) has a leverage capital ratio of less than 3%.
- Critically Undercapitalized — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

If the applicable federal regulator determines, after notice and an opportunity for hearing, that the institution is in an unsafe or unsound condition, the regulator is authorized to reclassify the institution to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

If the institution is not well capitalized, it cannot accept brokered deposits without prior FDIC approval. Even if approved, rate restrictions will govern the rate the institution may pay on the brokered deposits. In addition, a bank that is less than well-capitalized generally cannot offer an effective yield in excess of 75 basis points over the “national rate” (as defined below) paid on deposits (including brokered deposits, if approval is granted for the bank to accept them) of comparable size and maturity. The “national rate” is defined as a simple average of rates paid by insured depository institutions and branches for which data are available and is published weekly by the FDIC. Institutions subject to the restrictions that believe they are operating in an area where the rates paid on deposits are higher than the “national rate” can use the local market to determine the prevailing rate if they seek and receive a determination from the FDIC that it is operating in a high rate area. Regardless of the determination, institutions must use the national rate to determine conformance for all deposits outside their market area.

Moreover, if the institution becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the FDIC. The institution also would become subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless it is determined by the appropriate federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution, that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized.

As of December 31, 2018, the Bank was deemed to be “well capitalized.”

9

Table of Contents

Payment of Dividends

The Company is a legal entity separate and distinct from the Bank. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company generally should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality, and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. Funds for cash distributions to our shareholders are derived primarily from dividends received from our Bank. Our Bank is subject to various general regulatory policies and requirements relating to the payment of dividends. Any restriction on the ability of our Bank to pay dividends will indirectly restrict the ability of the Company to pay dividends.

The Company pays cash dividends to shareholders from its assets, which are mainly provided by dividends from the Bank. However, certain restrictions exist regarding the ability of its subsidiary to transfer funds to the Company in form of cash dividends, loans or advances. The approval of the SCBFI is required to pay dividends that exceeds 100% of net income in any calendar year. The Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency (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 ability of the Company and the Bank to pay dividends may also be affected by the various minimum capital requirements and the capital and non capital standards established under the FDICIA, as described above. The right of the Company, its shareholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiary is further subject to the prior claims of creditors of our Bank.

Certain Transactions by the Company and its Affiliates

Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W.

Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit by a bank to any affiliate, including the holding company, and on a bank's investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations any of affiliates of the bank. Section 23A also applies to derivative transactions, repurchase agreements and securities lending and borrowing transactions that cause a bank to have credit exposure to an affiliate. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits a bank from engaging in certain transactions with certain affiliates unless the transactions are on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to such bank or its subsidiaries, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. If there are no comparable transactions, a bank's (or one of its subsidiaries') affiliate transaction must be on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, nonaffiliated companies. These requirements apply to all transactions subject to Section 23A as well as to certain other transactions.

The affiliates of a bank include any holding company of the bank, any other company under common control with the bank (including any company controlled by the same shareholders who control the bank), any subsidiary of the bank that is itself a bank, any company in which the majority of the directors or trustees also constitute a majority of the directors or trustees of the bank or holding company of the bank, any company sponsored and advised on a contractual basis by the bank or an affiliate, and any mutual fund advised by a bank or any of the bank's affiliates. Regulation W generally excludes all non bank and non savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

Table of Contents

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Extensions of credit include derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to the extent that such transactions cause a bank to have credit exposure to an insider. Any extension of credit to an insider: must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

Insurance of Deposits

The deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Dodd Frank Act permanently increased the maximum amount of deposit insurance for banks, savings associations and credit unions to $250,000 per account. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

As an FDIC-insured bank, the Bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. The Bank's assessment rates are currently based on its risk classification (i.e., the level of risk it poses to the FDIC's deposit insurance fund), and institutions classified as higher risk pay assessments at higher rates than institutions that pose a lower risk. Banks with assets of $10 billion or more (after achieving such asset threshold for four consecutive quarters) are subject to a deposit assessment based on a "scorecard" system that combines regulatory ratings and certain forward looking financial measures intended to assess the risk an institution poses to the FDIC's deposit insurance fund. Because the Bank exceeded $10 billion in assets on January 3, 2017 through the merger with SBFC, the Bank's deposit insurance assessment became based on this scorecard system starting in the second quarter of 2018, which resulted in an increase in the amount of premiums that we are required to pay for FDIC insurance. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

In addition to the ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. For example, the FDIC has raised assessment rates and imposed special assessments on certain institutions during recent years to raise funds. Under the Dodd-Frank Act, the minimum designated reserve ratio for the deposit insurance fund was increased to 1.35% (which ratio was required to be reached by September 30, 2020) of the estimated total amount of insured deposits. In March 2016, the FDIC adopted rules to impose a surcharge, as required by the Dodd-Frank Act, on the quarterly deposit insurance assessments of insured depository institutions that are deemed under the rules to be "large institutions," generally defined to include banks with total consolidated assets of $10 billion or more for four consecutive quarters, with the first $10 billion being subtracted from the regular insurance assessment base and certain other potential adjustments being made to determine the surcharge base. The large institution surcharge became effective on July 1, 2016, and on September 30, 2018, the deposit insurance fund reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35%. Accordingly, the last quarterly surcharge was reflected in large institutions' December 2018 assessment invoices, which covered the assessment period from July 1 through September 30. FDIC regulations provided for two changes to deposit insurance assessments upon reaching the minimum reserve ratio of 1.35%: (1) surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large institutions) will cease; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15% and 1.35%, to be applied when the reserve ratio is at or above 1.38%. The Company preliminarily received an estimate from the FDIC that it would receive an assessment credit of approximately $2.4 million based upon the bank being considered a small bank from July 1, 2016 through December 31, 2017 along with the assessment credits earned by SBFC and PSC before they merged with and into the Company in 2017. Assessment rates are expected to decrease if the reserve ratio increases such that it exceeds 2%.

In addition, FDIC insured institutions are required to pay a Financing Corporation assessment to fund the interest on bonds issued to resolve thrift failures in the 1980s. These assessments, which may be revised based upon the level of deposits, will continue as the bonds mature in the years 2017 through 2019. The amount assessed on individual institutions is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. Assessment rates may be adjusted quarterly to reflect changes in the assessment base.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a notice and hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to

continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, remain insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulators and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including the Company and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011. However, the 2011 proposal was replaced with a new proposal in May 2016, which makes explicit that the involvement of risk management and control personnel includes not only compliance, risk management and internal audit, but also legal, human resources, accounting, financial reporting and finance roles responsible for identifying, measuring, monitoring or controlling risk-taking. A final rule had not been adopted as of December 31, 2018.

In June 2010, the Federal Reserve Board, the FDIC and the OCC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Anti Tying Restrictions

Under amendments to the Bank Holding Company Act and Federal Reserve Board regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that:

· the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or its subsidiaries; or

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the customer not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended.

Certain arrangements are permissible: a bank may offer combined balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti tying requirements in connection with electronic benefit transfer services.

Table of Contents

Community Reinvestment Act

The Community Reinvestment Act (the "CRA") requires a financial institution's primary regulator, which is the FDIC for the Bank, to evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could result in the imposition of additional requirements and limitations on the institution. Additionally, the institution must publicly disclose the terms of various CRA related agreements. In its most recent CRA examination, the Bank received a "satisfactory" rating.

Consumer Protection Regulations

Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The loan operations of the Bank are also subject to federal laws and regulations applicable to credit transactions, such as:

· the Dodd Frank Act that created the CFPB within the Federal Reserve Board, which has broad rule making authority over a wide range of consumer laws that apply to all insured depository institutions;
· the federal Truth In Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers and including substantial new requirements for mortgage lending, as mandated by the Dodd Frank Act;
· the Home Mortgage Disclosure Act of 1975 and Regulation C, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
· the Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, color, religion, or other prohibited factors in extending credit;
· the Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act and Regulation V, as well as the rules and regulations of the FDIC, governing the use and provision of information to credit reporting agencies, certain identity theft protections and certain credit and other disclosures;
· the Fair Debt Collection Practices Act and Regulation F, governing the manner in which consumer debts may be collected by collection agencies;
· the Real Estate Settlement Procedures Act and Regulation X, which governs aspects of the settlement process for residential mortgage loans;
· The Secure and Fair Enforcement for Mortgage Licensing Act of 2018 which mandates a nationwide licensing and registration system for residential mortgage loan originators. The act also prohibits individuals from engaging in the business of a residential mortgage loan originator with first obtaining and maintaining annually registration as either a federal or state licensed mortgage loan originator; and
· The Mortgages Acts and Practices – Advertising (Regulation N) prohibits any person from making any material misrepresentation in connection with an advertisement for any mortgage credit product.

The deposit operations of the Bank are also subject to federal laws, such as:

· the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- the Electronic Funds Transfer Act and Regulation E, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- the Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- the Truth in Savings Act and Regulation DD, which requires depository institutions to provide disclosures so that consumers can make meaningful comparisons about depository institutions.

Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets. The Company exceeded $10 billion in total consolidated assets upon consummation of our merger with SBFC on January 3, 2017. Starting in the second quarter of 2018 (subject to any applicable phase-in period), the fourth consecutive quarter in which our total consolidated assets exceeded $10 billion, we became subject to, among other requirements, the following:

- Establish a Risk Committee. As a publicly traded bank holding company with $10 billion or more in consolidated assets, we must comply with certain provisions of the Federal Reserve's enhanced prudential standards. For instance, we are required to establish, and have established, a dedicated risk committee of our board of directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;
- Durbin Amendment. Beginning on July 1, 2018, we became subject to the so-called Durbin Amendment to the Dodd-Frank Act relating to debit card interchange fees, called "swipe fees." Under the Durbin Amendment and the Federal Reserve's implementing regulations, bank issuers who are not exempt may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. The maximum permissible interchange fee is equal to no more than $0.21 plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover $0.01 per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. See further discussion in Management Discussion & Analysis under the noninterest income subsection on page 57.
- CFPB Examination. The Dodd-Frank Act created the CFPB, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, such as the Bank. Depository institutions with less than $10 billion in assets are subject to rules promulgated by the CFPB, which may increase their compliance risk and the costs associated with their compliance efforts, but these banks will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Company and the Bank are now subject to examination by the CFPB.

The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a

14

Table of Contents

“qualified mortgage” as defined by the CFPB. The CFPB has opened inquiries into whether additional rulemaking would be appropriate for overdraft protection programs.

The CFPB has issued a number of regulations related to the origination of mortgages, foreclosures, and overdrafts as well as many other consumer issues. Additionally, the CFPB has proposed, or will be proposing, additional regulations on issues that directly relate to our business. Although it is difficult to predict at this time the extent to which the CFPB’s final rules impact the operations and financial condition of the banks, such rules may have a material impact on our compliance costs, compliance risk and fee income.

Enforcement Powers

The Bank and its “institution affiliated parties,” including its management, employees, agents, independent contractors, and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution’s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Potential civil penalties have been substantially increased. Criminal penalties for some financial institution crimes have been increased to 20 years.

In addition, regulators are provided with considerable flexibility to commence enforcement actions against institutions and institution affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies’ have expansive power to issue cease and desist orders. These orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts or take other actions as determined by the ordering agency to be appropriate.

The number of government entities authorized to take action against the Bank has expanded under the Dodd Frank Act. The FDIC continues to have primary federal enforcement authority, and the SCBFI also has enforcement authority, with respect to the Bank. In addition, as noted above, the Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws. Financial institutions with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations.

Further, state attorneys general may bring civil actions or other proceedings under the Dodd Frank Act or regulations against state chartered banks, including the Bank. Prior notice to the CFPB and the FDIC would be necessary for an action against the Bank.

Anti Money Laundering

Financial institutions must maintain anti money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and “knowing your customer” in their dealings with foreign financial institutions, foreign customers and other high risk customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act (the “Patriot Act”), enacted in 2001 and renewed through 2015, as described below. Bank regulators routinely examine institutions for compliance with these

obligations, and this area has become a particular focus of the regulators in recent years. In addition, the regulators are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions found to be violating these obligations.

Table of Contents

USA PATRIOT Act

The Patriot Act became effective on October 26, 2001 and amended the Bank Secrecy Act. The Patriot Act provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including:

- requiring standards for verifying customer identification at account opening;
- rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;
- reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; and
- filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

The Patriot Act requires financial institutions to undertake enhanced due diligence of private bank accounts or correspondent accounts for non U.S. persons that they administer, maintain, or manage. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the Patriot Act, the Financial Crimes Enforcement Network ("FinCEN") can send the Bank a list of the names of persons suspected of involvement in terrorist activities or money laundering. The Bank may be requested to search its records for any relationships or transactions with persons on the list. If the Bank finds any relationships or transactions, it must report those relationships or transactions to FinCEN.

The Office of Foreign Assets Control

The Office of Foreign Assets Control ("OFAC"), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts; owned or controlled by, or acting on behalf of target countries, and narcotics traffickers. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transactions on the account. The Bank has appointed a compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy and Credit Reporting

Financial institutions are required through Regulation P to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. The Bank's policy is not to disclose any personal information unless permitted by law.

Like other lending institutions, the Bank uses credit bureau data in its underwriting activities. Use of that data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting,

prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 allows states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the act.

Table of Contents

Fiscal and Monetary Policy

Banking is a business that depends largely on interest rate differentials. In general, the difference between the interest we pay on our deposits and other borrowings, and the interest we receive on our loans and securities holdings, constitutes the major portion of our bank's earnings. Thus, our earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. The Federal Reserve Board regulates, among other things, the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve Board, and the reserve requirements on deposits. We cannot predict the nature and timing of any changes in such policies and their impact on our business.

Commercial Real Estate Guidance

In December 2015, the federal banking regulators released a statement entitled "Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending" (the "CRE Guidance"). In the CRE Guidance, the federal banking regulators (i) expressed concerns with institutions that ease commercial real estate underwriting standards, (ii) directed financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and (iii) indicated that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The federal banking regulators previously issued guidance in December 2006, entitled "Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," which stated that an institution is potentially exposed to significant commercial real estate concentration risk, and should employ enhanced risk management practices, where (1) total commercial real estate loans (excluding loans secured by owner-occupied properties) represent 300% or more of its total capital and (2) the outstanding balance of such institution's commercial real estate loan portfolio (excluding loans secured by owner occupied properties) has increased by 50% or more during the prior 36 months. As of December 31, 2018, aggregate non-owner occupied commercial real estate loans as a percentage of its total capital was 216%. Over the past 36 months, the aggregate non-owner occupied commercial real estate loan portfolio has increased by more than 50% due mostly through our acquisitions in 2017.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide ranging provisions for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Executive Officers of South State Corporation

Executive officers of South State Corporation are elected by the board of directors annually and serve at the pleasure of the board of directors. The executive officer, and persons chosen to become executive officers, and their ages, positions over the past five years, and terms of office as of February 17, 2019, are as follows:

Name (age)	Position and Five Year History	With the Company Since
Robert R. Hill, Jr. (52)	Chief Executive Officer, Director, President (2004 —2013)	1995
John C. Pollok (53)	Senior Executive Vice President, Director, Chief Financial Officer, Chief Operating Officer (2004—2018)	1996

Jonathan Kivett (45)	Chief Credit Officer	2006
John F. Windley (66)	Chief Executive Officer, President of South State Bank (2006—2018)	2002
Greg Lapointe (55)	President of South State Bank	2012
Renee R. Brooks (49)	Chief Operating Officer, Chief Risk Officer (2016—2017), Corporate Secretary (2009—2014)	1996
John S. Goettee (61)	President of the Bank's South Carolina and Georgia divisions, President of the Bank's Southern Group division (2010-2019)	2005
L. Andrew Westbrook (56)	Chief Risk Officer, Director of Risk Management (2014—2017)	2012

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with the directors or officers of the Company acting solely in their capacities as such.

Table of Contents

Item 1A. Risk Factors.

Our business operations and the value of securities issued by us may be adversely affected by certain risk factors, many of which are outside of our control. We believe the risk factors listed could materially and adversely affect our business, financial condition or results of operations. We may also be adversely affected by additional risks and uncertainties that management is not aware of or focused on or that we currently believe are immaterial to our business operations. If any of such risks actually occur, you could lose part or all of your investment. This Report is qualified in its entirety by these risk factors.

General Business Risks

Our business may be adversely affected by economic conditions.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the primary markets where we operate and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors. While economic conditions in our primary markets of South Carolina, North Carolina, Georgia and Virginia have improved since the end of the last economic recession, concerns still exist over the federal deficit, government spending, and economic risks. A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate value and sales volumes and high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

Furthermore, the Federal Reserve, in an attempt to help the overall economy, had among other things, kept interest rates low through its targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. However, the Federal Reserve began increasing the target range for the federal funds rate by 25 basis points in December 2016, by a total of 75 basis points during 2017 and by a total of 100 basis points during 2018 and has indicated the potential for further gradual increases in the target rate depending on the economic outlook. The Federal Reserve also began reducing its holdings of U.S. Treasuries and mortgage-backed securities in October 2017. As the federal funds rate increases, market interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery.

Our estimated allowance for loan losses and fair value adjustments with respect to loans acquired in our acquisitions may prove to be insufficient to absorb actual losses in our loan portfolio, which may adversely affect our business, financial condition and results of operations.

We are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to ensure full repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results and ability to meet our obligations. Volatility and deterioration in domestic markets may also increase our risk for credit losses. The composition of our loan portfolio, which is primarily secured by real estate, reduces loss exposure. At December 31, 2018, we had approximately 38,110 of non acquired and acquired non credit impaired loans secured by real estate with an average loan balance of approximately $227,265. At December 31, 2018, we had approximately 80,761 total non acquired and acquired non credit impaired loans with an average loan balance of approximately $130,000. We

evaluate the collectability of our non-acquired loan portfolio and we maintain an allowance for loan losses that represents management's judgment of probable losses and risks inherent in our loan portfolio that we believe to be adequate based on a variety of factors including but not limited to: the risk characteristics of various classifications of loans, previous loan loss experience, specific loans that have loss potential, delinquency trends, estimated fair market value of the collateral, current economic conditions, the views of our regulators, and geographic and industry loan concentrations. If our evaluation is incorrect and defaults by borrowers lead to loan losses that exceed our allowance for loan losses, our earnings could be significantly and adversely affected. No assurance can be given that the allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolio or perceive

Table of Contents

adverse conditions and trends that may require us to significantly increase our allowance for loan losses in the future, a decision that would reduce earnings.

The application of the purchase method of accounting in our acquisitions (and any future acquisitions) will impact our allowance for loan losses. Under the purchase method of accounting, all acquired loans were recorded in our consolidated financial statements at their estimated fair value at the time of acquisition and any related allowance for loan loss was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair value are too high, we will incur losses associated with the acquired loans. The allowance associated with our purchased credit impaired loans reflects deterioration in cash flows since acquisition resulting from our quarterly re-estimation of cash flows which involves complex cash flow projections and significant judgment on timing of loan resolution.

In addition, our regulators, as an integral part of their periodic examination, review our methodology for calculating, and the adequacy of, our allowance and provision for loan losses. Although we believe that the methodology used by us to determine the amount of both the allowance for loan losses and provision is effective, the regulators or our auditor may conclude that changes are necessary based on information available to them at the time of their review, which could impact our overall credit portfolio. Such changes could result in, among other things, modifications to our methodology for determining our allowance or provision for loan losses or models, reclassification or downgrades of our loans, increases in our allowance for loan losses or other credit costs, imposition of new or more stringent concentration limits, restrictions in our lending activities and/or recognition of further losses. Further, if actual charge-offs in future periods exceed the amounts allocated to the allowance for loan losses, we may need additional provisions for loan losses to restore the adequacy of our allowance for loan losses.

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.

A significant portion of our non acquired and acquired non-credit impaired loan portfolios is secured by real estate. As of December 31, 2018, approximately 82.3% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. While economic conditions and real estate in our primary markets of South Carolina, North Carolina, Georgia and Virginia have continued to improve, there can be no assurance that our local markets will not experience another economic decline. Deterioration in the real estate market could cause us to adjust our opinion of the level of credit quality in our loan portfolio. Such a determination may lead to an additional increase in our provisions for loan losses, which could also adversely affect our business, financial condition, and results of operations.

If we fail to effectively manage credit risk and interest rate risk, our business and financial condition will suffer.

We must effectively manage credit risk. There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting and guidelines, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. There is no assurance that our credit risk monitoring and loan approval procedures are or will be adequate or will reduce the inherent risks associated with lending. Our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of our loan portfolio. Any failure to manage such credit risks may materially adversely affect our business and our consolidated results of operations and financial condition.

We must also effectively manage interest rate risk. Because mortgage loans typically have much longer maturities than deposits or other types of funding, rising interest rates can raise the cost of funding relative to the value of the mortgage loan. We manage this risk in part by holding adjustable rate mortgages in portfolios and through other means. Conversely, the value of our mortgage servicing assets may fall when interest rates fall, as borrowers refinance into lower rate loans. Given current rates, material reductions in rates may not be probable, but as rates rise, then the risk increases. There can be no assurance that we will successfully manage the lending and servicing businesses through all future interest rate environments.

Table of Contents

We are exposed to higher credit risk by commercial real estate, commercial business, and construction lending.

Commercial real estate, commercial business and construction lending usually involves higher credit risks than that of single family residential lending. At December 31, 2018, the following loan types accounted for the stated percentages of our total loan portfolio: commercial real estate – owner and non-owner occupied — 38.3%, commercial and industrial business — 11.6%, and construction and land development lending — 9.4%. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends in some cases on successful development of their properties, as well as the factors affecting residential real estate borrowers. These loans may involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans may have the following characteristics: (i) depreciate over time, (ii) difficult to appraise and liquidate, and (iii) fluctuate in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction exceeds the cost of the property construction (including interest) and the availability of permanent take out financing. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Commercial real estate, commercial business, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans.

As of December 31, 2018, our non acquired and acquired outstanding commercial real estate loans were equal to 216.0% of our total risk based capital. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement enhanced underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

Our commercial business loans are originated primarily based on the identified cash flow and general liquidity of the borrower and secondarily on the underlying collateral provided by the borrower and/or repayment capacity of any guarantor. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use. In addition, business assets may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral value provided by the borrower and liquidity

of the guarantor.

Changes in local economic conditions where we operate could have a negative effect on our business.

Our success depends significantly on growth, or lack thereof, in population, income levels, deposits and housing starts in the geographic markets in which we operate. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. Unlike larger financial institutions that are more geographically diversified, we are a regional banking franchise. Adverse changes in the economic conditions of the Southeast United States in general or in our primary markets in South Carolina, Charlotte, and Wilmington, North Carolina, Northeast

Table of Contents

Georgia, Augusta, Georgia, Savannah, Georgia, and Richmond, Virginia could negatively affect our financial condition, results of operations and profitability. While economic conditions in the states of South Carolina, North Carolina, Georgia and Virginia along with the U.S. and worldwide, have improved since the end of the economic recession, a return of recessionary conditions could result in the following consequences, any of which could have a material adverse effect on our business: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decline; and collateral for loans that we make, especially real estate, may decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with the our loans.

Liquidity needs could adversely affect our results of operations and financial condition.

The primary sources of our bank's funds are client deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay offs, inclement weather, natural disasters, which could be exacerbated by potential climate change, and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances, sales of securities and loans, and federal funds lines of credit from correspondent banks, as well as out of market time deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

We may make future acquisitions, which could dilute current shareholders' stock ownership and expose us to additional risks.

In accordance with our strategic plan, we evaluate opportunities to acquire other banks and branch locations to expand the Company. As a result, we may engage in acquisitions and other transactions that could have a material effect on our operating results and financial condition, including short and long term liquidity.

Our acquisition activities could require us to issue a significant number of shares of common stock or other securities and/or to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

Our acquisition activities could involve a number of additional risks, including the risks of:

- the possibility that expected benefits may not materialize in the timeframe expected or at all, or may be more costly to achieve;
- incurring the time and expense associated with identifying and evaluating potential acquisitions and merger partners and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- incurring the time and expense required to integrate the operations and personnel of the combined businesses;

- the possibility that we will be unable to successfully implement integration strategies, due to challenges associated with integrating complex systems, technology, banking centers, and other assets of the acquired bank in a manner that minimizes any adverse effect on customers, suppliers, employees, and other constituencies;

Table of Contents

- · the possibility of regulatory approval for the acquisition being delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues surrounding the Company, the target institution or the proposed combined entity as a result of, among other things, issues related to anti money laundering/Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, or the Community Reinvestment Act, and the possibility that any such issues associated with the target institution, which we may or may not be aware of at the time of the acquisition, could impact the combined entity after completion of the acquisition;
- · the possibility that a proposed acquisition may not be timely completed, if at all;
- · creating an adverse short term effect on our results of operations; and
- · losing key employees and customers as a result of an acquisition that is poorly received.

If we do not successfully manage these risks, our acquisition activities could have a material adverse effect on our operating results and financial condition, including short-term and long term liquidity.

Future acquisitions may be delayed, impeded, or prohibited due to regulatory issues.

Our future acquisitions, particularly those of financial institutions, are subject to approval by a variety of federal and state regulatory agencies. The process for obtaining these required regulatory approvals has become more difficult in recent years. Regulatory approvals could be delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues we have, or may have, with regulatory agencies, including, without limitation, issues related to anti money laundering/Bank Secrecy Act compliance, fair lending laws, fair housing laws, consumer protection laws, unfair, deceptive, or abusive acts or practices regulations, Community Reinvestment Act issues, and other similar laws and regulations. We may fail to pursue, evaluate or complete strategic and competitively significant acquisition opportunities as a result of our inability, or perceived or anticipated inability, to obtain regulatory approvals in a timely manner, under reasonable conditions or at all. Difficulties associated with potential acquisitions that may result from these factors could have a material adverse effect on our business, and, in turn, our financial condition and results of operations.

We may be exposed to difficulties in combining the operations of acquired businesses into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities.

We may not be able to fully achieve the strategic objectives and operating efficiencies that we anticipate in our acquisition activities. Inherent uncertainties exist in integrating the operations of an acquired business. In addition, the markets and industries in which we and our potential acquisition targets operate are highly competitive. We may lose customers or the customers of acquired entities as a result of an acquisition. We may also lose key personnel from the acquired entity as a result of an acquisition. We may not discover all known and unknown factors when examining a company for acquisition during the due diligence period. These factors could produce unintended and unexpected consequences for us. Undiscovered factors as a result of an acquisition could bring civil, criminal, and financial liabilities against us, our management, and the management of those entities we acquire. In addition, if difficulties arise with respect to the integration process, the economic benefits expected to result from acquisitions might not occur. Failure to successfully integrate businesses that we acquire could have an adverse effect on our profitability, return on equity, return on assets, or our ability to implement our strategy, any of which in turn could have a material adverse effect on our business, financial condition and results of operations. These factors could contribute to our not achieving the expected benefits from our acquisitions within desired time frames, if at all.

We may be exposed to a need for additional capital resources in the future and these capital resources may not be available when needed or at all.

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments or to strengthen our capital position. Our ability to raise additional capital, if needed, will depend on, among other things,

conditions in the capital markets at that time, which are outside of our control and our financial performance. Accordingly, we cannot provide assurance that such financing will be available to us on acceptable terms or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, our current shareholders' interests could be diluted.

Table of Contents

Our net interest income may decline based on the interest rate environment.

We depend on our net interest income to drive profitability. Differences in volume, yields or interest rates and differences in income earning products such as interest earning assets and interest bearing liabilities determine our net interest income. We are exposed to changes in general interest rate levels and other economic factors beyond our control, and an increase in our cost of funds could negatively impact our net interest income. Net interest income will decline in a particular period if:

- In a declining interest rate environment, more interest earning assets than interest bearing liabilities re price or mature, or
- In a rising interest rate environment, more interest bearing liabilities than interest earning assets re price or mature, or
- For acquired loans, expected total cash flows decline as our loan balances decline.

Our net interest income may decline based on our exposure to a difference in short term and long term interest rates. If the difference between the interest rates shrinks or disappears, the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

We may not be able to adequately anticipate and respond to changes in market interest rates.

We may be unable to anticipate changes in market interest rates, which are affected by many factors beyond our control including but not limited to inflation, recession, unemployment, money supply, monetary policy, and other changes that affect financial markets both domestic and foreign. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, as well as balance sheet growth, customer loan and deposit preferences, and the timing of changes in these variables. In the event rates increase, our interest costs on liabilities may increase more rapidly than our income on interest earning assets, thus a deterioration of net interest margins. As such, fluctuations in interest rates could have significant adverse effects on our financial condition and results of operations.

We are exposed to the possibility that more prepayments may be made by customers to pay down loan balances, which could reduce our interest income and profitability.

Prepayment rates stem from consumer behavior, conditions in the housing and financial markets, general U.S. economic conditions, and the relative interest rates on fixed rate and adjustable rate loans. Therefore, changes in prepayment rates are difficult to predict. Recognition of deferred loan origination costs and premiums paid in originating these loans are normally recognized over the contractual life of each loan. As prepayments occur, the rate at which net deferred loan origination costs and premiums are expensed will accelerate. The effect of the acceleration of deferred costs and premium amortization may be mitigated by prepayment penalties paid by the borrower when the loan is paid in full within a certain period of time, which varies between loans. If prepayment occurs after the period of time when the loan is subject to a prepayment penalty, the effect of the acceleration of premium and deferred cost amortization is no longer mitigated. We recognize premiums paid on mortgage backed securities as an adjustment from interest income over the expected life of the security based on the rate of repayment of the securities. Acceleration of prepayments on the loans underlying a mortgage backed security shortens the life of the security, increases the rate at which premiums are expensed and further reduces interest income. We may not be able to reinvest loan and security prepayments at rates comparable to the prepaid instrument particularly in a period of declining interest rates.

Our historical operating results may not be indicative of our future operating results.

We may not be able to sustain our historical rate of growth, and, consequently, our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If

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we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

We are exposed to a possible loss of our employees and critical management team.

We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or more senior executives or key managers may have an adverse effect on our operations. Also, as we continue to grow operations, our success depends on our ability to continue to attract, manage, and retain other qualified middle management personnel. We cannot guarantee that we will continue to attract or retain such personnel.

If we are unable to offer our key management personnel long term incentive compensation, including options, restricted stock, and restricted stock units, as part of their total compensation package, we may have difficulty retaining such personnel, which would adversely affect our operations and financial performance.

We have historically granted equity awards, including stock options, restricted stock awards or restricted stock units, to key management personnel as part of a competitive compensation package. Our ability to grant equity compensation awards as a part of our total compensation package has been vital to attracting, retaining and aligning shareholder interest with a talented management team in a highly competitive marketplace.

In the future, we may seek shareholder approval to adopt new equity compensation plans so that we may issue additional equity awards to management in order for the equity component of our compensation packages to remain competitive in the industry. Shareholder advisory groups have implemented guidelines and issued voting recommendations related to how much equity companies should be able to grant to employees. These advisors influence certain shareholder votes regarding approval of a company's request for approval of new equity compensation plans. The factors used to formulate these guidelines and voting recommendations include the volatility of a company's share price and are influenced by broader macro economic conditions that can change year to year. The variables used by shareholder advisory groups to formulate equity plan recommendations may limit our ability to obtain approval to adopt new equity plans in the future. If we are limited in our ability to grant equity compensation awards, we would need to explore offering other compelling alternatives to supplement our compensation, including long term cash compensation plans or significantly increased short term cash compensation, in order to continue to attract and retain key management personnel. If we used these alternatives to long term equity awards, our compensation costs could increase and our financial performance could be adversely affected. If we are unable to offer key management personnel long term incentive compensation, including stock options, restricted stock or restricted stock units, as part of their total compensation package, we may have difficulty attracting and retaining such personnel, which would adversely affect our operations and financial performance.

We may be adversely affected by the lack of soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by our Bank cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to our Bank. Any such losses could have a material adverse effect on our financial condition and results of operations.

We could experience a loss due to competition with other financial institutions.

We face substantial competition in all areas of our operations from a variety of different competitors, both within and beyond our principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, super-regional, and internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has

Table of Contents

lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

Our ability to compete successfully depends on a number of factors, including, among other things:

· the ability to develop, maintain, and build upon long term customer relationships based on top quality service, high ethical standards, and safe, sound assets;
· the ability to expand our market position;
· the scope, relevance, and pricing of products and services offered to meet customer needs and demands;
· the rate at which we introduce new products and services relative to our competitors;
· customer satisfaction with our level of service; and
· industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Failure to keep pace with technological change could adversely affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

New lines of business or new products and services may subject us to additional risk.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and/or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

The value of securities in our investment portfolio may decline in the future.

As of December 31, 2018, we owned $1.5 billion of investment securities. The fair value of our investment securities may be adversely affected by market conditions, including changes in interest rates, and the occurrence of any

Table of Contents

events adversely affecting the issuer of particular securities in our investments portfolio. We analyze our securities on a quarterly basis to determine if an other-than-temporary impairment has occurred. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could have a material adverse effect on our business, financial condition or results of operations.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

We are subject to losses due to errors, omissions or fraudulent behavior by our employees, clients, counterparties or other third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially and adversely affected if employees, clients, counterparties or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation or purposeful damage to any of our operations or systems.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer’s audited financial statements conform to accounting principles generally accepted in the United States of America (“GAAP”) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition and results of operations could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with GAAP or are materially misleading.

The accuracy of our financial statements and related disclosures could be affected because we are exposed to conditions or assumptions different from the judgments, assumptions or estimates used in our critical accounting policies.

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, included in this document, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered “critical” by us

because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, such events or assumptions could have a material impact on our audited consolidated financial statements and related disclosures.

Table of Contents

We are exposed to the possibility of technology failure and a disruption in our operations may adversely affect our business.

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition. In addition, a disruption in our operations resulting from failure of transportation and telecommunication systems, loss of power, interruption of other utilities, natural disaster, fire, global climate changes, computer hacking or viruses, failure of technology, terrorist activity or the domestic and foreign response to such activity or other events outside of our control could have an adverse impact on the financial services industry as a whole and/or on our business. Our business recovery plan may not be adequate and may not prevent significant interruptions of our operations or substantial losses. The increased number of cyberattacks during the past few years has further heightened our attention to this risk. As such, we are in the process of implementing additional security controls and expanding our Cybersecurity team to monitor and assist with the mitigation of this ever increasing risk.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers or other third parties, including as a result of cyber-attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We rely heavily on communications and information systems to conduct our business. Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As client, public, and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber-attacks.

As noted above, our business relies on our digital technologies, computer and email systems, software, and networks to conduct its operations. Although we have information security procedures and controls in place, our technologies, systems, networks, and our clients’ devices may become the target of cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients’ confidential, proprietary and other information, or otherwise disrupt our or our clients’ or other third parties’ business operations. Third parties with whom we do business or that facilitate our business activities, including financial intermediaries, or vendors that provide services or security solutions for our operations, and other third parties, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

While we have disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result,

cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

Table of Contents

Our controls and procedures may fail or be circumvented, which could have a material adverse effect on our business, result of operations and financial condition.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures may lead to operational losses including internal and external fraud which could have a material adverse effect on our business, results of operations and financial condition.

Our deposit insurance premiums could be higher in the future, which could have an adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured depository institutions, such as the Bank, up to $250,000 per account. The Bank's regular assessments are based on its average consolidated total assets minus average tangible equity as well as by risk classification, which includes regulatory capital levels and the level of supervisory concern. Banks with assets of $10 billion or more are subject to a deposit assessment based on a "scorecard" system that combines regulatory ratings and certain forward looking financial measures intended to assess the risk an institution poses to the deposit insurance fund. Because the Bank exceeded $10 billion in assets on January 3, 2017 through the merger with SBFC, the Bank's deposit insurance assessment became based on this scorecard system starting in the first quarter of 2018.

In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. High levels of bank failures since the beginning of the most recent financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the deposit insurance fund. Under the Dodd-Frank Act, the minimum designated reserve ratio for the FDIC deposit insurance fund was increased to 1.35%, and in March 2016, the FDIC adopted rules to impose a surcharge on the quarterly deposit insurance assessments on "large institutions," generally defined to include banks with total consolidated assets of $10 billion or more for four consecutive quarters, with the first $10 billion being subtracted from the regular insurance assessment base and certain other potential adjustments being made to determine the surcharge base. The large institution surcharge became effective on July 1, 2016, and on September 30, 2018, the deposit insurance fund reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35%. Accordingly, the last quarterly surcharge was reflected in large institutions' December 2018 assessment invoices, which covered the assessment period from July 1, 2018 through September 30, 2018.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. If our financial condition deteriorates or if the bank regulators otherwise have supervisory concerns about us, then our assessments could rise. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities, or otherwise negatively impact our operations.

Negative public opinion surrounding our company and the financial institutions industry generally could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and cybersecurity incidents, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to

keep and attract clients and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

Table of Contents

Legal and Regulatory Risks

We are subject to extensive regulation that could restrict our activities, have an adverse impact on our operations, and impose financial requirements or limitations on the conduct of our business.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. The Company is subject to Federal Reserve Board regulation, and our Bank is subject to extensive regulation, supervision, and examination by our primary federal regulator, the FDIC, the CFPB and by the SCBFI. Also, as a member of the Federal Home Loan Bank (the "FHLB"), the Bank must comply with applicable regulations of the Federal Housing Finance Board and the FHLB. Our Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A sufficient claim against us under these laws could have a material adverse effect on our results of operations.

Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. The Dodd-Frank Act and other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways, including, among other things, subjecting us to increased capital, liquidity and risk management requirements, creating additional costs, limiting the types of financial services and products we may offer and/or increasing the ability of non banks to offer competing financial services and products. Failure to comply with laws, regulations or policies could also result in heightened regulatory scrutiny and in sanctions by regulatory agencies (such as a memorandum of understanding, a written supervisory agreement or a cease and desist order), civil money penalties and/or reputation damage. Any of these consequences could restrict our ability to expand our business or could require us to raise additional capital or sell assets on terms that are not advantageous to us or our shareholders and could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, such violations may occur despite our best efforts.

Because our total consolidated assets exceed $10 billion, we are subject to additional regulations and oversight that have not previously been applicable to us and that could materially and adversely affect our revenues and expenses.

We exceeded $10 billion in total consolidated assets upon consummation of our merger with SBFC on January 3, 2017. As a result, we have become subject to additional regulations and oversight that could adversely affect our revenues and expenses. Such regulations and oversight include the following:

The CFPB has broad rulemaking, supervisory, and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home equity loans and credit cards. The CFPB has examination and primary enforcement authority with respect to banks with over $10 billion in assets, such as the Bank. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business.

Furthermore, with respect to deposit-taking activities, banks with assets in excess of $10 billion are subject to a deposit assessment based on a new scorecard issued by the FDIC. This new deposit assessment scorecard calculation, which became applicable to the Bank starting with the second quarter of 2018, considers, among other things, the bank's CAMELS rating, results of asset-related stress testing and funding-related stress, as well as our use of core deposits, among other things. Depending on the results of a bank's performance under that scorecard, the total base assessment rate is between 2.5 to 45 basis points. Any increase in the Bank's deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source.

In addition, banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards known as the Durbin Amendment. Beginning on July 1, 2018, the Bank is limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by the Bank to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. A reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. In 2018, we earned

Table of Contents

approximately $31.2 million in bankcard services income. We estimate that bankcard service income was reduced by approximately $9.6 million during the last half of 2018 due to the change in regulation on the amount that can be charged for interchange transaction fees. This regulation, which we refer to herein as the Durbin amendment, became applicable to us on July 1, 2018.

In anticipation of becoming subject to the heightened regulatory requirements, we have hired and continue to hire additional compliance personnel and implement structural initiatives to address these requirements. However, compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations.

We are exposed to declines in the value of retirement plan assets or unfavorable changes in laws or regulations that govern retirement plan funding, which could require us to provide significant amounts of funding for our retirement plan.

As a matter of course, we anticipate that we will make cash contributions to our retirement plans in the near and long term. A significant decline in the value of retirement plan assets in the future or unfavorable changes in laws or regulations that govern retirement plan funding could materially change the timing and amount of required plan funding. As a result, we may be required to fund our retirement plans with a greater amount of cash from operations, perhaps by an additional material amount.

The Basel III capital rules generally require insured depository institutions and their holding companies to hold more capital which could adversely affect our financial condition and operations

In July 2013, the federal bank regulatory agencies issued a final rule that revised their risk based capital requirements and the method for calculating risk weighted assets to generally make them consistent with an accord reached by the Basel Committee on Banking Supervision and to implement certain provisions of the Dodd Frank Act. This rule substantially amended the regulatory risk based capital rules applicable to us. The requirements in the rule began to phase in on January 1, 2015 for the Company and the Bank and were fully phased in on January 1, 2019.

The final rules included higher risk-based capital and leverage requirements than those previously in place. Specifically, the following minimum capital requirements apply to us:

- a common equity Tier 1 risk-based capital ratio of 4.5% (the minimum common equity Tier 1 risk-based capital ratio plus a fully phased-in capital conservation buffer is 7%);
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement; the minimum Tier 1 risk-based capital ratio plus a fully phased-in capital conservation buffer is 8.5%);
- a total risk-based capital ratio of 8% (unchanged from the former requirement; the minimum total risk-based capital ratio plus a fully phased-in capital conservation buffer is 10.5%); and
- a leverage ratio of 4% (also unchanged from the former requirement).

Under the rule, Tier 1 capital is defined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, AOCI, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. Tier 2 capital generally consists of instruments that before Basel III qualified as Tier 2 capital plus instruments that the rule has disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is included only in Tier 2 capital under Basel III; except that the rule permits bank holding companies with less than $15 billion in total consolidated assets to continue to include trust preferred securities and cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 Capital (but not in

Common Equity Tier 1 capital), subject to certain restrictions. Bank holding companies that exceed $15 billion in total consolidated assets through organic growth can also continue to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 Capital until they enter into an acquisition. AOCI is presumptively included in Common Equity Tier 1 capital and often would 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

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much of this treatment of AOCI. We made this opt-out election and, as a result, retained our pre-existing treatment for AOCI.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital). The 2.5% capital conservation buffer was phased in incrementally over time, becoming fully effective on January 1, 2019.

In general, the rules have had the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, certain loans past due 90 days or more or in nonaccrual status, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

In addition, in the current economic and regulatory environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we are unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers, could result in management modifying our business strategy and could limit our ability to make distributions, including paying dividends or buying back our shares.

The federal banking agencies are implementing new liquidity standards that, while not directly applicable to us, could result in our having to lengthen the term of our funding, restructure our business lines by forcing us to seek new sources of liquidity for them, and/or increase our holdings of liquid assets.

In 2014, the federal banking agencies adopted a "liquidity coverage ratio" requirement for bank holding companies with $250 billion or more in total assets or $10 billion or more in on-balance sheet foreign exposures and their subsidiary depository institutions with $10 billion or more in total consolidated assets. The requirement calls for sufficient high quality liquid assets to meet liquidity needs for a 30 calendar day liquidity stress scenario. In 2016, the agencies proposed a net stable funding ratio for these institutions, which imposes a similar requirement over a one-year period. Neither the liquidity coverage standard nor the net stable funding standard apply directly to us, but the substance of the standards – adequate liquidity over 30-day and one-year periods – may inform the regulators' assessment of our liquidity. We could be required to reduce our holdings of illiquid assets and adversely affect our results and financial condition. The U.S. regulators have not yet proposed a net stable funding ratio requirement.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (which we refer to as the "Patriot Act") and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti money laundering regulations. If our policies, procedures and systems are deemed deficient or the

policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Federal, state and local consumer lending laws restrict our ability to originate certain mortgage loans and increase our risk of liability with respect to such loans and increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. Over the course of 2013, the CFPB issued several rules on mortgage lending, notably a rule requiring all home mortgage lenders to determine a borrower's ability to repay the loan. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability to a borrower for failing to make the necessary determinations. In response to these laws and related CFPB rules, we have tightened and in the future may further tighten our mortgage loan underwriting standards to determine borrowers' ability to repay. Although it is our policy not to make predatory loans and to determine borrowers' ability to repay, these laws and related rules create the potential for increased liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

The Federal Reserve Board may require us to commit capital resources to support the Bank.

The Federal Reserve Board requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, we could be required to provide financial assistance to our Bank if the Bank experiences financial distress.

A capital injection may be required at times when we do not have the resources to provide it, and therefore we may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

A downgrade of the U.S. credit rating could negatively impact our business, results of operations and financial condition.

In August 2011, Standard & Poor’s Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+”.   If U.S. debt ceiling, budget deficit or debt concerns, domestic or international economic or political concerns, or other factors were to result in further downgrades to the U.S. government’s sovereign credit rating or its perceived creditworthiness, it could adversely affect the U.S. and global financial markets and economic

conditions. A downgrade of the U.S. government's credit rating or any failure by the U.S. government to satisfy its debt obligations could create financial turmoil and uncertainty, which could weigh heavily on the global banking system. It is possible that any such impact could have a material adverse effect on our business, results of operations and financial condition.

We are party to various claims and lawsuits incidental to our business. Litigation is subject to many uncertainties such that the expenses and ultimate exposure with respect to many of these matters cannot be ascertained.

From time to time, we, our directors and our management are the subject of various claims and legal actions by customers, employees, shareholders and others. Whether such claims and legal actions are legitimate or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. In light of the potential cost and uncertainty involved in litigation, we have in the past and may in the future settle matters even when we believe we have a meritorious defense. Certain claims may seek injunctive relief, which could disrupt the ordinary conduct of our business and operations or increase our cost of doing business. Our insurance or indemnities may not cover all claims that may be asserted against us. Any judgments or settlements in any pending litigation or future claims, litigation or investigation could have a material adverse effect on our business, reputation, financial condition and results of operations.

We could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. Any change in enacted tax laws, rules or regulatory or judicial interpretations, or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations. The taxing authorities in the jurisdictions in which we operate may challenge our tax positions, which could increase our effective tax rate and harm our financial position and results of operations. We are subject to audit and review by U.S. federal and state tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. In addition, changes in enacted tax laws, such as adoption of a lower income tax rate in any of the jurisdictions in which we operate, could impact our ability to obtain the future tax benefits represented by our deferred tax assets. In addition, the determination of our provision for income taxes and other liabilities requires significant judgment by management. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and could have a material adverse effect on our financial results in the period or periods for which such determination is made.

New accounting standards could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The measure of our allowance for loan losses is dependent on the adoption and interpretation of accounting standards. The Financial Accounting Standards Board has issued a new credit impairment model, the Current Expected Credit Loss, or CECL model, which will become effective for interim and annual reporting periods beginning after December 15, 2019 (effective for the calendar year beginning January 1, 2020). Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model currently required under GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to significantly increase

our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Table of Contents

There is uncertainty surrounding the potential legal, regulatory and policy changes by the current presidential administration in the U.S. that may directly affect financial institutions and the global economy.

The current presidential administration has indicated that it would like to see changes made to certain financial reform regulations, including the Dodd-Frank Act, which has resulted in increased regulatory uncertainty, and we are assessing the potential impact on financial and economic markets and on our business. Changes in federal policy and at regulatory agencies are expected to occur over time through policy and personnel changes, which could lead to changes involving the level of oversight and focus on the financial services industry. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. At this time, it is unclear what laws, regulations and policies may change and whether future changes or uncertainty surrounding future changes will adversely affect our operating environment and therefore our business, financial condition and results of operations.

Risks Related to an Investment in Our Common Stock

Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.

Our ability to pay cash dividends may be limited by regulatory restrictions, by our Bank's ability to pay cash dividends to our holding company and by our need to maintain sufficient capital to support our operations. The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action regulations, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Since the Company is legal entity separate and distinct from the Bank and does not conduct stand alone operations, its ability to pay dividends depends on the ability of the Bank to pay dividends to it. As a South Carolina chartered bank, the Bank is subject to limitations on the amount of dividends that it is permitted to pay. Unless otherwise instructed by the SCBFI or the Commissioner of Banking, the Bank is generally permitted under South Carolina state banking regulations to pay cash dividends of up to 100% of net income in any calendar year without obtaining the prior approval of the SCBFI. 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. In addition, under Federal Reserve Board regulations, a dividend cannot be paid by the Bank if it would be less than well capitalized after the dividend. The Federal Reserve Board may also prevent the payment of a dividend by the Bank if it determines that the payment would be an unsafe and unsound banking practice.

If our Bank is not permitted to pay cash dividends to our holding company, it is unlikely that we would be able to pay cash dividends on our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce or eliminate our common stock dividend in the future.

We may issue additional shares of stock or equity derivative securities that will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the

terms on which we may obtain additional capital.

Our authorized capital includes 80,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of December 31, 2018, we had 35,829,549 shares of common stock outstanding and had reserved for issuance 213,866 shares underlying options that are or may become exercisable at an average price of $61.28 per share. In addition, as of December 31, 2018, we had the ability to issue 268,919 shares of common stock pursuant to options and restricted stock that may be granted in the future under our existing equity compensation plans.

Table of Contents

Subject to applicable NASDAQ rules, our board generally has the authority, without action by or vote of the shareholders, to issue authorized but unissued shares of stock for any corporate purpose. Such corporate purposes could include, among other things, issuances of equity based incentives under or outside of our equity compensation plans, issuances of equity in business combination transactions, and issuances of equity to raise additional capital to support growth or to otherwise strengthen our balance sheet. Any issuance of additional shares of stock or equity derivative securities will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. Shares we issue in connection with any such offering will increase the total number of outstanding shares and may dilute the economic and voting ownership interest of our existing shareholders.

Our stock price may be volatile, which could result in losses to our investors and litigation against us.

Our stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts' recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non traditional competitors, news reports of trends, concerns, irrational exuberance on the part of investors, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

Stock price volatility may make it more difficult for our investors to resell their common stock when they desire and at prices they find attractive. Moreover, in the past, securities class action lawsuits have been instituted against some companies following periods of volatility in the market price of its securities. We could in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources from our normal business.

Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline.

Significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions.

State law and provisions in our articles of incorporation or bylaws could make it more difficult for another company to purchase us, even though such a purchase may increase shareholder value.

In many cases, shareholders may receive a premium for their shares if we were purchased by another company. State law and our articles of incorporation and bylaws could make it difficult for anyone to purchase us without the approval of our board of directors. For example, our articles of incorporation divide the board of directors into three classes of directors serving staggered three year terms with approximately one third of the board of directors elected at each annual meeting of shareholders. This classification of directors makes it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders would be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable.

Our articles of incorporation provide that a merger, exchange or consolidation of the Company with, or the sale, exchange or lease of all or substantially all of our assets to, any person or entity (referred to herein as a "Fundamental Change"), must be approved by the holders of at least 80% of our outstanding voting stock if the board of directors

does not recommend a vote in favor of the Fundamental Change. The articles of incorporation further provide that a Fundamental Change involving a shareholder that owns or controls 20% or more of our voting stock at the time of the proposed transaction (a “Controlling Party”) must be approved by the holders of at least (i) 80% of our outstanding voting stock, and (ii) 67% of our outstanding voting stock held by shareholders other than the Controlling Party, unless (x) the transaction has been recommended to the shareholders by a majority of the entire board of directors or (y) the consideration per share to be received by our shareholders generally is not less than the highest price per share paid by the Controlling Party in the acquisition of its holdings of our common stock during the preceding three years. The approval by the holders of at least 80% of our outstanding voting stock is required to amend or repeal these provisions

Table of Contents

contained in our articles of incorporation. Finally, in the event that any such Fundamental Change is not recommended by the board of directors, the holders of at least 80% of our outstanding voting stock must attend a meeting called to address such transaction, in person or by proxy, in order for a quorum for the conduct of business to exist. If the 80% and 67% vote requirements described above do not apply because the board of directors recommends the transaction or the consideration is deemed fair, as applicable, then pursuant to the provisions of the South Carolina Business Corporation Act, the Fundamental Change generally must be approved by two thirds of the votes entitled to be cast with respect thereto.

Consequently, a takeover attempt may prove difficult, and shareholders may not realize the highest possible price for their securities.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in a four story facility, located at 520 Gervais Street, Columbia, South Carolina, 29201. The main offices of South State Bank and the Central region lead branch are also located in this approximately 57,000 square foot building. Including this main location, our bank owns 137 properties and leases 61 properties, all of which are used as branch locations or for housing operational units in North and South Carolina, Georgia and Virginia. Although the properties owned and leased are generally considered adequate, we have a continuing program of modernization, expansion, and when necessary, occasional replacement of facilities. For additional information relating to the Company’s premises, equipment and lease commitments, see Note 6—Premises and Equipment and Note 20—Lease Commitments to our audited consolidated financial statements.

Item 3. Legal Proceedings.

As of December 31, 2018 and the date of this form 10 K, we believe that we are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in the ordinary course of our business.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) The table below describes historical information regarding our common equity securities:

	2018	2017	2016	2015	2014
Stock Performance					
Dividends per share	$ 1.38	$ 1.32	$ 1.21	$ 0.98	$ 0.82
Dividend payout ratio	28.27 %	44.11 %	28.91 %	23.84 %	26.61 %
Dividend yield (based on the average of the high and low for the year)	1.84 %	1.53 %	1.60 %	1.39 %	1.34 %
Price/earnings ratio (based on year end stock price and diluted earnings per share)	12.34x	29.74x	20.91x	17.51x	21.78x
Price/book ratio (end of year)	0.91x	1.39x	1.87x	1.64x	1.64x
Common Stock Statistics					
Stock price ranges:					
High	$ 93.25	$ 94.50	$ 91.85	$ 81.80	$ 68.50
Low	56.55	78.60	59.19	58.84	53.87
Close	59.95	87.15	87.40	71.95	67.08
Volume traded on exchanges	38,801,800	30,991,600	22,823,100	23,422,500	18,488,200
As a percentage of average shares outstanding	105.86 %	103.83 %	94.31 %	96.83 %	76.63 %
Earnings per share, basic	$ 4.90	$ 2.95	$ 4.22	$ 4.15	$ 3.11
Earnings per share, diluted	4.86	2.93	4.18	4.11	3.08
Book value per share	66.04	62.81	46.82	43.84	40.78

Quarterly Common Stock Price Ranges and Dividends

	Year Ended December 31,					
	2018			2017		
Quarter	High	Low	Dividend	High	Low	Dividend
1st	$ 92.45	$ 84.00	$ 0.33	$ 93.40	$ 80.25	$ 0.33
2nd	93.25	83.45	0.34	92.60	80.95	0.33
3rd	90.10	79.85	0.35	90.10	78.60	0.33
4th	83.21	56.55	0.36	94.50	85.10	0.33

As of February 20, 2019, we had issued and outstanding 35,370,054 shares of common stock which were held by approximately 24,500 shareholders of record. Our common stock trades in The NASDAQ Global Select MarketSM under the symbol “SSB.”

The Company is a legal entity separate and distinct from the Bank. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board’s view that a bank holding company generally should pay cash dividends only to the extent that the holding company’s net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company’s capital needs, asset quality, and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends.

We pay cash dividends to the Company’s shareholders from our assets, which are provided primarily by dividends paid to the Company by our Bank. Certain restrictions exist regarding the ability of our subsidiary to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the SCBFI is required to pay dividends in excess of 100% of net income in any calendar year. For the year ended December 31, 2018, our Bank paid dividends of approximately $117.2 million to the Company, which did not require SCBFI approval. Dividends paid to our shareholders are approved each quarter by the board of directors.

Table of Contents

Cumulative Total Return Performance

	Period Ending					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
South State Corporation	$ 100.00	$ 102.26	$ 111.17	$ 137.44	$ 139.16	$ 97.37
NASDAQ Composite Index	$ 100.00	$ 114.75	$ 122.74	$ 133.62	$ 173.22	$ 168.30
SNL Southeast Bank Index	$ 100.00	$ 112.63	$ 110.87	$ 147.18	$ 182.06	$ 150.42

The performance graph above compares the Company's cumulative total return over the most recent five year period with the NASDAQ Composite and the SNL Southeast Bank Index, a banking industry performance index for the Southeastern United States. Returns are shown on a total return basis, assuming the reinvestment of dividends and a beginning stock index value of $100 per share. The value of the Company's common stock as shown in the graph is based on published prices for transactions in the Company's stock.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities:

In February 2004, we announced a program with no formal expiration date to repurchase up to 250,000 of our common shares. 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, all of which had been repurchased as of December 31, 2018. 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. As of the date of this filing, the Company has repurchased 500,000 shares of the 1,000,000 approved in January 2019 at an average price of $66.53. The activity under the new 2019 stock repurchase

Table of Contents

program is not reflected in the table below. The following table reflects share repurchase activity during the fourth quarter of 2018:

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 October 31	200,313	*	$ 64.22	200,000	700,000
November 1 November 30	569,000	*	68.45	569,000	131,000
December 1 December 31	133,186	*	63.12	131,000	—
Total	902,499			900,000	—

* For the months ended October 31, 2018 and December 31, 2018, total includes 313 shares and 2,186 shares, respectively, that were repurchased under arrangements, authorized by our stock based compensation plans and Board of Directors, whereby officers or directors may sell previously owned shares to the Company in order to pay for the exercises of stock options or for income taxes owed on vesting shares of restricted stock. These shares are not purchased under the plan to repurchase 1,000,000 shares.

Table of Contents

Item 6. Selected Financial Data.

The following table presents selected financial and quantitative data for the five years ended December 31 for South State Corporation:

(Dollars in thousands, except per share)	2018		2017		2016		2015		2014	
Balance Sheet Data Period End										
Assets	$ 14,676,328		$ 14,466,589		$ 8,900,592		$ 8,557,348		$ 7,826,227	
Acquired credit impaired loans, net of acquired allowance for loan losses	485,119		618,803		602,546		733,870		919,402	
Acquired non-credit impaired loans	2,594,826		3,507,907		836,699		1,049,538		1,327,999	
Non-acquired loans	7,933,286		6,492,155		5,241,041		4,220,726		3,467,826	
Loans, net of unearned income*	11,013,231		10,618,865		6,680,286		6,004,134		5,715,227	
Investment securities	1,542,671		1,673,769		1,014,981		1,027,748		826,943	
FDIC receivable for loss share agreements	—		—		—		4,401		22,161	
Goodwill and other intangible assets	1,065,800		1,073,375		378,188		385,765		366,927	
Deposits	11,646,933		11,532,766		7,334,423		7,100,428		6,461,045	
Nondeposit borrowings	536,733		503,242		369,131		343,389		322,751	
Shareholders’ equity	2,366,296		2,308,920		1,134,588		1,059,384		984,920	
Number of common shares outstanding	35,829,549		36,759,656		24,230,392		24,162,657		24,150,702	
Book value per common share	66.04		62.81		46.82		43.84		40.78	
Tangible common equity per common share***	36.30		33.61		31.22		27.88		25.59	
Annualized Performance Ratios										
Return on average assets	1.23	%	0.77	%	1.16	%	1.21	%	0.95	%
Return on average equity	7.63		5.26		9.17		9.67		7.79	
Return on average tangible common equity***	14.93		9.63		14.72		15.97		13.77	
Net interest margin (taxable equivalent)	4.09		4.15		4.22		4.58		4.80	
Efficiency ratio *****	63.57		66.53		63.44		63.71		71.09	
Dividend payout ratio	28.27		44.11		28.91		23.84		26.61	
Asset Quality Ratios										
Allowance for loan losses to period end loans**	0.65	%	0.67	%	0.71	%	0.81	%	1.00	%
Allowance for loan losses to period end nonperforming loans**	340.88		292.95		250.66		181.84		121.12	
Net charge-offs to average loans**	0.04		0.04		0.06		0.09		0.16	
Excluding acquired assets:										
Nonperforming assets to period end loans and repossessed assets	0.24		0.27		0.36		0.65		1.05	
Nonperforming assets to period end total assets	0.13		0.12		0.21		0.32		0.47	
Including acquired assets:										
Nonperforming assets to period end loans and repossessed assets	0.37		0.34		0.58		0.89		1.38	

Nonperforming assets to period end total assets	0.28		0.25		0.43		0.63		1.02	
Capital Ratios										
Common equity to assets	16.12	%	15.96	%	12.75	%	12.38	%	12.58	%
Tangible common equity to tangible assets***	9.56		9.23		8.88		8.24		8.28	
Tier 1 leverage ratio****	10.65		10.36		9.88		9.31		9.47	
Common equity Tier 1 to risk-weighted assets****	12.05		11.59		11.66		11.84		—	
Tier 1 risk-based capital****	13.05		12.60		12.43		12.71		13.62	
Total risk-based capital****	13.56		13.04		13.04		13.34		14.43	
Other Data										
Number of financial centers	168		182		116		127		127	
Number of employees (full-time equivalent basis)	2,602		2,719		2,055		2,058		2,081	

* Excludes loans held for sale.

** Excludes acquired assets.

*** A reconciliation of non GAAP measures to GAAP is presented on page 41.

**** The bank regulatory risk-based capital ratios are not comparable in 2018, 2017, 2016 and 2015 to 2014 due to the adoption of Basel III beginning in January 1, 2015 (see Note 25 – Regulatory Matters).

***** Note that the efficiency ratios for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 have been adjusted and restated to reflect the reclassification of interchange network costs from noninterest expense to offset noninterest income. The amounts reclassified for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 were $12.2 million, $9.1 million, $9.1 million, $5.9 million and $4.7 million, respectively. See Note 1-Summary of Significant Accounting Policies – Revenue from Contracts with Customers (Topic 606) and Method of Adoption and Noninterest Income on page 56 for further discussion.

Table of Contents

The table below provides a reconciliation of non GAAP measures to GAAP for the five years ended December 31:

(Dollars in thousands, except per share)	2018	2017	2016	2015	2014
Adjusted earnings					
Net income available to common shareholders (GAAP)	$ 178,871	$ 87,554	$ 101,282	$ 99,473	$ 74,364
Securities (gains) losses, net of tax	520	(946)	(81)	—	1
Other than temporary impairment (OTTI), net of tax	—	501	—	323	—
Early termination of FDIC Loss Share Agreements, net of tax	—	—	2,938	—	—
Provision for income taxes - deferred tax asset revaluation	(990)	26,558	—	—	—
Merger and conversion related expense, net of tax	23,692	31,469	5,960	4,595	16,207
Net adjusted earnings available to common shareholders (non GAAP)	$ 202,093	$ 145,136	$ 110,099	$ 104,391	$ 90,572
Adjusted earnings per common share, basic					
Earnings per common share, basic (GAAP)	$ 4.90	$ 2.95	$ 4.22	$ 4.15	$ 3.11
Effect to adjust for securities (gains) losses, net of tax	0.01	(0.03)	(0.00)	—	0.00
Effect to adjust for other-than-temporary impairment (OTTI), net of tax	—	0.02	—	0.01	—
Effect to adjust for Early termination of FDIC Loss Share Agreements, net of tax	—	—	0.12	—	—
Effect to adjust for Provision for income taxes - deferred tax asset revaluation	(0.03)	0.89	—	—	—
Effect to adjust for merger and conversion related expense, net of tax	0.65	1.06	0.24	0.20	0.68
Adjusted earnings per common share, basic (non GAAP)	$ 5.53	$ 4.89	$ 4.58	$ 4.36	$ 3.79
Adjusted earnings per common share, diluted					
Earnings per common share, diluted (GAAP)	$ 4.86	$ 2.93	$ 4.18	$ 4.11	$ 3.08
Effect to adjust for securities (gains) losses, net of tax	0.02	(0.03)	(0.00)	—	0.00
Effect to adjust for other-than-temporary impairment (OTTI), net of tax	—	0.01	—	0.01	—
Effect to adjust for Early termination of FDIC Loss Share Agreements, net of tax	—	—	0.12	—	—
Effect to adjust for Provision for income taxes - deferred tax asset revaluation	(0.03)	0.89	—	—	—
Effect to adjust for merger and conversion related expense, net of tax	0.65	1.05	0.25	0.19	0.67
	$ 5.50	$ 4.85	$ 4.55	$ 4.31	$ 3.75

Adjusted earnings per common share, diluted (non GAAP)														
Adjusted return on average assets														
Return on Average Assets (GAAP)		1.23	%		0.77	%		1.16	%		1.21	%	0.95	%
Effect to adjust for securities (gains) losses, net of tax		0.00			(0.01)			(0.00)			—		0.00	
Effect to adjust for other-than-temporary impairment (OTTI), net of tax		—			0.01			—			0.01		—	
Effect to adjust for Early termination of FDIC Loss Share Agreements, net of tax		—			—			0.03			—		—	
Effect to adjust for Provision for income taxes - deferred tax asset revaluation		(0.01)			0.23			—			—		—	
Effect to adjust for merger and conversion related expense, net of tax		0.17			0.28			0.07			0.05		0.20	
Adjusted return on average assets (non-GAAP)		1.39	%		1.28	%		1.26	%		1.27	%	1.15	%
Tangible common equity per common share														
Book value per common share (GAAP)	$	66.04		$	62.81		$	46.82		$	43.84	$	40.78	
Effect to adjust for intangible assets		(29.74)			(29.20)			(15.60)			(15.96)		(15.19)	
Tangible common equity per common share (non GAAP)	$	36.30		$	33.61		$	31.22		$	27.88	$	25.59	
Return on average tangible common equity														
Return on average common equity (GAAP)		7.63	%		5.26	%		9.17	%		9.67	%	7.79	%
Effect to adjust for intangible assets		7.30	%		4.37	%		5.55	%		6.30	%	5.98	%
Return on average tangible common equity (non GAAP)		14.93	%		9.63	%		14.72	%		15.97	%	13.77	%
Tangible common equity to tangible assets														
Common equity to assets (GAAP)		16.12	%		15.96	%		12.75	%		12.38	%	12.58	%
Effect to adjust for intangible assets		(6.56)	%		(6.73)	%		(3.87)	%		(4.14)	%	(4.30)	%
Tangible common equity to tangible assets (non GAAP)		9.56	%		9.23	%		8.88	%		8.24	%	8.28	%

Table of Contents

Adjusted earnings available to common shareholders, basic adjusted earnings per share, and diluted adjusted earnings per share are non GAAP measures and exclude the after tax effects of gains or losses on sales of securities, other than temporary impairment ("OTTI"), merger and conversion related expense, the effects from the early termination of loss share agreements, and the net deferred tax asset revaluation. The tangible measures above are non GAAP measures and exclude the effect of period end or average balance of intangible assets. The tangible return on equity measures also adds back the after tax amortization of intangibles to GAAP basis net income. Management believes these non GAAP financial measures provide additional information that is useful to investors in evaluating the Company's performance and capital and that may facilitate comparisons with others in the banking industry as well as period to period comparisons. Non GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non GAAP measures have limitations as analytical tools, are not audited, and may not be comparable to other similarly titled financial measures used by other companies. Investors should not consider non GAAP measures in isolation or as a substitute for analysis of the company's results or financial condition as reported under GAAP.

The following table presents selected financial data for the five years ended December 31:

(Dollars in thousands, except per share)	2018	2017	2016	2015	2014
Summary of Operations					
Interest income	$ 567,208	$ 426,000	$ 333,163	$ 338,101	$ 342,022
Interest expense	53,992	17,014	8,317	10,328	15,662
Net interest income	513,216	408,986	324,846	327,773	326,360
Provision for loan losses	13,783	11,890	6,819	5,864	6,590
Net interest income after provision for loan losses	499,433	397,096	318,027	321,909	319,770
Noninterest income	145,749	140,029	121,204	109,638	90,015
Noninterest expense	420,927	368,320	285,189	281,172	298,357
Income before provision for income taxes	224,255	168,805	154,042	150,375	111,428
Provision for income taxes	45,384	81,251	52,760	50,902	35,991
Net income	178,871	87,554	101,282	99,473	75,437
Preferred stock dividends	—	—	—	—	1,073
Net income available to common shareholders	$ 178,871	$ 87,554	$ 101,282	$ 99,473	$ 74,364
Per Common Share Information					
Net income available to common shareholders, basic	$ 4.90	$ 2.95	$ 4.22	$ 4.15	$ 3.11
Net income available to common shareholders, diluted	4.86	2.93	4.18	4.11	3.08
Cash dividends	1.38	1.32	1.21	0.98	0.82

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

Statements included in this report, which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements are based on, among other things, management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy and South State Corporation ("South State"). Words and phrases such as "may," "approximately," "continue," "should," "expects," "projects," "anticipates," "is likely," "look ahead," "look forward," "believes," "will," "inten "strategy," "plan," "could," "potential," "possible" and variations of such words and similar expressions are intended to identif such forward-looking statements. South State cautions readers that forward looking statements are subject to certain risks, uncertainties and assumptions that are difficult to predict with regard to, among other things, timing, extent, likelihood and degree of occurrence, which could cause actual results to differ materially from anticipated results. Such risks, uncertainties and assumptions, include, among others, the following:

- Economic downturn risk, potentially resulting in deterioration in the credit markets, greater than expected noninterest expenses, excessive loan losses and other negative consequences, which risks could be exacerbated by potential negative economic developments resulting from federal spending cuts and/or one or more federal budget-related impasses or actions;
- Increased expenses, loss of revenues, and increased regulatory scrutiny associated with our total assets having exceeded $10.0 billion;
- Controls and procedures risk, including the potential failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures;
- Ownership dilution risk associated with potential acquisitions in which South State's stock may be issued as consideration for an acquired company;
- Potential deterioration in real estate values;
- The impact of competition with other financial institutions, including pricing pressures (including those resulting from the Tax Cuts and Jobs Act) and the resulting impact, including as a result of compression to net interest margin;
- Credit risks associated with an obligor's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed under the terms of any loan-related document;
- Interest risk involving the effect of a change in interest rates on the bank's earnings, the market value of the bank's loan and securities portfolios, and the market value of South State's equity;
- Liquidity risk affecting the bank's ability to meet its obligations when they come due;
- Risks associated with an anticipated increase in South State's investment securities portfolio, including risks associated with acquiring and holding investment securities or potentially determining that the amount of investment securities South State desires to acquire are not available on terms acceptable to South State;
- Price risk focusing on changes in market factors that may affect the value of traded instruments in "mark-to-market" portfolios;
- Transaction risk arising from problems with service or product delivery;
- Compliance risk involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- Regulatory change risk resulting from new laws, rules, regulations, accounting principles, proscribed practices or ethical standards, including, without limitation, the possibility that regulatory agencies may require higher levels of capital above the current regulatory-mandated minimums and including the impact of the recently enacted Tax Cuts and Jobs Act, the Consumer Financial Protection Bureau rules and regulations, and the possibility of changes in

accounting standards, policies, principles and practices, including changes in accounting principles relating to loan loss recognition (CECL);

- Strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- Reputation risk that adversely affects earnings or capital arising from negative public opinion;
- Terrorist activities risk that results in loss of consumer confidence and economic disruptions;
- Cybersecurity risk related to the dependence of South State on internal computer systems and the technology of outside service providers, as well as the potential impacts of third party security breaches, subjects each company to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;

Table of Contents

- Greater than expected noninterest expenses;
- Noninterest income risk resulting from the effect of regulations that prohibit or restrict the charging of fees on paying overdrafts on ATM and one time debit card transactions;
- Excessive loan losses;
- Failure to realize synergies and other financial benefits from, and to limit liabilities associated with, mergers and acquisitions within the expected time frame;
- Potential deposit attrition, higher than expected costs, customer loss and business disruption associated with merger and acquisition integration, including, without limitation, and potential difficulties in maintaining relationships with key personnel;
- The risks of fluctuations in market prices for South State common stock that may or may not reflect economic condition or performance of South State;
- The payment of dividends on South State common stock is subject to regulatory supervision as well as the discretion of the board of directors of South State, South State's performance and other factors;
- Operational, technological, cultural, regulatory, legal, credit and other risks associated with the exploration, consummation and integration of potential future acquisition, whether involving stock or cash consideration; and
- Other risks and uncertainties disclosed in South State's most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC) or disclosed in documents filed or furnished by South State with or to the SEC after the filing of such Annual Reports on Form 10-K, and of which could cause actual results to differ materially from future results expressed, implied or otherwise anticipated by such forward-looking statements.

For any forward looking statements made in this Report or in any documents incorporated by reference into this Report, we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. All forward-looking statements speak only as of the date they are made and are based on information available at that time. South State does not undertake any obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements. All subsequent written and oral forward looking statements by the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by our forward looking statements may also be included in other reports that the Company files with the SEC. The Company cautions that the foregoing list of risk factors is not exclusive and not to place undue reliance on forward looking statements.

Introduction

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes South State Corporation and its subsidiary's results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and the year ended December 31, 2017 as compared to the year ended December 31, 2016, and also analyzes our financial condition as of December 31, 2018 as compared to December 31, 2017. Like most banking institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on most of which we pay interest. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our interest earning assets, such as loans and investments, and the expense on our interest bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest earning assets and the rate we pay on our interest bearing liabilities.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb our estimate of probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other services we charge to our customers. We incur costs in addition to interest expense on deposits and other borrowings, the largest of

which is salaries and employee benefits. We describe the various components of this noninterest income and noninterest expense in the following discussion.

The following section also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other information included in this Report.

Overview

We achieved net income of $178.9 million, or $4.86 diluted earnings per share (“EPS”), during 2018 compared to net income of $87.6 million, or $2.93 diluted EPS, in 2017. Net income available to the common shareholders was up $91.3 million, or 104.3% in 2018, due primarily to the following:

· Increased interest income of $141.2 million which resulted primarily from a $131.9 million increase in interest income from loans. The increase in loan interest income resulted from a $65.9 million increase in interest income from the non-acquired loan portfolio due to increases in both the size of the non-acquired loan portfolio and in interest rates and from a $66.5 million increase in interest income from the acquired loan portfolio due to loans acquired in the PSC acquisition. The increase in interest income was also due to an $8.0 million increase in income from investment securities in 2018 as both the average balance increased $195.1 million mainly due to investment securities acquired in the PSC acquisition and the yield increased 21 basis points as interest rates have increased;

· Increased interest expense of $37.0 million which resulted from both an increase in the average balance and an increase in cost of interest-bearing liabilities. The increase in average balance was mainly due to interest-bearing deposits acquired in the PSC acquisition. The increase in cost of interest-bearing liabilities was mostly due to the effect of the rising rate environment on our core deposits and the increased competition for deposits in our markets;

· Higher provision for loan losses of $1.9 million, resulting primarily from a $2.1 million increase in the provision within the non-acquired loan portfolio. The increase in the provision for the non-acquired loan portfolio was due to loan growth of $1.4 billion in 2018 as asset quality remained strong and stable. The provision for acquired non-credit impaired loans increased by $756,000 in 2018 compared to 2017 and was due to an increase in loan charge-offs in the portfolio. The increase in loan charge-offs was primarily the result of a specific loan relationship and was not representative of a particular trend within any of our markets. The increases in the provisions for the non-acquired and acquired non-credit impaired loan portfolios were offset by a decline in the provision for the acquired credit impaired loan portfolio. The provision for acquired credit impaired loans decreased by $942,000 due to a decline in impairments within the portfolio;

· Improved noninterest income totaling $5.7 million resulting primarily from an increase in trust and investment services income of $4.8 million and a $5.1 million increase in other noninterest income which included increases in the capital markets income and income related to Bank Owned Life Insurance (BOLI). These increases were partially offset by a decline in mortgage banking income of $4.4 million due to less activity with the rising rate environment and lower sales volume. (See Noninterest Income section on page 55 for further discussion);

- Higher noninterest expense of $52.6 million resulting primarily from an increase in salaries and benefits of $38.7 million, information services expense of $8.9 million, $8.2 million in net occupancy and furniture and equipment expense, $4.5 million in FDIC assessment charges, $3.8 million in amortization of intangibles and $2.9 million in professional fees. These increases were related to increased costs associated with the PSC acquisition in the fourth quarter of 2017. These increases were partially offset by a decrease in merger and branch consolidation related expenses of $14.6 million. (See Noninterest Expense section on page 57 for further discussion); and

- Lower income tax provision of $35.9 million due to a decline in our effective tax rate in 2018 primarily as a result of the reduction in the federal tax rate from 35% to 21% effective in 2018 due to the enactment of the Tax Reform Act signed into law in the fourth quarter of 2017 and as a result of the Company revaluing its net

deferred tax assets from 35% to 21% which resulted in an estimate charge of $26.6 million to income tax expense in the fourth quarter of 2017.

Our asset quality related to non-acquired loans remained strong in 2018. At December 31, 2018, net charge offs as a percentage of average non acquired loans for 2018 remained flat at 0.04% compared to 2017. Non acquired nonperforming assets ("NPAs") increased slightly to $19.1 million at December 31, 2018 from $17.4 million at December 31, 2017, due to an increase of $1.5 million in non acquired other real estate owned ("OREO"). NPAs as a percentage of non acquired loans and repossessed assets decreased three basis points to 0.24% at December 31, 2018 as compared to 0.27% at December 31, 2017. Our asset quality related to the acquired loan portfolio declined only slightly in 2018. At December 31, 2018, net charge offs as a percentage of average acquired non-credit impaired loans increased 2 basis points to 0.09% in 2018 from 0.07% in 2017. Acquired NPAs increased slightly to $21.4 million at December 31, 2018 from $18.7 million at December 31, 2017, due to an increase of $4.2 million in nonperforming acquired non-credit impaired loans. This increase was partially offset by a decline in acquired other real estate owned ("OREO") of $1.5 million.

The ALLL declined slightly to 0.65% of total non-acquired loans at December 31, 2018 compared to 0.67% at December 31, 2017. The allowance provides 3.41 times coverage of non-acquired nonperforming loans at December 31, 2018, an increase from 2.93 times coverage at December 31, 2017. We continue to show solid and stable asset quality numbers and ratios.

Our efficiency ratio improved to 63.6% at December 31, 2018 from 66.5% at December 31, 2017. The improvement in the efficiency ratio was due to the increase in the total of net interest income and noninterest income of 20.0% partially offset by a 14.3% increase in noninterest expense. The increases in net interest income and noninterest income along with the increase in noninterest expense were related to the acquisition of PSC in the fourth quarter of 2017. Note that the calculation of the efficiency ratio for both the current and comparable periods have been adjusted to reflect the reclassification of interchange network costs from noninterest expense to offset noninterest income. The calculation for the efficiency ratio would have been 64.4% for 2018 if the reclassification had not been made and was previously reported as 67.1% in 2017 without the reclassification. See further discussion in Note 1 - Summary of Significant Accounting Policies and in the discussion of noninterest income and noninterest expense below. On a non-GAAP adjusted basis for December 31, 2018 and 2017, the efficiency ratio was 59.1% and 58.5%, respectively, excluding one-time expenses of merger and branch consolidation related expenses and net gains on sale of securities in 2018 and 2017.

We continue to remain well capitalized with a total risk based capital ratio of 13.56% and a Tier 1 leverage ratio of 10.65%, as of December 31, 2018, compared to 13.04% and 10.36%, respectively, at December 31, 2017. The total risk based capital ratio increased in 2018 as the percentage increase in capital through earnings was greater than the percentage increase in risk-weighted assets. The Tier 1 leverage ratio increased from the prior year primarily due to the percentage increase in Tier 1 capital being greater than the percentage increase in average assets. We believe our current capital ratios position us well to grow both organically and through certain strategic opportunities.

At December 31, 2018, we had $14.7 billion in assets and 2,602 full time equivalent employees. Through our Bank we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, automobile loans, manufactured housing loans, boat loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

Recent Government Actions

Please see the caption “Regulation and Supervision” under PART I, Item 1 Business on page 2.

Critical Accounting Policies and Estimates

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different

Table of Contents

assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

Allowance for Non acquired Loan Losses

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank's borrowers to make required loan payments. 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 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 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.

Allowance for Acquired Loan Losses

With the First Financial Holdings, Inc. ("FFHI"), The Savannah Bancorp, Inc. and the PSC acquisitions, the Company segregated the loan portfolio between loans for which there was a discount related, in part, to credit (ASC Topic 310 30 loans) and loans for which there was not a material discount attributable to credit. The loans where the discount was not attributable to credit 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.

Subsequent to the acquisition date, decreases in cash flows expected to be received on FASB ASC Topic 310 30 acquired loans from the Company's initial estimates are recognized as impairment through the provision for loan losses. Previously, acquired loans that were subject to a loss sharing agreement with the FDIC, the FDIC indemnification asset was adjusted prospectively in a similar, consistent manner with increases and decreases in expected cash flows. However, 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.

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.

Other Real Estate Owned ("OREO")

OREO, consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans, 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 current valuations used to determine the fair value of OREO. Management reviews the value of OREO periodically 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.

Goodwill and Other Intangible Assets

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 each 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 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.

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. Our stock price has historically traded above its book value and tangible book value. However, during the fourth quarter of 2018, our stock price fell below book value. The lowest trading price for our stock during the fourth quarter of 2018 was $56.55, and the stock price closed on December 31, 2018 at $59.95, which was below book value of $66.04 but above tangible book value of $36.30. 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 determined again that no impairment charge was necessary. Should our future earnings

and cash flows decline, discount rates increase, and/or the market value of our stock decreases, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, client list intangibles, and noncompetition ("noncompete") intangibles consist of costs that resulted from the acquisition of other banks from other financial institutions. Core deposit intangibles represent the estimated 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. These costs are amortized over the estimated useful lives, such as deposit accounts in the case of core deposit intangible, on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness.

Table of Contents

Income Taxes and Deferred Tax Assets

Income taxes are provided for the tax effects of the transactions reported in our condensed consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available for sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carry forwards, 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. A valuation allowance is recorded in situations where it is “more likely than not” that a deferred tax asset is not realizable. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. 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. We evaluate the need for income tax reserves related to uncertain income tax positions but had no material reserves at December 31, 2018 or 2017.

On December 22, 2017, the Tax Reform Act was signed into law and includes numerous provisions that impact the Company most notably a reduction in the corporate tax rate from the prior maximum rate of 35% to a flat rate of 21%. As a result, the Company revalued its deferred tax assets and liabilities during 2017 which resulted in the Company recording a non-cash, increase to income tax expense of $26.6 million. While the Company took significant efforts to estimate the impact of this revaluation in 2017, additional refinement was required during 2018 to finalize the revaluation. The Company recorded a tax benefit of $991,000 as a result of additional revaluation refinement measurement period adjustments related to the acquisition of PSC, recognition of income from acquired loans, and adjustments resulting from the Company’s 2017 income tax returns filed in 2018.

Business Combinations, Method of Accounting for Loans Acquired, and FDIC Receivable for Loss Share Agreements

We account for 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, and liabilities assumed, 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.

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 are considered impaired. 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 also accounted for under this guidance. 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.

In accordance with FASB ASC Topic 805, the FDIC Indemnification Assets were initially recorded at fair value, and were measured separately from the loan assets and foreclosed assets because the loss sharing agreements were not contractually embedded in them or transferrable with them in the event of disposal. The FDIC indemnification asset was measured at carrying value subsequent to initial measurement. Improved cash flows of the underlying covered assets would result in impairment of the FDIC indemnification asset and negative accretion through non interest income over the shorter of the lives of the FDIC indemnification asset or the underlying loans. Impairment of the underlying covered assets would result in improved cash flows of the FDIC indemnification asset and a credit to the provision for loan losses for acquired loans will result. As noted above, during the second quarter of 2016, the Bank entered into an agreement with the FDIC for the early termination of all of its outstanding loss share agreements. As a result, the Company no longer has any covered assets subject to loss share.

Table of Contents

For further discussion of the Company's loan accounting and acquisitions, see Note 1—Summary of Significant Accounting Policies, Note 2—Mergers and Acquisitions and Note 4—Loans and Allowance for Loan Losses to the audited condensed consolidated financial statements.

Recent Accounting Standards and Pronouncements

For information relating to recent accounting standards and pronouncements, see Note 1 to our audited consolidated financial statements entitled "Summary of Significant Accounting Policies."

Results of Operations

Consolidated net income available to common shareholders increased by $91.3 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase reflects an increase in net interest income, an increase in noninterest income and a decrease in income tax expense. Partially offsetting this increase in net income was an increase in noninterest expense and an increase in the provision for loan losses. Below are key highlights of our results of operations during 2018:

- Consolidated net income available to common shareholders increased 104.3% to $178.9 million in 2018 compared to $87.6 million in 2017, and increased $77.6 million or 76.6% from 2016, when net income available to common shareholders totaled $101.3 million.
- Basic earnings per common share increased to $4.90 in 2018 compared with $2.95 in 2017, or 66.1%, and $4.22 in 2016, or 16.1%.
- Diluted earnings per common share increased to $4.86 in 2018 compared with $2.93 in 2017, or 65.9%, and $4.18 in 2016, or 16.3%.
- Book value per common share was $66.04 at the end of 2018, an increase from $62.81 at the end of 2017 and $46.82 at the end of 2016. The increase in 2018 was the result of (1) the percentage increase in shareholders' equity from net income partially offset by common stock dividends paid and (2) the decline in common shares outstanding due to the Company buying back 1,000,000 shares during 2018. The increase in 2017 was the result of (1) the percentage increase in shareholders' equity from net income partially offset by the common stock dividend paid and (2) the increase from equity issued with the acquisitions of PSC and SBFC being greater than the percentage increase in shares outstanding during 2017.
- Return on average assets increased to 1.23% in 2018, compared with 0.77% in 2017 and 1.16% in 2016. The increase in return on average assets for the year ended December 31, 2018 compared to December 31, 2017 was driven by the increase in net income which rose 104.3% or $91.3 million, to $178.9 million while total average assets increased 28.1% or $3.2 billion, to $14.5 billion. The increase in net income was mainly driven by an increase in net interest income and a reduction in income tax expense. The increase in net interest income was due to the increase in average interest-earning assets of $2.6 billion in 2018 with the addition of the interest-earning assets from the PSC acquisition along with growth in the non-acquired loan portfolio. The decline in income tax expense was due to a decline in our effective tax rate in 2018 as a result of the implementation of the Tax Reform Act signed into law in the fourth quarter of 2017 and as a result of the Company revaluing its net deferred tax asset from the prior maximum rate of 35% to a flat rate of 21% and taking an estimated charge of $26.6 million to income tax expense in the fourth quarter of 2017. The decrease in return on average assets for the year ended December 31, 2017 compared to December 31, 2016 was driven by the significant increase in average total assets which increased 30.2%, or $2.6 billion, to $11.4 billion driven mainly by the two acquisitions in 2017. This compares to a decline in net income of 13.6% which was driven mainly by an increase in income tax expense due to a charge of $26.6 million taken for the revaluation of the deferred tax assets related to the new tax law and an increase in merger related

expenses.

- Return on average common shareholders' equity increased to 7.63% in 2018, compared with 5.26% in 2017, and 9.17% in 2016. The increase in return on average common shareholders' equity for the year ended December 31, 2018 compared to December 31, 2017 was driven by an increase in net income of 104.3% or $91.3 million compared to a smaller percentage increase in average common shareholders' equity of 40.7% or $678.0 million. The decrease in return on average common shareholders' equity for the year ended December 31, 2017 compared to December 31, 2016 was driven by an increase in average

Table of Contents

common shareholders' equity which increased 50.9%, or $561.6 million, to $1.7 billion compared to a decline in net income of $13.7 million or 13.6%.

- Our dividend payout ratio decreased to 28.27% for the year ended December 31, 2018 compared with 44.11% in 2017 and 28.91% in 2016. The decrease in the dividend payout ratio in 2018 from 2017 was due to the increase in net income available to common shareholders which increased $91.3 million or 104.3% compared to a lower percentage increase in dividends declared of $0.06 per share or 4.3%. The increase in the dividend payout ratio in 2017 from 2016 was due to the company increasing its dividends declared compared to net income available to common shareholders which declined $13.7 million or 13.6% in 2017. Our dividend increased by $0.11 per share, or 9.1%, in 2017 compared to 2016.
- Our common equity to assets ratio increased to 16.12% at December 31, 2018 compared with 15.96% in 2017 and 12.75% in 2016. The increase in 2018 was the result of the percentage increase in shareholders' equity of 2.5% being greater than the percentage increase in total assets of 1.4%. The increase in 2017 was the result of the percentage increase in shareholders' equity of 103.5% being greater than the percentage increase in total assets of 62.5%.

Net interest income increased by $104.2 million or 25.5% in 2018 compared to 2017. The increase in net interest income was due to interest income increasing $141.2 million which was partially offset by an increase in interest expense of $37.0 million. Interest income increased due to the average balance of interest-earning assets increasing $2.6 billion and the yield on interest-earning assets increased 23 basis points during 2018. The increase in interest-earning assets included a $1.3 billion increase in average non-acquired loans, a $1.2 billion increase in average acquired loans and a $195.1 million increase in average investment securities. The increase in yield on interest-earning assets in 2018 was mainly due to a 23 basis point increase in the yield on the non-acquired loan portfolio and a 21 basis point increase in the yield on the investment portfolio. These increases were partially offset by a decline in the yield on the acquired loan portfolio of 41 basis points. The overall increase in net interest income related to changes in interest income was partially offset by an increase in interest expense of $37.0 million. The increase in interest expense was due to both an increase in the average balance of interest-bearing liabilities of $1.9 billion and an increase in the average cost on interest-bearing liabilities of 36 basis points. Most categories of interest-bearing liabilities increased in 2018 including interest-bearing deposits of $1.9 billion and other borrowings of $55.0 million. These increases were mainly due to the acquisition of PSC in the fourth quarter of 2017. The increase in the average cost of interest-bearing liabilities was due to higher costs on all categories of interest-bearing liabilities as interest-bearing deposits increased 35 basis points, federal funds purchased and repurchase agreements increased 42 basis points and other borrowings increased 43 basis points. See the Net Interest Income section below for more detail regarding the changes in 2018.

In the table below, we have reported our results of operations by quarter for the years ended December 31, 2018 and 2017.

Table 1—Quarterly Results of Operations (unaudited)

	2018 Quarters				2017 Quarters			
lars in thousands)	Fourth	Third	Second	First	Fourth	Third	Second	First
rest income	$ 143,868	$ 143,560	$ 141,732	$ 138,048	$ 117,824	$ 104,411	$ 102,779	$ 100,98
rest expense	17,476	15,271	12,170	9,075	5,550	4,092	3,748	3,624
interest income	126,392	128,289	129,562	128,973	112,274	100,319	99,031	97,36
vision for loan es	3,734	3,117	4,478	2,454	3,808	2,062	2,313	3,707

interest income	35,642	32,027	37,525	40,555	36,762	33,735	35,316	34,217
interest expense	96,664	100,294	110,506	113,463	102,266	79,269	84,281	102,50
me before income s	61,636	56,905	52,103	53,611	42,962	52,723	47,753	25,367
me taxes	12,632	9,823	11,644	11,285	40,541	17,677	15,930	7,103
income available mon shareholders	$ 49,004	$ 47,082	$ 40,459	$ 42,326	$ 2,421	$ 35,046	$ 31,823	$ 18,264
ings Per Share								
income, basic	$ 1.36	$ 1.28	$ 1.10	$ 1.15	$ 0.08	$ 1.20	$ 1.09	$ 0.63
income, diluted	1.35	1.28	1.09	1.15	0.08	1.19	1.08	0.63
n dividends	0.36	0.35	0.34	0.33	0.33	0.33	0.33	0.33

Table of Contents

Net Interest Income

Net interest income is the largest component of our net income. Net interest income is the difference between income earned on interest earning assets and interest paid on deposits and borrowings. Net interest income is determined by the yields earned on interest earning assets, rates paid on interest bearing liabilities, the relative balances of interest earning assets and interest bearing liabilities, the degree of mismatch, and the maturity and repricing characteristics of interest earning assets and interest bearing liabilities. Net interest income divided by average interest earning assets represents our net interest margin.

The Federal Reserve's Federal Open Market Committee's target for federal funds has increased 100 basis points to a range of 2.25% to 2.50% for the year ended December 31, 2018. In 2017, the target for federal funds increased 125 basis points to a range of 1.25% to 1.50%. These increases in interest rates have effected both our net interest income and net interest margin. The yields on the non-acquired loan portfolio increased 23 basis points in 2018 and this has contributed to higher interest income and therefore, a positive effect on net interest income and net interest margin. The Company has also had to increase rates on most deposit products during 2018 with the increase in interest rates in order to retain deposit balances. The cost on interest-bearing deposits increased 35 basis points in 2018. The increase in the rates/costs on the interest-bearing liabilities due to higher interest rates has contributed to higher interest expense, and therefore, a negative effect on net interest income and net interest margin for 2018 as compared to 2017.

Net interest income highlighted for the year ended December 31, 2018:

· Net interest income increased by $104.2 million, or 25.5%, to $513.2 million during 2018.
· Higher 2018 net interest income was mainly driven by an increase in interest income due to higher balances of average interest-earning assets including a $1.3 billion increase in non-acquired loans, a $1.2 billion increase in acquired loans and a $195.1 million increase in investment securities. The increase in the non-acquired loans portfolio was through organic growth as our markets have remained sound in 2018. The increase in the acquired loan portfolio and in investment securities was due to the additions of the loan and investment portfolios of PSC through the acquisition in the fourth quarter of 2017. With the PSC merger in the fourth quarter of 2017, the Company acquired a loan portfolio of $2.3 billion and an investment portfolio of $462.7 million.
· Higher 2018 interest income was also driven by an increase in the yield on interest earning assets of 23 basis points. This increase was mainly due to a 23 basis point increase in the yield on the non-acquired loan portfolio and a 21 basis point increase in the yield on the investment portfolio. These increases were partially offset by a decline in the yield on the acquired loan portfolio of 41 basis points. The yield on the non-acquired loan portfolio increased mainly due to the Federal Reserve increasing the federal funds target rate 100 basis points in 2018 which effectively increased the Prime Rate used for pricing for a majority of our variable rate loans and new originated loans. The increase in interest rates during 2018 was also the reason for the increase in the yield in the investment portfolio as the Company purchased $191.3 million in new securities during 2018 in the rising rate environment. The yield on the acquired loan portfolio declined due to the acquired credit impaired loans being renewed and the cash flow from these assets being extended, therefore, increasing the weighted average life of the loan pools within all acquired loan portfolios. In addition, the yield on the loans acquired in the merger with PSC during the fourth quarter of 2017 were lower than the yields on our existing acquired loan portfolio.
· Higher net interest income driven by higher interest income was partially offset by higher interest expense of $37.0 million in 2018 compared to 2017. The increase in interest expense was mainly due to higher cost/rates on our interest bearing liabilities as the average cost of interest-bearing liabilities increase 36 basis points to 0.60% in 2018. The increase in the average rate of interest-bearing liabilities was due to higher costs on all categories of interest-bearing liabilities as interest-bearing deposits increased 35 basis points, federal funds purchased and repurchase agreements increased 42 basis points and other borrowings increased 43 basis points. The increase in the cost of interest-bearing deposits was primarily the result of the rising rate environment with the Federal Reserve

increasing the federal funds target rate 100 basis points in 2018. These rate increases led to an increase in the costs of our core deposits through increased competition in our markets. The increase in costs of deposits was also affected by the rates on the deposits acquired through the merger with PSC being higher than the rates on our legacy deposits. The increase in cost on federal funds purchased and repurchased agreement and other borrowings was also the result of the Federal Reserve increasing the federal funds target rate by 100 basis points in 2018, which has increased short term borrowing rates and rates on our long term trust preferred borrowings which reprice quarterly and are tied to three-month LIBOR.

Table of Contents

- Higher interest expense in 2018 was also driven by an increase in average interest-bearing liabilities. Most categories of interest-bearing liabilities increased in 2018 including interest-bearing deposits of $1.9 billion and other borrowings of $55.0 million. These increases were 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 and other borrowings of $340.9 million. After the PSC acquisition, the Company paid off $300.0 million of acquired other borrowings.
- Non-taxable equivalent net interest margin decreased three basis points to 4.07% from 4.10% in 2017. This was mainly due to the increase in the cost of interest-bearing liabilities of 36 basis points being greater than the increase in the yield on interest-earning assets of 23 basis points in 2018.
- Net interest margin (taxable equivalent) decreased six basis points to 4.09% from 4.15% in 2017. This was mainly due to the increase in the cost of interest-bearing liabilities of 36 basis points being greater than the increase in the yield on interest-earning assets of 23 basis points in 2018.

Net interest income highlighted for the year ended December 31, 2017:

- Net interest income increased by $84.1 million, or 25.9%, to $409.0 million during 2017.
- Higher 2017 net interest income was mainly driven by an increase in interest income due to higher balances of average interest-earning assets including a $1.2 billion increase in non-acquired loans, a $768.5 million increase in acquired loans and a $437.6 million increase in investment securities. The increase in the non-acquired loans portfolio was through organic growth as our markets have remained good in 2017. The increase in the acquired loan portfolio and in investment securities was due to the additions of the loan and investment portfolios of SBFC and PSC through acquisitions in 2017. With the SBFC merger in the first quarter of 2017, the Company acquired a loan portfolio of $1.0 billion and an investment portfolio of $590.0 million. With the PSC merger in the fourth quarter of 2017, the Company acquired a loan portfolio of $2.3 billion and an investment portfolio of $462.7 million.
- Higher 2017 interest income driven by the increase in interest-earning assets was partially offset by a decline in yield of interest earning assets of two basis points primarily due to a decline in the acquired loan yield of 109 basis points. The effect from the acquired loan portfolio was partially offset by the increase in yield of three basis points on the non-acquired loan portfolio and by 15 basis point increase in the yield of the investment portfolio. The yield of acquired loans declined due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out, therefore, increasing the weighted average life of the loan pools within all acquired loan portfolios. The yield on the non-acquired loan portfolio increased due to the Federal Reserve increasing the federal funds target rate 100 basis points since December 2016 which effectively increased the Prime Rate, which is used in pricing for a majority of our variable rate loans and new originated loans. The yield on the investment portfolio also increased due to rising rates as the Company has made purchases of $245.8 million in 2017 during this rising rate environment while there have been maturities of $193.5 million of securities that were mostly purchased in lower interest rate environments.
- Higher net interest income driven by higher interest income was partially offset by higher interest expense of $8.7 million in 2017 compared to 2016. The increase in interest expense was mainly due to higher cost/rates on our interest bearing liabilities as the average cost of interest-bearing liabilities increase 9 basis points to 0.24% in 2017. The average cost of interest-bearing deposits increased 8 basis points in 2017 to 0.19%. The increase in the average cost of interest-bearing liabilities was due to higher rates on most categories of interest-bearing liabilities as a result of both the mergers with SBFC and PSC in 2017 whose deposits rates were higher than the Company's legacy deposit rates and as a result of higher costs related to the rising rate environment.
- Higher interest expense in 2017 was also driven by an increase in average interest-bearing liabilities. All categories of interest-bearing liabilities increased in 2017 including interest-bearing deposits of $1.5 billion and other borrowings of $47.7 million. These increases were mainly due to the acquisitions of SBFC and PSC in 2017. With the SBFC merger in the first quarter of 2017, the Company acquired total interest-bearing deposits of $1.3 billion and other borrowings of $109.5 million. With the PSC merger in the fourth quarter of 2017, the Company acquired interest-bearing deposits of $1.9 billion and other borrowings of $340.9 million. After the SBFC acquisition, the Company paid off $89.0 million of acquired other borrowings and after the PSC acquisition, the Company paid off

$300.0 million of acquired other borrowings.

- Non-taxable equivalent net interest margin decreased 8 basis points to 4.10% from 4.18% in 2016.
- Net interest margin (taxable equivalent) decreased 7 basis points to 4.15% from 4.22% in 2016.

Table of Contents

Table 2—Yields on Average Interest Earning Assets and Rates on Average Interest Bearing Liabilities

	Year Ended December 31, 2018			2017			2016	
usands)	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid
ng assets:								
loans, net come(1)	$ 7,179,467	$ 294,704	4.10 %	$ 5,914,252	$ 228,829	3.87 %	$ 4,741,294	$ 182,083
s, net of L(2)	3,586,146	225,453	6.29 %	2,373,287	158,987	6.70 %	1,604,740	124,975
sale	31,255	1,321	4.23 %	45,571	1,719	3.77 %	41,073	1,403
urities:								
	1,410,097	35,563	2.52 %	1,225,009	28,165	2.30 %	857,288	18,025
	203,517	6,152	3.02 %	193,460	5,591	2.89 %	123,628	3,884
sold and hased nts to	193,798	4,015	2.07 %	224,161	2,709	1.21 %	406,925	2,793
earning	12,604,280	567,208	4.50 %	9,975,740	426,000	4.27 %	7,774,948	333,163
arning								
rom	233,515			205,107			172,686	
le for ements	—			—			1,294	
te	12,822			15,906			24,064	
	1,738,022			1,197,480			782,030	
loan	(47,183)			(39,937)			(36,351)	
rning	1,937,176			1,378,556			943,723	
	$ 14,541,456			$ 11,354,296			$ 8,718,671	
g								
d	$ 5,243,094	$ 23,063	0.44 %	$ 4,077,742	$ 4,517	0.11 %	$ 3,329,415	$ 2,655

ts	1,441,264	4,526	0.31 %	1,372,948	2,061	0.15 %	775,967	472
d other	1,793,035	17,863	1.00 %	1,123,824	5,775	0.51 %	977,468	2,676
under	312,768	2,356	0.75 %	325,713	1,080	0.33 %	320,901	574
ngs	157,992	6,184	3.91 %	102,985	3,581	3.48 %	55,253	1,940
bearing	8,948,153	53,992	0.60 %	7,003,212	17,014	0.24 %	5,459,004	8,317
earing								
earing	3,112,204			2,595,596			2,096,929	
s	137,450			89,840			58,647	
aring	3,249,654			2,685,436			2,155,576	
equity	2,343,649			1,665,648			1,104,091	
aring equity	5,593,303			4,351,084			3,259,667	
s and equity	$ 14,541,456			$ 11,354,296			$ 8,718,671	
read			3.90 %			4.03 %		
est free			0.17 %			0.07 %		
rgin			4.07 %			4.10 %		
rgin alent)			4.09 %			4.15 %		
come		$ 513,216			$ 408,986			$ 324,846

(1) Nonaccrual loans are included in the above analysis.
(2) ALLL is an abbreviation for the allowance for loan losses.

54

Table of Contents

Table 3—Volume and Rate Variance Analysis

	2018 Compared to 2017 Increase (Decrease) due to			2017 Compared to 2016 Increase (Decrease) due to		
(Dollars in thousands)	Volume(1)	Rate(1)	Total	Volume(1)	Rate(1)	Total
Interest income on:						
Non acquired loans, net of unearned income(2)	$ 48,953	$ 16,922	$ 65,875	$ 45,046	$ 1,700	$ 46,746
Acquired loans, net of acquired ALLL(4)	81,250	(14,784)	66,466	59,853	(25,841)	34,012
Loans held for sale	(540)	142	(398)	154	162	316
Investment securities:						
Taxable	4,255	3,143	7,398	7,732	2,408	10,140
Tax exempt(3)	291	270	561	2,194	(487)	1,707
Federal funds sold and securities purchased under agreements to resell and time deposits	(379)	1,685	1,306	(1,254)	1,170	(84)
Total interest income	133,830	7,378	141,208	113,725	(20,888)	92,837
Interest expense on:						
Deposits						
Transaction and money market accounts	1,291	17,255	18,546	597	1,265	1,862
Savings deposits	103	2,362	2,465	363	1,226	1,589
Certificates and other time deposits	3,439	8,649	12,088	401	2,698	3,099
Federal funds purchased and securities sold under agreements to repurchase	(450)	1,726	1,276	168	338	506
Other borrowings	1,913	690	2,603	1,676	(35)	1,641
Total interest expense	6,296	30,682	36,978	3,205	5,492	8,697
Net interest income	$ 127,534	$ (23,304)	$ 104,230	$ 110,520	$ (26,380)	$ 84,140

(1) The rate/volume variance for each category has been allocated on the same basis between rate and volumes.
(2) Nonaccrual loans are included in the above analysis.
(3) Tax exempt income is not presented on a taxable equivalent basis in the above analysis.
(4) ALLL is an abbreviation for the allowance for loan losses.

Noninterest Income and Expense

Noninterest income provides us with additional revenues that are significant sources of income. In 2018, 2017, and 2016, noninterest income comprised 22.1%, 25.5%, and 27.2%, respectively, of total net interest income and noninterest income.

Table 4—Noninterest Income for the Three Years

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
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
Other	11,819	6,670	6,437
Total noninterest income	$ 145,749	$ 140,029	$ 121,204

Table of Contents

Noninterest income increased 4.1% for the year ended December 31, 2018 compared to 2017 resulting from the following:

- Fees on deposit accounts increased $885,000 or 1.1%. This increase resulted from higher service charges on deposit accounts and retail fees of $5.8 million associated with the increase in customers through the merger with PSC. The increase was mostly offset by a decline in bankcard services income of $4.8 million. This decline was due to the cap on bankcard fees charged related to the Durbin amendment that became effective July 1, 2018;
- Trust and investment services income increased by $4.8 million due to the increase in wealth customers added with the PSC merger and through organic growth of the legacy wealth business;

- Recoveries on acquired loans increased $545,000, or 6.4%;

- Other noninterest income increased by $5.1 million, or 77.0%, due to an increase from income of $1.2 million from the capital markets division related to fees from swap transactions, from an increase in BOLI income of $2.2 million, related to policies acquired in the PSC merger and from a resolution on an acquired credit impaired loan totaling $1.6 million; partially offset by

- Mortgage banking income declined by $4.4 million, or 24.3%, which was a result of lower income from the secondary market of $5.6 million due to lower activity and sales volume which was partially offset by an increase of $1.2 million in income from mortgage servicing rights, net of the hedge which was mainly the result of an increase in the fair value due to changes in interest rates;

Noninterest income increased 15.5% for the year ended December 31, 2017 compared to 2016 resulting from the following:

- Fees on deposit accounts increased $7.0 million, or 9.5%, which resulted primarily from higher bankcard services income and higher service charges on deposit accounts associated with the increase in customers through the mergers with SBFC and PSC;
- Trust and investment services income increased by $5.6 million due to the increase in wealth customers added with the SBFC and PSC mergers and through organic growth of the legacy wealth business;

- Amortization of FDIC indemnification asset decreased $5.9 million as a result of the elimination of the FDIC indemnification asset as the Loss Share Agreements with the FDIC were terminated in the second quarter of 2016;
- Recoveries on acquired loans increased $2.1 million, or 32.6%, as a result of no longer sharing any recoveries with the FDIC under loss share agreements which were terminated in the second quarter of 2016; partially offset by
- Mortgage banking income declined by $2.6 million, or 12.6%, which was a result from a decline in the mortgage pipeline and mortgage production during 2017. This resulted in a $2.8 million decline in secondary mortgage income due to a reduction in the fair value of the mortgage backed security forward and an increase in our costs related to mortgage production.

Reclassification of Interchange network costs

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 noninterest expense as Bankcard Expense. For the years ended December 31, 2018, 2017 and 2016, gross interchange and debit card transaction fees totaled $33.0 million, $35.6 million, and $31.8 million, respectively, while the 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

Table of Contents

accompanying Consolidated Statements of Income as noninterest income in Fees on Deposit Accounts for the years ended December 31, 2018, 2017 and 2016. (See Bankcard Services Income section below for a discussion on the decline in gross interchange fees during 2018).

Bankcard Services Income

We exceeded $10 billion in total consolidated assets upon consummation of our merger with SBFC on January 3, 2017. Banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, beginning on July 1, 2018 due to the Durbin amendment, the Bank was limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by the Bank to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. This reduction in the amount of interchange fees we receive for electronic debit interchange began reducing our revenues as of July 1, 2018. As noted above, bankcard income including interchange transaction fees is included in "Fees on deposit accounts". For the year ended December 31, 2018, we earned approximately $31.2 million in interchange transaction fees for debit cards. We estimate that bankcard service income was reduced by approximately $9.6 million during the third and fourth quarters of 2018 due to the Durbin amendment's impact on the amount that we may charge for interchange transaction fees.

Noninterest expense represents the largest expense category for our company. During 2018 and 2017, we continued to emphasize careful controls around our noninterest expense, while also working through the SBFC and PSC mergers and growth for support of the $10.0 billion asset threshold. With that, our expenses increased $52.6 million or 14.3% from 2017 and $83.1 million or 29.1% from 2016.

Table 5—Noninterest Expense for the Three Years

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
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

Noninterest expense increased 14.3% for the year ended December 31, 2018 compared to 2017 resulting from the following:

- Salaries and employee benefits expense increased by $38.7 million, or 19.9%. The increase was mainly attributable to the costs associated with the addition of personnel through the PSC merger and the hiring of staff to support crossing the $10.0 billion in assets threshold. The number of full-time equivalent employees increased from approximately 2,276 before the merger with PSC on November 30, 2017 to 2,602 at December 31, 2018. The increase was also attributable to the payment of bonuses to employees in February 2018 of $2.8 million;

- Information services expense increased $8.9 million in 2018 compared to 2017. This increase was related to the additional cost associated with facilities, employees and systems added through the merger with PSC. The number of branches increased by 39 from 129 before the merger with PSC on November 30, 2017 to 168 at December 31, 2018;

- Net occupancy expense and furniture and equipment expense increased by $5.5 million and $2.8 million, respectively, in 2018 as compared to the same period in 2017. This increase was related to the additional cost associated with facilities added through the merger with PSC. The number of branches increased by 39 from 129 before the merger with PSC on November 30, 2017 to 168 at December 31, 2018;

- FDIC assessment and other regulatory charges increased $4.5 million in 2018 as compared to the same period in 2017. This increase was due to the Company exceeding $10.0 billion in assets for four consecutive quarters which changed the assessment calculation by the FDIC for the Company and the addition of assets and liabilities acquired through the merger with PSC in the fourth quarter of 2017;

- Amortization of intangibles increased $3.9 million due to amortization of the core deposit intangible created with the merger with PSC; and

- Other noninterest expense increased $3.9 million in 2018 as compared to the same period in 2017. This increase was mainly due to a $2.3 million increase in business development and employee-related costs related to the merger with PSC and a $597,000 increase in the amortization of tax credit partnership investments due to the addition of four new investments in 2018; partially offset by

- Merger and branch consolidation related expense decreased $14.6 million, or 32.9% during 2018 compared to 2017. In 2018, the Company had costs associated with the acquisition of PSC of $28.3 million, while in 2017, the Company had costs associated with the SBFC and PSC mergers of $23.1 million and $18.4 million, respectively. The SBFC merger closed on January 3, 2017 while the PSC merger closed on November 30, 2017. The merger related expenses mainly consists from change in control payments, severance payments, merger related incentive payments, system conversion costs, investment banking fees, legal costs and vendor contract resolution payments.

Noninterest expense increased 29.1% for the year ended December 31, 2017 compared to 2016 resulting from the following:

- Salaries and employee benefits expense increased by $29.8 million, or 18.1%. The increase was mainly attributable to the costs associated with the addition of personnel through the SBFC and PSC merger and the hiring of staff to support crossing the $10.0 billion in asset threshold. The number of full-time equivalent employees increased from 2,055 at December 31, 2016 to 2,719 at December 31, 2017.

- Merger and branch consolidation related expense increased $36.4 million, or 450.7% during 2017 compared to 2016. This increase was due to the costs associated with the acquisitions of SBFC and PSC in 2017. Total merger expense associated with the SBFC and PSC mergers was $23.1 million and $18.4 million, respectively, in 2017. Of the total merger and branch consolidation related expense in 2016, $5.0 million was related to the SBFC merger and $2.4 million was related to branch consolidation expenses. The merger related expense mainly consists from change in control payments, severance payments, merger related incentive payments, system conversion costs, investment banking fees, legal costs and vendor contract resolution payments.

- Information services expense increased $4.9 million in 2017 compared to 2016. This increase was related to the additional cost associated with facilities, employees and systems added through the mergers with SBFC and PSC;

- Net occupancy expense and furniture and equipment expense increased by $3.6 million and $3.2 million, respectively, in 2017 as compared to the same period in 2016. These increases were due to additional costs related to the facilities added through the acquisitions of SBFC and PSC. From December 31, 2016 to December 31, 2017, the number of branch offices within the Company increased from 118 to 182; and

- Amortization of intangibles increased $2.8 million due to amortization from the core deposit intangible created with the merger with SBFC and PSC.

Table of Contents

Income Tax Expense

Our effective tax rate decreased to 20.24% at December 31, 2018, compared to 48.13% at December 31, 2017. The lower effective tax rate is due to the reduction in the statutory tax rate from 35% to 21% during 2018. In addition to the reduced rate, in 2017, the Company recorded $26.6 million of income tax expense 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. Without the impact of this revaluation, the Company's effective tax rate would have been 32.40% for 2017. While the company took significant efforts to estimate the impact of this revaluation, additional refinement was required during 2018. The Company recorded a tax benefit of $991,000 as a result of measurement period adjustments related to the acquisition of PSC, recognition of income from acquired loans, and adjustments resulting from the filing of the Company's 2017 income tax returns in 2018.

Investment Securities

We use investment securities, the second largest category of interest earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At December 31, 2018 and 2017, investment securities totaled $1.5 billion and $1.7 billion, respectively. For the year ended December 31, 2018, average investment securities were $1.6 billion, or 12.8% of average earning assets, compared with $1.4 billion, or 14.2% of average earning assets for the year ended December 31, 2017. The expected average life of the investment portfolio at December 31, 2018 was approximately 4.54 years, compared with 4.49 years at December 31, 2017. See Note 1—Summary of Significant Accounting Policies in the audited consolidated financial statements for our accounting policy on investment securities.

As securities are purchased, they are designated as held to maturity or available for sale based upon our intent, which incorporates liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements. We do not currently hold, nor have we ever held, any securities that are designated as trading securities. The following table presents the reported values of investment securities for the past five years:

Table 6—Investment Securities for the Five Years

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Held to maturity (amortized cost):					
State and municipal obligations	$ —	$ 2,529	$ 6,094	$ 9,314	$ 9,659
Total held to maturity	—	2,529	6,094	9,314	9,659
Available for sale (fair value):					
Government sponsored entities debt	48,251	85,509	84,642	162,507	148,197
State and municipal obligations	200,768	220,437	107,402	131,364	137,581
GSE mortgage backed securities	1,268,048	1,340,687	803,577	711,849	517,946
Corporate securities	—	1,560	2,559	2,596	2,817
Total available for sale	1,517,067	1,648,193	998,180	1,008,316	806,541

Total other investments	25,604	23,047	10,707	10,118	10,743
Total investment securities	$ 1,542,671	$ 1,673,769	$ 1,014,981	$ 1,027,748	$ 826,943

During 2018, total investment securities decreased $131.1 million, or 7.8%, from December 31, 2017. The decrease in the investment portfolio was primarily a result of maturities, paydowns and calls of investment securities totaling $227.3 million and sales totaling $89.0 million, partially offset by purchases of $209.8 million during 2018. The unrealized loss on the investment portfolio increased $16.7 million and net amortization of premiums was $7.6 million during 2018. The decrease in held to maturity ("HTM") securities was the result of called state and municipal tax exempt securities during 2018. These are generally longer maturity bonds that we classified at the time of purchase as HTM. Beginning in the latter portion of 2008, we began to classify new purchases of municipal securities as available for sale to increase future flexibility to sell some of these securities if conditions warrant. At December 31, 2018, the fair value of the total investment securities portfolio (including HTM) was $23.6 million, or 1.5%, below its amortized cost basis. Comparable valuations at December 31, 2017 reflected a total investment portfolio fair value that was $6.9 million, or 0.4%, below its amortized cost basis.

Table of Contents

Held to maturity

The Company no longer held any HTM securities as of December 31, 2018. HTM securities consist solely of some of our tax exempt state and municipal securities in 2017. The following are highlights:

- Total HTM securities decreased $2.5 million from the balance at December 31, 2017 as all outstanding HTM securities were called in 2018.
- The balance of HTM securities represented 0.02% of total assets at December 31, 2017.
- Interest earned amounted to $40,000, a decrease of $147,000, or 78.8%, from $187,000 in 2017. The average balance of the HTM portfolio decreased by $3.9 million during 2018, as compared to the average during 2017. The overall yield on the HTM portfolio increased by five basis points from 2017.

The expected average life of the held to maturity portfolio was 0.35 years at December 31, 2017.

Available for sale

Securities available for sale consist mainly of debentures of government sponsored entities, state and municipal bonds, and mortgage backed securities. At December 31, 2018, investment securities with a fair value and amortized cost of $1.5 billion were classified as available for sale. The adjustment for unrealized losses of $23.6 million between the carrying value of these securities and their amortized cost has been reflected, net of tax, in the consolidated balance sheet as a component of accumulated other comprehensive loss. The following are highlights of our available for sale securities:

- Total securities available for sale decreased $131.1 million, or 8.0%, from the balance at December 31, 2017. The unrealized loss on the investment portfolio increased $16.7 million and net amortization of premiums was $7.6 million during 2018. Maturities, calls, and paydowns of investment securities totaled $224.7 million and sales totaled $73.1 million, which was partially offset by purchases of $191.3 million in investment securities during 2018. The sales in 2018 were mainly related to restructuring our portfolio to fit our investment strategy.
- The balance of securities available for sale represented 10.3% of total assets at December 31, 2018 and 11.4% of total assets at December 31, 2017.
- Interest income earned in 2018 amounted to $40.6 million, an increase of $7.7 million, or 23.3%, from $32.9 million in the comparable year of 2017. The increase in interest earned reflected a $193.5 million increase in the average balances from securities acquired in the PSC acquisition in the fourth quarter of 2017 and an eight basis points increase in the yield on available for sale securities, reflecting that the maturities, calls and paydowns on investment securities in 2018 were mostly from securities purchased in a lower interest rate environment while the purchases made in 2018 were in a higher interest rate environment compared to 2017.

At December 31, 2018, we had 384 securities available for sale in an unrealized loss position, which totaled $26.0 million. See Note 3—Investment Securities in the consolidated financial statements for additional information. The increase in the loss position on the available for sale investment portfolio was primarily related to the mortgage-backed securities category, and was the result of the increase in interest rates during the year.

All debt securities available for sale in an unrealized loss position as of December 31, 2018 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary because we have the ability to hold these securities within the portfolio until the maturity or until the value recovers, and we believe that it is not likely that we will be required to sell these securities prior to recovery. Therefore, we do not consider these investments to be other than temporarily impaired at December 31, 2018. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges

Table of Contents

for other than temporary impairment related to securities available for sale would not impact cash flow, tangible capital or liquidity.

While securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While we generally hold these assets on a long term basis or until maturity, any short term investments or securities available for sale could be sold at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

Other Investments

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. As of December 31, 2018, other investment securities represented approximately $25.6 million, or 0.17% of total assets and primarily consists of FHLB stock which totals $19.5 million, or 0.13% of total assets.

Table 7—Maturity Distribution and Yields of Investment Securities

	Due In 1 Year or Less		Due After 1 Thru 5 Years		Due After 5 Thru 10 Years		Due After 10 Years		Total(7)
thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
for sale									
t sponsored									
t(4)	5,703	1.34 %	14,614	2.26 %	27,934	2.82 %	—	— %	48,251
unicipal									
2)(3)	2,529	2.91 %	42,052	3.35 %	51,464	3.57 %	104,723	3.78 %	200,768
backed									
)	1,576	— %	33,958	2.34 %	286,353	2.51 %	946,161	2.60 %	1,268,048
ble for sale	9,808	1.53 %	90,624	2.79 %	365,751	2.68 %	1,050,884	2.72 %	1,517,067
s(1)	—	— %	—	— %	—	— %	25,604	3.56 %	25,604
tment									
)	$ 9,808	1.53 %	$ 90,624	2.79 %	$ 365,751	2.68 %	$ 1,076,488	2.74 %	$ 1,542,671
otal	1 %		6 %		23 %		70 %		
percent of									
	1 %		7 %		30 %		100 %		

(1) FHLB and other non-marketable equity securities have no set maturity date and are classified in "Due after 10 Years."
(2) Yields on tax exempt income have been presented on a taxable equivalent basis in the above table.
(3) The expected average life for state and municipal obligations is 4.46 years.
(4) The expected average life for government sponsored entities debt securities is 5.05 years.
(5) The expected average life for mortgage backed securities is 4.52 years.
(6) The expected average life for the total investment securities portfolio is 4.53 years (not including FHLB and corporate stock with no maturity date).

(7) For available for sale securities, this total equals total fair value.

Loan Portfolio

Our loan portfolio remains our largest category of interest earning assets. At December 31, 2018, total loans were $11.0 billion, which was an overall increase of $394.3 million, or 3.7%, from the balance at the end of 2017. Non acquired loan growth was $1.4 billion, or 22.2% for 2018, which was made up of a 23.6% increase in consumer real estate loans, a 22.7% increase in commercial non owner occupied real estate loans, a 20.2% increase in commercial owner occupied real estate loans, a 29.4% increase in commercial and industrial loans, a 10.6% increase in other income producing property and an 18.4% increase in consumer non real estate loans. Total acquired loans declined by $1.0 billion, primarily in the non-credit impaired portfolio, due to principal payments, charge offs, foreclosures and renewals of acquired loans. Average total loans outstanding during 2018 were $10.8 billion, an increase of $2.5 billion, or 29.9%, over the 2017 average of $8.3 billion. The increase in average total loans was due to organic growth in the non-acquired loan portfolio and the addition of the PSC loan portfolio during the fourth quarter of 2017. (For further discussion of the

Table of Contents

Company's acquired loan accounting, see Note 1—Summary of Significant Accounting Policies, Note 2—Mergers and Acquisitions and Note 4—Loans and Allowance for Loan Losses in the consolidated financial statements.)

The following table presents a summary of the non acquired loan portfolio by type:

Table 8—Distribution of Non Acquired Loans by Type

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Real estate:					
Commercial non owner occupied(1)	$ 2,256,996	$ 1,839,768	$ 1,295,179	$ 889,756	$ 697,811
Consumer(2)	2,431,413	1,967,902	1,580,839	1,338,239	1,070,712
Commercial owner occupied real estate	1,517,551	1,262,776	1,177,745	1,033,398	907,913
Commercial and industrial	1,054,952	815,187	671,398	503,808	405,923
Other income producing property	214,353	193,847	178,238	175,848	150,928
Consumer	448,664	378,985	324,238	233,104	189,317
Other loans	9,357	33,690	13,404	46,573	45,222
Total non acquired loans	$ 7,933,286	$ 6,492,155	$ 5,241,041	$ 4,220,726	$ 3,467,826

(1) Includes $841.4 million, $830.9 million, $580.1 million, $402.0 million, and $364.2 million of construction and land development loans at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.
(2) Includes owner occupied real estate.

In accordance with FASB ASC Topic 310 30, the Company aggregated acquired credit impaired 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, residential real estate junior lien, home equity, 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. The following table presents the acquired credit impaired loans by type:

Table 9—Distribution of Acquired Credit Impaired Loans by Type

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Commercial real estate	196,764	234,595	218,821	268,058	340,922
Commercial real estate—construction and development	32,942	49,649	44,373	54,272	65,262
Residential real estate	207,482	260,787	258,100	313,319	390,244
Consumer	42,492	51,453	59,300	70,734	85,449
Commercial and industrial	10,043	26,946	25,347	31,193	44,804
Single pay	—	—	—	—	86
Total acquired credit impaired loans	$ 489,723	$ 623,430	$ 605,941	$ 737,576	$ 926,767

Acquired loans that are not credit impaired and lines of credit (consumer and commercial) are accounted for in accordance with FASB ASC Topic 310 20. The following table presents the acquired non credit impaired loans by type:

Table 10—Distribution of Acquired Non Credit Impaired Loans by Type

	December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Real estate:					
Commercial non owner occupied(1)	$ 844,323	$ 1,220,523	$ 44,718	$ 53,952	$ 73,575
Consumer(2)	871,238	1,031,202	569,149	709,075	881,324
Commercial owner occupied real estate	421,841	521,818	27,195	39,220	62,065
Commercial and industrial	212,537	398,696	13,641	25,475	41,130
Other income producing property	133,110	196,669	39,342	51,169	65,139
Consumer	111,777	137,710	142,654	170,647	204,766
Other	—	1,289	—	—	—
Total acquired non credit impaired loans	$ 2,594,826	$ 3,507,907	$ 836,699	$ 1,049,538	$ 1,327,999

(1) Includes $165.1 million, $403.4 million, $10.1 million, $13.8 million, and $24.1 million of construction and land development loans at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

Table of Contents

(2) Includes owner occupied real estate.

Real estate mortgage loans continue to comprise the largest segment of our loan portfolio. All commercial and residential loans secured by real estate are included in this category. As of December 31, 2018 compared to December 31, 2017:

- Non-acquired loans were $7.9 billion, or 72.0% of total loans and acquired loans were $3.1 billion, or 28.0% of total loans at December 31, 2018. This compared to non-acquired loans of $6.5 billion, or 61.1% and acquired loans of $4.1 billion, or 38.9% at December 31, 2017. Total acquired loans declined by $1.0 billion, primarily in the non-credit impaired portfolio, due to principal payments, charge offs, foreclosures and renewals of acquired loans.
- Non acquired loans secured by real estate mortgages, excluding commercial owner occupied loans, were $4.7 billion and comprised 42.6% of the total loan portfolio. This was an increase of $880.7 million, or 23.1%, over December 31, 2017. Acquired loans secured by real estate mortgages, excluding commercial owner occupied loans, were $2.0 billion and comprised 18.2% of the total loan portfolio. This was a decrease of $614.1 million, or 23.4%, over December 31, 2017 due to normal roll off of the acquired loan portfolio. Between both the non-acquired and acquired portfolios, 60.8% of loans were real estate mortgage loans, excluding commercial owner occupied loans.
- Of the total non-acquired real estate mortgage loans, loans secured by commercial real estate, excluding commercial owner occupied loans, were $2.3 billion, or 20.5% of the total loan portfolio. Loans secured by consumer real estate were $2.4 billion, or 22.1% of the total loan portfolio. This compared to loans secured by commercial real estate of $1.8 billion, or 17.3% and to loans secured by consumer real estate of $2.0 billion, or 18.5% at December 31, 2017.
- Of the total acquired real estate mortgage loans, loans secured by commercial real estate, excluding commercial owner occupied loans, were $957.4 million, or 8.7%. Loans secured by consumer real estate were $1.1 billion, or 9.5%. This compared to loans secured by commercial real estate of $1.4 billion, or 12.9% and to loans secured by consumer real estate of $1.3 billion, or 11.8% at December 31, 2017.
- Non-acquired and acquired commercial owner occupied real estate loans were $2.0 billion, or 18.5% of the total loan portfolio at December 31, 2018 compared to $1.9 billion, or 17.9% at December 31, 2017. Non-acquired commercial owner occupied real estate loans increased $254.8 million and acquired commercial owner occupied real estate loans decreased $119.5 million from December 31, 2017 compared to December 31, 2018.

Total loan interest income was $520.2 million in 2018, an increase of $132.4 million, or 34.1%, over 2017 loan interest income of $387.8 million. This increase was the result of a $1.2 billion increase in the average balance of the acquired loan portfolio from the PSC acquisition in the fourth quarter of 2017, partially offset by a lower yield of 41 basis points, and a $1.3 billion increase in the average non-acquired loan portfolio in 2018, coupled with an increase in the yield of 23 basis points. The 2018 average acquired loan portfolio yield of 6.29% was lower compared to 6.70% in 2017, the average non-acquired loan portfolio yield in 2018 of 4.10% was higher, compared to 3.87% in 2017. The yield of acquired loans declined due to the acquired credit impaired loans being renewed and the cash flow from these assets being extended, therefore, increasing the weighted average life of the loan pools within all acquired loan portfolios. In addition, the yield on the loans acquired in the merger with PSC during the fourth quarter of 2017 were lower than the yields on our existing acquired loan portfolio. The yield on the non-acquired loan portfolio increased due to the Federal Reserve increasing the federal funds target rate 100 basis points since December 2017 which effectively increased the Prime Rate, which is used in pricing for a majority of our variable rate loans and new originated loans.

Non acquired loans secured by commercial real estate were comprised of $841.4 million in construction and land development loans and $1.4 billion in commercial non owner occupied loans at December 31, 2018. At December 31, 2017, we had $830.9 million in construction and land development loans and $1.0 billion in commercial non owner occupied loans. Acquired loans secured by commercial real estate were comprised of $196.0 million in construction and land development loans and $761.4 million in commercial non owner occupied loans at December 31, 2018. At December 31, 2017, we had $447.0 million in construction and land development loans and $919.2 million in commercial non owner occupied loans in the acquired loan portfolio. During 2018, we have seen our total construction

63

Table of Contents

and development loan portfolio decline by $240.5 million as these loans have rolled off from the acquired loan portfolio mainly from the SBFC and PSC acquisitions in 2017. Construction and land development loans are more susceptible to a risk of loss during a downturn in the business cycle.

Non acquired loans secured by consumer real estate comprised of $1.9 billion in consumer owner occupied loans and $495.1 million in home equity loans at December 31, 2018. At December 31, 2017, we had $1.5 billion in consumer owner occupied loans and $437.6 million in home equity loans. Acquired loans secured by consumer real estate comprised of $748.1 million in consumer owner occupied loans and $302.4 million in home equity loans at December 31, 2018. At December 31, 2017, we had $869.7 million in consumer owner occupied loans and $386.2 million in home equity loans. During 2018, we have seen overall the consumer real estate loan portfolio increase by $258.1 million from 2017 with the non-acquired consumer real estate loans increasing $463.5 million partially offset by the acquired consumer real estate loans declining by $205.4 million.

The table below shows the contractual maturity of the non acquired loan portfolio at December 31, 2018.

Table 11—Maturity Distribution of Non acquired Loans

December 31, 2018 (Dollars in thousands)	Total	1 Year or Less	Maturity 1 to 5 Years	Over 5 Years
Real estate:				
Commercial non owner occupied	$ 2,256,996	$ 162,867	$ 1,050,344	$ 1,043,785
Consumer	2,431,413	52,843	93,317	2,285,253
Commercial owner occupied real estate	1,517,551	152,176	649,570	715,805
Commercial and industrial	1,054,952	286,904	490,738	277,310
Other income producing property	214,353	37,586	152,475	24,292
Consumer	448,664	25,940	182,876	239,848
Other loans	9,357	9,357	—	—
Total non acquired loans	$ 7,933,286	$ 727,673	$ 2,619,320	$ 4,586,293

At December 31, 2018 and 2017 our non acquired commercial non owner occupied real estate loans, with fixed rates and maturities greater than a year, had a balance of $1.3 billion and $1.1 billion, respectively. The adjustable interest rate loan balance in this loan category was $742.6 million and $547.2 million, respectively. The non acquired commercial owner occupied loans, with fixed rates and maturities greater than a year, had a balance of $1.3 billion and $1.1 billion, respectively. The adjustable interest rate loan balance in this loan category was $41.7 million and $40.0 million, respectively. The non acquired commercial and industrial loan category, with fixed rates and maturities greater than a year, had a balance of $672.4 million and $538.3 million, respectively. The adjustable interest rate loan balance in this loan category was $95.7 million and $85.4 million, respectively.

Table of Contents

The table below shows the contractual maturity of the acquired non credit impaired loan portfolio at December 31, 2018.

Table 12—Maturity Distribution of Acquired Non credit Impaired Loans

December 31, 2018		1 Year	Maturity	Over
(Dollars in thousands)	Total	or Less	1 to 5 Years	5 Years
Real estate:				
Commercial non owner occupied	$ 844,323	$ 185,122	$ 434,150	$ 225,051
Consumer	871,238	18,495	111,646	741,097
Commercial owner occupied real estate	421,841	61,332	205,022	155,487
Commercial and industrial	212,537	53,259	122,132	37,146
Other income producing property	133,110	24,225	51,270	57,615
Consumer	111,777	3,626	14,276	93,875
Other	—	—	—	—
Total acquired non credit impaired loans	$ 2,594,826	$ 346,059	$ 938,496	$ 1,310,271

At December 31, 2018 and 2017 our acquired non-credit impaired commercial non owner occupied real estate loans, with fixed rates and maturities greater than a year, had a balance of $271.3 million and $374.3 million, respectively. The adjustable interest rate loan balance in this loan category was $387.9 million and $541.7 million, respectively. The acquired non-credit impaired commercial owner occupied loans, with fixed rates and maturities greater than a year, had a balance of $232.3 million and $311.5 million, respectively. The adjustable interest rate loan balance in this loan category was $128.2 million and $132.7 million, respectively. The acquired non-credit impaired commercial and industrial loan category, with fixed rates and maturities greater than a year, had a balance of $113.2 million and $169.5 million, respectively. The adjustable interest rate loan balance in this loan category was $46.1 million and $90.2 million, respectively.

The table below shows the contractual maturity of the acquired credit impaired loan portfolio at December 31, 2018.

Table 13—Maturity Distribution of Acquired Credit Impaired Loans

December 31, 2018		1 Year	Maturity	Over
(Dollars in thousands)	Total	or Less	1 to 5 Years	5 Years
Commercial real estate	196,764	41,201	107,095	48,468
Commercial real estate—construction and development	32,942	17,299	13,880	1,763
Residential real estate	207,482	30,963	68,635	107,884
Consumer	42,492	336	5,062	37,094
Commercial and industrial	10,043	1,979	5,372	2,692
Total acquired credit impaired loans	$ 489,723	$ 91,778	$ 200,044	$ 197,901

At December 31, 2018 and 2017 our acquired credit impaired commercial real estate loans, with fixed rates and maturities greater than a year, had a balance of $133.8 million and $163.0 million, respectively. The adjustable interest rate loan balance in this loan category was $21.7 million and $24.0 million, respectively. The acquired credit impaired commercial construction and development loans, with fixed rates and maturities greater than a year, had a balance of $10.1 million and $27.2 million, respectively. The adjustable interest rate loan balance in this loan category was $5.5 million and $4.8 million, respectively. The acquired credit impaired commercial and industrial loan category, with fixed rates and maturities greater than a year, had a balance of $8.0 million and $17.2 million, respectively. The adjustable interest rate loan balance in this loan category at December 31, 2018 and 2017 was $36,000 and $2.0 million, respectively.

Table of Contents

Nonaccrual Loans

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.

Troubled Debt Restructurings ("TDRs")

The Company 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 (ASC Topic 310 40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. TDRs are returned to accruing status when there is economic substance to the restructuring, there is 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). At December 31, 2018 and 2017, total TDRs were $11.7 million and $10.8 million, respectively, of which $11.1 million were accruing restructured loans at December 31, 2018, compared to $9.9 million at December 31, 2017. The Company does not have significant commitments to lend additional funds to these borrowers whose loans have been modified.

Table of Contents

The level of risk elements in the loan portfolio, OREO and other nonperforming assets for the past five years is shown below:

Table 14—Nonperforming Assets

(Dollars in thousands)	December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015		December 31, 2014	
Non-acquired:										
Nonaccrual loans	$ 14,179		$ 13,415		$ 12,485		$ 15,785		$ 18,569	
Accruing loans past due 90 days or more	191		491		281		300		522	
Restructured loans	648		925		1,979		2,662		9,425	
Total nonperforming loans	15,018		14,831		14,745		18,747		28,516	
Other real estate owned (“OREO”)(2)	3,902		2,415		3,927		8,705		7,947	
Other nonperforming assets(3)	135		121		71		78		—	
Total nonperforming assets excluding acquired assets	19,055		17,367		18,743		27,530		36,463	
Acquired non-credit impaired:										
Nonaccrual loans	13,489		9,397		4,728		3,764		7,538	
Accruing loans past due 90 days or more	162		50		106		53		108	
Total acquired nonperforming loans	13,651		9,447		4,834		3,817		7,646	
Acquired OREO and other nonperforming assets:										
Acquired covered OREO	—		—		—		5,751		16,227	
Acquired non covered OREO	7,508		8,788		14,389		16,098		18,552	
Other acquired nonperforming assets(3)	247		475		637		546		694	
Total acquired nonperforming assets(1)	7,755		9,263		15,026		22,395		35,473	
Total nonperforming assets	$ 40,461		$ 36,077		$ 38,603		$ 53,742		$ 79,582	
Excluding acquired assets:										
Total nonperforming assets as a percentage of total loans and repossessed assets(4)	0.24	%	0.27	%	0.36	%	0.65	%	1.05	%
Total nonperforming assets as a percentage of total assets	0.13	%	0.12	%	0.21	%	0.32	%	0.47	%
Nonperforming loans as a percentage of period end loans(4)	0.19	%	0.23	%	0.28	%	0.44	%	0.82	%
Including acquired assets:										
Total nonperforming assets as a percentage of total loans and repossessed assets(4)	0.37	%	0.34	%	0.58	%	0.89	%	1.38	%
	0.28	%	0.25	%	0.43	%	0.63	%	1.02	%

Total nonperforming assets as a percentage of total assets										
Nonperforming loans as a percentage of period end loans(4)	0.26	%	0.23	%	0.29	%	0.38	%	0.63	%

(1) Excludes the acquired credit impaired loans that are contractually past due 90 days or more totaling $16.8 million, $16.7 million, $14.8 million, $18.8 million, and $48.5 million as of December 31, 2018, December 31, 2017, December 31, 2016, December 31, 2015, and December 31, 2014, respectively, including the valuation discount. Acquired credit impaired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310 30. (For further discussion of the Company's application of the accretion method, see Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset under Note 1—Summary of Significant Accounting Policies in the consolidated financial statements.)

(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.

(3) Consists of non real estate foreclosed assets, such as repossessed vehicles and mobile homes. Prior to our termination agreement with the FDIC in the second quarter of 2016, these assets were covered through loss share agreements.

(4) Loan data excludes mortgage loans held for sale.

Table of Contents

Total non-acquired nonperforming loans were $15.0 million, or 0.19% of total non-acquired loans, an increase of approximately $187,000, or 1.3%, from December 31, 2017. The increase in nonperforming loans was driven by an increase in consumer nonaccrual loans of $1.4 million, offset by a decrease in commercial nonaccrual loans of $672,000, restructured nonaccrual loans of $277,000 and accruing loans 90 days past due of $300,000. The increase in consumer nonaccrual loans was mainly driven by a $1.6 million increase in consumer owner occupied nonaccrual loans in 2018. Acquired non-credit impaired nonperforming loans were $13.6 million, or 0.53% of total acquired non-credit impaired loans, an increase of $4.2 million, or 44.5%, from December 31, 2017. The increase in acquired non-credit impaired nonperforming loans was mainly driven by a $2.7 million increase in commercial nonaccrual loans and a $1.4 million increase in consumer nonaccrual loans.

Non-acquired nonperforming loans declined by approximately $297,000 during the fourth quarter of 2018 from the level at September 30, 2018. The decline was mainly due to a decline in commercial nonaccrual loans of $566,000 and restructured nonaccrual loans of $417,000, offset by an increase in consumer nonaccrual loans of $531,000. Acquired non-credit impaired nonperforming loans increased by approximately $2.9 million during the fourth quarter of 2018 from the level at September 30, 2018. The increase was mainly due to an increase in commercial nonaccruals of $1.6 million and consumer nonaccrual loans of $1.0 million. The top 10 nonaccrual loans at December 31, 2018 totaled $7.8 million and consisted of three loans located along the coastal region (Beaufort to Myrtle Beach), two in the Charlotte region, one in the Richmond region, three in the Central region (Augusta), and one in the General Office (Indirect) region. These loans comprise 27.2% of total nonaccrual loans at December 31, 2018, with the majority being real estate collateral dependent. The Company currently holds no specific reserve against any of these ten loans.

At December 31, 2018, non acquired OREO increased by $1.5 million from the balance at December 31, 2017 to $3.9 million. At December 31, 2018, non acquired OREO consisted of 21 properties with an average value of $186,000, an increase of $25,000 from December 31, 2017, when we had 15 properties. In the fourth quarter of 2018, we added two properties with an aggregate value of $856,000 into non acquired OREO, and we sold two properties with a basis of $99,000 in that same quarter. We recorded a net loss of $6,000 on the properties sold during the quarter. Our non acquired OREO balance of $3.9 million at December 31, 2018 is comprised of 16% in the Charlotte area, 18% in the Low Country region (Orangeburg), 20% in the Central region (Columbia), 7% in the North Georgia area and 39% in the Upstate region (Greenville and Spartanburg). Also, of the $3.9 million in non-acquired OREO, $2.5 million is related to properties from closed branch facilities

At December 31, 2018, acquired OREO decreased by $1.3 million from the balance at December 31, 2017 to $7.5 million. At December 31, 2018, non acquired OREO consisted of 54 properties with an average value of $139,000, an increase of $8,000 from December 31, 2017, when we had 67 properties. In the fourth quarter of 2018, we added five properties with an aggregate value of $559,000 into acquired OREO, and we sold 14 properties with a basis of $1.8 million in that same quarter. We recorded a net gain of $406,000 on the properties sold during the quarter. Our general policy is to obtain updated OREO valuations at least annually. OREO valuations include appraisals or broker opinions, (See Other Real Estate Owned ("OREO") under Critical Accounting Policies and Estimates in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion on the Company's OREO policies.)

Potential Problem Loans

Potential problem loans (excluding all acquired loans), which are not included in nonperforming loans, amounted to approximately $5.8 million, or 0.07% of total non acquired loans outstanding at December 31, 2018, compared to $5.2 million, or 0.08% of total non-acquired loans outstanding at December 31, 2017. Potential problem loans related to acquired non credit impaired loans totaled $5.3 million, or 0.22%, of total acquired non credit impaired loans at December 31, 2018, compared to $13.4 million, or 0.38% of total acquired non-credit impaired loans at December 31, 2017. All potential problem loans represent those loans where information about possible credit problems of the

borrowers has caused management to have concern about the borrower's ability to comply with present repayment terms.

Allowance for Loan Losses

On December 13, 2006, the Federal Reserve Board, the FDIC, and other regulatory agencies collectively revised the banking agencies' 1993 policy statement on the allowance for loan and lease losses to ensure consistency with generally accepted accounting principles in the United States and more recent supervisory guidance. Our loan loss policy adheres to the interagency guidance.

Table of Contents

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 and internal 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. 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 a specific reserve is evaluated on impaired loans, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

We segregated the acquired loan portfolio into performing loans ("non credit impaired") and credit impaired loans. The acquired non credit impaired loans and acquired revolving type loans are accounted for under FASB ASC 310 20, with each loan being accounted for individually. Acquired credit impaired loans are recorded net of any acquisition accounting discounts and have no allowance for loan losses associated with them at acquisition date. The related discount, if applicable, is accreted into interest income over the remaining contractual life of the loan using the level yield method. Subsequent deterioration in the credit quality of these loans is recognized by recording a provision for loan losses through the income statement, increasing the non acquired and acquired non credit impaired allowance for loan losses. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Evidence of credit quality deterioration for the loan pools may include information such as increased past due and nonaccrual levels and migration in the pools to lower loan grades.

In early 2016 and prior periods, we offset the impact of the provision established for acquired covered loans by adjusting the receivable from the FDIC to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses. However, as noted above, on June 23, 2016, the Bank entered into an early 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 now 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 (For further discussion of the Company's allowance for loan losses on acquired loans, see Note 1—Summary of Significant Accounting Policies and Note 4—Loans and Allowance for Loan Losses in the consolidated financial statements.)

Table of Contents

The following tables provide the allocation for the non acquired and acquired credit impaired allowance for loan losses. At December 31, 2018, there was no allowance recognized for acquired non credit impaired loan losses.

Table 15—Allocation of the Allowance for Non Acquired Loan Losses

	2018		2017		2016		2015		2014	
rs in thousands)	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
state:										
nercial non owner ied	$ 14,436	28.5 %	$ 12,446	28.3 %	$ 9,071	24.7 %	$ 7,684	21.1 %	$ 8,820	20.
mer owner ied	15,347	30.6 %	12,918	30.3 %	11,031	30.2 %	10,141	31.7 %	9,695	30.
nercial owner ied real estate	9,369	19.1 %	8,128	19.5 %	8,022	22.5 %	8,341	24.5 %	8,415	26.
nercial and rial	7,454	13.3 %	5,488	12.6 %	4,842	12.8 %	3,974	11.9 %	3,561	11.
income cing property	1,446	2.7 %	1,375	3.0 %	1,542	3.4 %	1,963	4.2 %	2,232	4.4
mer	3,101	5.7 %	2,788	5.8 %	2,350	6.2 %	1,694	5.5 %	1,367	5.5
loans	41	0.1 %	305	0.5 %	102	0.2 %	293	1.1 %	449	1.2
	$ 51,194	100.0 %	$ 43,448	100.0 %	$ 36,960	100.0 %	$ 34,090	100.0 %	$ 34,539	10(

* Loan carrying value in each category, expressed as a percentage of total non acquired loans

Table 16—Allocation of the Allowance for Acquired Credit Impaired Loan Losses

	2018		2017		2016		2015		2014
n thousands)	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount
ial real estate	801	40.2 %	288	37.6 %	41	36.1 %	56	36.3 %	1,579
ial real onstruction and development	717	6.7 %	180	8.0 %	139	7.3 %	177	7.4 %	336
al real estate	2,246	42.4 %	3,553	41.8 %	2,419	42.6 %	2,986	42.5 %	4,387
r	761	8.7 %	461	8.3 %	558	9.8 %	313	9.6 %	275
ial and industrial	79	2.0 %	145	4.3 %	238	4.2 %	174	4.2 %	718
y	—	— %	—	— %	—	— %	—	— %	70
	$ 4,604	100.0 %	$ 4,627	100.0 %	$ 3,395	100.0 %	$ 3,706	100.0 %	$ 7,365

* Loan carrying value in each category, expressed as a percentage of total acquired credit impaired loans

Table of Contents

The following table presents changes in the allowance for loan losses on non acquired loans for the last five years:

Table 17—Summary of Non Acquired Loan Loss Experience

	Year Ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Allowance for loan losses at January 1	$ 43,448	$ 36,960	$ 34,090	$ 34,539	$ 34,331
Charge offs:					
Real estate:					
Commercial non owner occupied	(76)	(546)	(270)	(375)	(679)
Consumer	(295)	(515)	(1,034)	(921)	(1,382)
Commercial owner occupied real estate	(659)	—	(118)	(851)	(531)
Commercial and industrial	(500)	(776)	(876)	(357)	(1,114)
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.

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

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.

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.

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.

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:

	A	B	C
Plan Category	Number of securities to be issued upon exercise of Outstanding options, warrants, and Rights	Weighted-average exercise price of Outstanding options, warrants, and Rights	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.

Table of Contents

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)

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

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)

88

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.

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

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

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.

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

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

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.

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

Table of Contents

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

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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

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

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

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.

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.

(Dollars in thousands)	Securities Held to Maturity Amortized Cost	Fair Value	Securities Available for Sale 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:

(Dollars in thousands)	Year Ended December 31, 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:

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

(Dollars in thousands)	December 31, 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.

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:

ds)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other
3									
n									
ng									
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	(107)	—	(28)	(70)	(436)	(1,108)	—	(465)	—
	8	—	—	64	102	63	—	68	—
	99	—	28	6	334	1,045	—	397	—
3	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	165,070	679,253	421,841	628,813	242,425	212,537	133,110	111,777	—
d									
	$ 165,070	$ 679,253	$ 421,841	$ 628,813	$ 242,425	$ 212,537	$ 133,110	$ 111,777	$ —
7									
n									
ng									
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	(82)	—	—	(150)	(859)	(71)	—	(468)	—
	4	—	2	41	393	6	8	23	—
	78	—	(2)	109	466	65	(8)	445	—
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

7									
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	403,357	817,166	521,818	710,611	320,591	398,696	196,669	137,710	1,289
d	$ 403,357	$ 817,166	$ 521,818	$ 710,611	$ 320,591	$ 398,696	$ 196,669	$ 137,710	$ 1,289
6									
n									
ng									
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	—	—	39	—	(428)	(66)	—	(532)	—
	4	—	—	12	199	9	43	51	—
	(4)	—	(39)	(12)	229	57	(43)	481	—
5	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
	10,090	34,628	27,195	408,270	160,879	13,641	39,342	142,654	—
d	$ 10,090	$ 34,628	$ 27,195	$ 408,270	$ 160,879	$ 13,641	$ 39,342	$ 142,654	$ —

Table of Contents

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

(Dollars in thousands)	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Year Ended December 31, 2018:							
Allowance for loan losses:							
Balance, December 31, 2017	$ 288	$ 180	$ 3,553	$ 461	$ 145	$ —	$ 4,627
Provision for loan losses	532	657	(892)	303	511	—	1,111
Reduction due to loan removals	(19)	(120)	(415)	(3)	(577)	—	(1,134)
Balance, December 31, 2018	$ 801	$ 717	$ 2,246	$ 761	$ 79	$ —	$ 4,604
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ 801	$ 717	$ 2,246	$ 761	$ 79	$ —	$ 4,604
Loans:*							
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	196,764	32,942	207,482	42,492	10,043	—	489,723
Total acquired credit impaired loans	$ 196,764	$ 32,942	$ 207,482	$ 42,492	$ 10,043	$ —	$ 489,723
Year Ended December 31, 2017:							
Allowance for loan losses:							
Balance, December 31, 2016	$ 41	$ 139	$ 2,419	$ 558	$ 238	$ —	$ 3,395
Provision for loan losses	247	163	1,662	(83)	64	—	2,053
Reduction due to loan removals	—	(122)	(528)	(14)	(157)	—	(821)
Balance, December 31, 2017	$ 288	$ 180	$ 3,553	$ 461	$ 145	$ —	$ 4,627

Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ 288	$ 180	$ 3,553	$ 461	$ 145	$ —	$ 4,627
Loans:*							
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	234,595	49,649	260,787	51,453	26,946	—	623,430
Total acquired credit impaired loans	$ 234,595	49,649	260,787	51,453	26,946	—	623,430
Year Ended December 31, 2016:							
Allowance for loan losses:							
Balance, December 31, 2015	$ 56	$ 177	$ 2,986	$ 313	$ 174	$ —	$ 3,706
Provision for loan losses before benefit attributable to FDIC loss share agreements	1	—	(129)	533	183	—	588
Benefit attributable to FDIC loss share agreements	—	—	23	—	—	—	23
Total provision for loan losses charged to operations	1	—	(106)	533	183	—	611
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	—	—	—	(23)
Reduction due to loan removals	(16)	(38)	(438)	(288)	(119)	—	(899)
Balance, December 31, 2016	$ 41	$ 139	$ 2,419	$ 558	$ 238	$ —	$ 3,395
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ 41	$ 139	$ 2,419	$ 558	$ 238	$ —	$ 3,395
Loans:*							
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for	218,821	44,373	258,100	59,300	25,347	—	605,941

impairment							
Total acquired credit impaired loans	$ 218,821	$ 44,373	$ 258,100	$ 59,300	$ 25,347	$ —	$ 605,941

* The carrying value of acquired credit impaired loans includes a non accretable difference which is primarily associated with the assessment of credit quality of acquired loans.

As part of the on going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the level of classified loans, (ii) net charge offs, (iii) non performing loans (see details below) and (iv) the general economic conditions of the markets that we serve.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- Pass—These loans range from minimal credit risk to average however still acceptable credit risk.
- Special mention—A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.
- Substandard—A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful—A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

Table of Contents

The following table presents the credit risk profile by risk grade of commercial non acquired loans:

(Dollars in thousands)	Construction & Development		Commercial Non-owner Occupied		Commercial Owner Occupied	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Pass	$ 832,612	$ 818,240	$ 1,407,744	$ 999,049	$ 1,480,267	$ 1,232,927
Special mention	6,015	8,758	6,427	7,864	24,576	23,575
Substandard	2,818	3,877	1,380	1,980	12,708	6,274
Doubtful	—	—	—	—	—	—
	$ 841,445	$ 830,875	$ 1,415,551	$ 1,008,893	$ 1,517,551	$ 1,262,776

	Commercial & Industrial		Other Income Producing Property		Commercial Total	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Pass	$ 1,037,915	$ 801,885	$ 208,186	$ 186,158	$ 4,966,724	$ 4,038,259
Special mention	5,887	11,130	4,706	6,034	47,611	57,361
Substandard	11,150	2,172	1,461	1,655	29,517	15,958
Doubtful	—	—	—	—	—	—
	$ 1,054,952	$ 815,187	$ 214,353	$ 193,847	$ 5,043,852	$ 4,111,578

The following table presents the credit risk profile by risk grade of consumer non acquired loans:

(Dollars in thousands)	Consumer Owner Occupied		Home Equity		Consumer	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Pass	$ 1,909,427	$ 1,502,016	$ 481,607	$ 424,369	$ 446,823	$ 377,425
Special mention	11,304	13,902	7,293	6,749	437	313
Substandard	15,534	14,342	6,248	6,524	1,404	1,247
Doubtful	—	—	—	—	—	—
	$ 1,936,265	$ 1,530,260	$ 495,148	$ 437,642	$ 448,664	$ 378,985

	Other		Consumer Total	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Pass	$ 9,357	$ 33,690	$ 2,847,214	$ 2,337,500
Special mention	—	—	19,034	20,964
Substandard	—	—	23,186	22,113
Doubtful	—	—	—	—
	$ 9,357	$ 33,690	$ 2,889,434	$ 2,380,577

The following table presents the credit risk profile by risk grade of total non acquired loans:

	Total Non-acquired Loans	
(Dollars in thousands)	December 31, 2018	December 31, 2017
Pass	$ 7,813,938	$ 6,375,759
Special mention	66,645	78,325
Substandard	52,703	38,071
Doubtful	—	—
	$ 7,933,286	$ 6,492,155

At December 31, 2018, the aggregate amount of non acquired substandard and doubtful loans totaled $52.7 million. When these loans are combined with non acquired OREO of $3.9 million, our non acquired classified assets (as defined by the South Carolina Board of Financial Institutions and the FDIC, our primary regulators) were $56.6 million. At December 31, 2017, the amounts were $38.1 million, $2.4 million, and $40.5 million, respectively.

The following table presents the credit risk profile by risk grade of commercial loans for acquired non credit impaired loans:

	Construction & Development		Commercial Non-owner Occupied		Commercial Owner Occupied	
	December 31,		December 31,		December 31,	
(Dollars in thousands)	2018	2017	2018	2017	2018	2017
Pass	$ 163,777	$ 394,139	$ 665,913	$ 809,241	$ 411,783	$ 513,861
Special mention	838	4,602	13,018	7,913	5,664	7,740
Substandard	455	4,616	322	12	4,394	217
Doubtful	—	—	—	—	—	—
	$ 165,070	$ 403,357	$ 679,253	$ 817,166	$ 421,841	$ 521,818

Table of Contents

	Commercial & Industrial		Other Income Producing Property		Commercial Total	
	December 31,		December 31,		December 31,	
	2018	2017	2018	2017	2018	2017
Pass	$ 202,399	$ 388,342	$ 125,399	$ 191,229	$ 1,569,271	$ 2,296,812
Special mention	6,523	9,883	6,419	4,547	32,462	34,685
Substandard	3,615	471	1,292	893	10,078	6,209
Doubtful	—	—	—	—	—	—
	$ 212,537	$ 398,696	$ 133,110	$ 196,669	$ 1,611,811	$ 2,337,706

The following table presents the credit risk profile by risk grade of consumer loans for acquired non credit impaired loans:

	Consumer Owner Occupied		Home Equity		Consumer	
	December 31,		December 31,		December 31,	
(Dollars in thousands)	2018	2017	2018	2017	2018	2017
Pass	$ 617,391	$ 703,557	$ 227,515	$ 301,842	$ 108,833	$ 134,530
Special mention	7,868	4,165	7,688	10,477	698	541
Substandard	3,554	2,889	7,222	8,272	2,246	2,639
Doubtful	—	—	—	—	—	—
	$ 628,813	$ 710,611	$ 242,425	$ 320,591	$ 111,777	$ 137,710

	Other		Consumer Total	
	December 31,		December 31,	
	2018	2017	2018	2017
Pass	$ —	$ 1,289	$ 953,739	$ 1,141,218
Special mention	—	—	16,254	15,183
Substandard	—	—	13,022	13,800
Doubtful	—	—	—	—
	$ —	$ 1,289	$ 983,015	$ 1,170,201

The following table presents the credit risk profile by risk grade of total acquired non-credit impaired loans:

	Total Acquired Non-credit Impaired Loans	
	December 31,	
(Dollars in thousands)	2018	2017

Pass	$ 2,523,010	$ 3,438,030
Special mention	48,716	49,868
Substandard	23,100	20,009
Doubtful	—	—
	$ 2,594,826	$ 3,507,907

The following table presents the credit risk profile by risk grade of acquired credit impaired loans (identified as credit impaired at the time of acquisition), net of the related discount (this table should be read in conjunction with the allowance for acquired loan losses table found on page F 42):

	Commercial Real Estate December 31,		Commercial Real Estate—Construction and Development December 31,	
(Dollars in thousands)	2018	2017	2018	2017
Pass	$ 160,788	$ 177,231	$ 20,293	$ 29,620
Special mention	14,393	28,708	3,001	5,132
Substandard	21,583	28,656	9,648	14,897
Doubtful	—	—	—	—
	$ 196,764	$ 234,595	$ 32,942	$ 49,649

	Residential Real Estate December 31,		Consumer December 31,		Commercial & Industrial December 31,	
	2018	2017	2018	2017	2018	2017
Pass	$ 104,181	$ 135,974	$ 5,751	$ 8,001	$ 5,093	$ 18,522
Special mention	41,964	54,500	14,484	17,214	546	1,169
Substandard	61,337	70,313	22,257	26,238	4,404	7,255
Doubtful	—	—	—	—	—	—
	$ 207,482	$ 260,787	$ 42,492	$ 51,453	$ 10,043	$ 26,946

Table of Contents

	Total Acquired Credit Impaired Loans December 31,	
	2018	2017
Pass	$ 296,106	$ 369,348
Special mention	74,388	106,723
Substandard	119,229	147,359
Doubtful	—	—
	$ 489,723	$ 623,430

The risk grading of acquired credit impaired loans is determined utilizing a loan's contractual balance, while the amount recorded in the financial statements and reflected above is the carrying value.

The following table presents an aging analysis of past due loans, segregated by class for non acquired loans:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
December 31, 2018						
Commercial real estate:						
Construction and land development	$ 693	$ 305	$ 452	$ 1,450	$ 839,995	$ 841,445
Commercial non-owner occupied	68	18	396	482	1,415,069	1,415,551
Commercial owner occupied	1,639	1,495	904	4,038	1,513,513	1,517,551
Consumer real estate:						
Consumer owner occupied	1,460	789	943	3,192	1,933,073	1,936,265
Home equity loans	744	532	713	1,989	493,159	495,148
Commercial and industrial	898	120	573	1,591	1,053,361	1,054,952
Other income producing property	169	26	289	484	213,869	214,353
Consumer	437	174	718	1,329	447,335	448,664
Other loans	—	—	—	—	9,357	9,357
	$ 6,108	$ 3,459	$ 4,988	$ 14,555	$ 7,918,731	$ 7,933,286
December 31, 2017						
Commercial real estate:						
Construction and land development	$ 391	$ 63	$ 401	$ 855	$ 830,020	$ 830,875
	297	398	51	746	1,008,147	1,008,893

Commercial non-owner occupied						
Commercial owner occupied	2,227	382	1,721	4,330	1,258,446	1,262,776
Consumer real estate:						
Consumer owner occupied	1,291	140	1,943	3,374	1,526,886	1,530,260
Home equity loans	1,209	372	1,684	3,265	434,377	437,642
Commercial and industrial	477	57	915	1,449	813,738	815,187
Other income producing property	223	255	198	676	193,171	193,847
Consumer	525	196	623	1,344	377,641	378,985
Other loans	—	—	—	—	33,690	33,690
	$ 6,640	$ 1,863	$ 7,536	$ 16,039	$ 6,476,116	$ 6,492,155

Table of Contents

The following table presents an aging analysis of past due loans, segregated by class for acquired non credit impaired loans:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
December 31, 2018						
Commercial real estate:						
Construction and land development	$ 647	$ 45	$ 365	$ 1,057	$ 164,013	$ 165,070
Commercial non-owner occupied	607	21	283	911	678,342	679,253
Commercial owner occupied	964	1,006	—	1,970	419,871	421,841
Consumer real estate:						
Consumer owner occupied	1,127	621	789	2,537	626,276	628,813
Home equity loans	1,286	442	2,209	3,937	238,488	242,425
Commercial and industrial	2,648	130	19	2,797	209,740	212,537
Other income producing property	603	276	129	1,008	132,102	133,110
Consumer	574	209	532	1,315	110,462	111,777
	$ 8,456	$ 2,750	$ 4,326	$ 15,532	$ 2,579,294	$ 2,594,826
December 31, 2017						
Commercial real estate:						
Construction and land development	$ 675	$ 113	$ 101	$ 889	$ 402,468	$ 403,357
Commercial non-owner occupied	12	321	—	333	816,833	817,166
Commercial owner occupied	642	—	189	831	520,987	521,818
Consumer real estate:						
Consumer owner occupied	673	204	867	1,744	708,867	710,611
Home equity loans	3,639	609	1,704	5,952	314,639	320,591
Commercial and industrial	5,996	1,278	143	7,417	391,279	398,696
Other income producing property	327	—	250	577	196,092	196,669
Consumer	400	114	1,351	1,865	135,845	137,710
Other	—	—	—	—	1,289	1,289
	$ 12,364	$ 2,639	$ 4,605	$ 19,608	$ 3,488,299	$ 3,507,907

The following table presents an aging analysis of past due loans, segregated by class for acquired credit impaired loans:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
December 31, 2018						
Commercial real estate	$ 876	$ 112	$ 4,533	$ 5,521	$ 191,243	$ 196,764
Commercial real estate—construction and development	115	12	2,816	2,943	29,999	32,942
Residential real estate	4,620	1,251	8,487	14,358	193,124	207,482
Consumer	722	90	839	1,651	40,841	42,492
Commercial and industrial	2,437	—	88	2,525	7,518	10,043
	$ 8,770	$ 1,465	$ 16,763	$ 26,998	$ 462,725	$ 489,723
December 31, 2017						
Commercial real estate	$ 2,519	$ 3,669	$ 2,825	$ 9,013	$ 225,582	$ 234,595
Commercial real estate—construction and development	811	427	3,761	4,999	44,650	49,649
Residential real estate	5,895	4,283	8,824	19,002	241,785	260,787
Consumer	989	452	889	2,330	49,123	51,453
Commercial and industrial	596	167	406	1,169	25,777	26,946
	$ 10,810	$ 8,998	$ 16,705	$ 36,513	$ 586,917	$ 623,430

Table of Contents

The following is a summary of information pertaining to impaired non acquired loans:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
December 31, 2018					
Commercial real estate:					
Construction and land development	$ 38,314	$ 339	$ 37,574	$ 37,913	$ 788
Commercial non-owner occupied	1,157	536	489	1,025	70
Commercial owner occupied	5,085	3,101	1,041	4,142	27
Consumer real estate:					
Consumer owner occupied	7,291	4,992	1,769	6,761	41
Home equity loans	2,953	1,129	1,697	2,826	142
Commercial and industrial	1,332	467	824	1,291	416
Other income producing property	3,117	150	2,722	2,872	142
Consumer	211	—	188	188	2
Total	$ 59,460	$ 10,714	$ 46,304	$ 57,018	$ 1,628
December 31, 2017					
Commercial real estate:					
Construction and land development	$ 47,553	$ 649	$ 42,581	$ 43,230	$ 1,063
Commercial non-owner occupied	3,106	860	515	1,375	125
Commercial owner occupied	9,212	3,553	2,089	5,642	64
Consumer real estate:					
Consumer owner occupied	7,382	4,392	1,240	5,632	37
Home equity loans	3,602	896	2,115	3,011	135
Commercial and industrial	2,246	635	521	1,156	15
Other income producing property	3,893	—	3,138	3,138	178
Consumer	654	—	239	239	7
Total	$ 77,648	$ 10,985	$ 52,438	$ 63,423	$ 1,624

Acquired credit impaired loans are accounted for in pools as shown on page F 35 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

The following summarizes the average investment in impaired non acquired loans, and interest income recognized on these loans:

	Year Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized

Commercial real estate:						
Construction and land development	$ 40,571	$ 1,201	$ 23,132	$ 1,138	$ 4,657	$ 120
Commercial non-owner occupied	1,200	28	1,091	45	1,129	32
Commercial owner occupied	4,892	288	5,943	268	6,985	291
Consumer real estate:						
Consumer owner occupied	6,197	212	5,653	195	6,611	206
Home equity loans	2,919	126	2,343	113	992	61
Commercial and industrial	1,224	57	1,209	48	1,375	52
Other income producing property	3,005	155	2,755	171	3,632	145
Consumer	213	1	192	6	123	6
Other loans	—	—	—	—	211	—
Total Impaired Loans	$ 60,221	$ 2,068	$ 42,318	$ 1,984	$ 25,715	$ 913

Table of Contents

The following is a summary of information pertaining to non acquired nonaccrual loans by class, including restructured loans:

(Dollars in thousands)	December 31, 2018	2017
Commercial non-owner occupied real estate:		
Construction and land development	$ 424	$ 357
Commercial non-owner occupied	831	1,144
Total commercial non-owner occupied real estate	1,255	1,501
Consumer real estate:		
Consumer owner occupied	7,109	5,491
Home equity loans	2,333	2,612
Total consumer real estate	9,442	8,103
Commercial owner occupied real estate	1,068	1,635
Commercial and industrial	647	872
Other income producing property	500	269
Consumer	1,267	1,035
Restructured loans	648	925
Total loans on nonaccrual status	$ 14,827	$ 14,340

The following is a summary of information pertaining to acquired non-credit impaired nonaccrual loans by class, including restructured loans:

(Dollars in thousands)	December 31, 2018	2017
Commercial non-owner occupied real estate:		
Construction and land development	$ 252	$ 108
Commercial non-owner occupied	283	-
Total commercial non-owner occupied real estate	535	108
Consumer real estate:		
Consumer owner occupied	3,864	2,156
Home equity loans	4,512	4,589
Total consumer real estate	8,376	6,745
Commercial owner occupied real estate	1,470	189
Commercial and industrial	1,296	133
Other income producing property	244	316
Consumer	1,568	1,906
Total loans on nonaccrual status	$ 13,489	$ 9,397

In the course of resolving delinquent loans, the Bank may choose to restructure the contractual terms of certain loans. Any loans that are modified are reviewed by the Bank to determine if a troubled debt restructuring (“TDR” or

"restructured loan") has occurred. A TDR is a modification in which the Bank grants a concession to a borrower that it would not otherwise consider due to economic or legal reasons related to a borrower's financial difficulties. The concessions granted on TDRs generally include terms to reduce the interest rate, extend the term of the debt obligation, or modify the payment structure on the debt obligation.

The Bank designates loan modifications as TDRs when it grants a concession to the borrower that it would not otherwise consider due to the borrower experiencing financial difficulty (FASB ASC Topic 310 40). Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession 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 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). For the twelve months ended December 31, 2018 and 2017, the Company's TDRs were not material.

Table of Contents

Note 5—Other Real Estate Owned

The following is a summary of the changes in the carrying value of OREO:

(Dollars in thousands)	OREO	Covered OREO	Total
Balance, December 31, 2015	$ 24,803	$ 5,751	$ 30,554
Transfers	4,222	(4,222)	—
Additions, net	11,842	2,151	13,993
Writedowns	(2,270)	(2,131)	(4,401)
Sold	(20,281)	(1,549)	(21,830)
Balance, December 31, 2016	18,316	—	18,316
Acquired in Southeastern Bank Financial Corp. acquisition	385	—	385
Acquired in Park Sterling Corp. acquisition	2,046	—	2,046
Additions, net	11,558	—	11,558
Writedowns	(2,249)	—	(2,249)
Sold	(18,853)	—	(18,853)
Balance, December 31, 2017	11,203	—	11,203
Acquired in Park Sterling Corp. acquisition	210	—	210
Additions, net	13,391	—	13,391
Writedowns	(1,420)	—	(1,420)
Sold	(11,974)	—	(11,974)
Balance, December 31, 2018	$ 11,410	$ —	$ 11,410

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. The covered OREO shown above was presented net of the related fair value discount, and the activity reflected for the covered assets is prior to the early termination of the FDIC loss share agreements. All remaining OREO previously classified as covered became uncovered during the second quarter of 2016, which consisted of 17 properties with a carrying value of $4.2 million as of March 31, 2016.

At December 31, 2018, there were a total of 75 properties included in OREO which compares to 82 properties included in OREO, at December 31, 2017. At December 31, 2018, the Company had $1.2 million in residential real estate included in OREO and $4.7 million in residential real estate consumer mortgage loans in the process of foreclosure.

Note 6—Premises and Equipment

Premises and equipment consisted of the following:

December 31,

(Dollars in thousands)	Useful Life	2018	2017
Land		$ 77,338	$ 81,291
Buildings and leasehold improvements	15 - 40 years	224,620	227,402
Equipment and furnishings	3 - 10 years	109,468	104,319
Construction in process		3,782	2,305
Total		415,208	415,317
Less accumulated depreciation		(174,132)	(159,752)
		$ 241,076	$ 255,565

Depreciation expense charged to operations was $18.7 million, $15.2 million, and $11.5 million for the years ended December 31, 2018, 2017, and 2016, respectively.

At December 31, 2018 and 2017, computer software with an original cost of $13.5 million and $13.0 million, respectively, were being amortized using the straight line method over thirty-six months. Amortization expense totaled $2.1 million, $2.5 million, and $2.3 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Table of Contents

Note 7—Goodwill and Other Intangible Assets

In accordance with FASB ASC 350, Intangibles—Goodwill and Other, the Company ceased amortization of goodwill as of January 1, 2002. 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. The following is a summary of changes in the carrying amounts of goodwill:

	Year Ended December 31,	
(Dollars in thousands)	2018	2017
Balance at beginning of period	$ 999,586	$ 338,340
Additions:		
Goodwill from Southeastern Bank Financial acquisition	—	258,295
Goodwill from Park Sterling Financial acquisition	—	402,951
PSC acquisition Day 1 adjustment	3,314	—
Balance at end of period	$ 1,002,900	$ 999,586

The Company's other intangible assets, consisting of core deposit intangibles, noncompete intangibles, and client list intangibles are included on the face of the balance sheet. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

	December 31,	
(Dollars in thousands)	2018	2017
Gross carrying amount	$ 129,770	$ 126,449
Accumulated amortization	(66,870)	(52,660)
	$ 62,900	$ 73,789

Amortization expense totaled $14.2 million, $10.4 million and $7.6 million for the years ended December 31, 2018, 2017, and 2016, respectively. Other intangibles are amortized using either the straight line method or an accelerated basis over their estimated useful lives, with lives generally between 2 and 15 years. Estimated amortization expense for other intangibles for each of the next five years is as follows:

(Dollars in thousands)
Year ended December 31:

2019	$ 13,084
2020	11,867
2021	10,584
2022	9,266
2023	6,314
Thereafter	11,785
	$ 62,900

Table of Contents

Note 8—Deposits

The Company's total deposits are comprised of the following:

(Dollars in thousands)	December 31, 2018	2017
Certificates of deposit	$ 1,775,095	$ 1,738,384
Interest-bearing demand deposits	5,407,175	5,300,108
Non-interest bearing demand deposits	3,061,769	3,047,432
Savings deposits	1,399,815	1,443,918
Other time deposits	3,079	2,924
Total deposits	$ 11,646,933	$ 11,532,766

At December 31, 2018 and 2017 the Company had $320.0 million and $325.3 million in certificates of deposits of $250,000 and greater, respectively. At December 31, 2018 and 2017, the Company had $7.6 million and $43.6 million, respectively, in traditional, out of market brokered deposits.

At December 31, 2018, the scheduled maturities of time deposits (includes $3.1 million of other time deposits) of all denominations are as follows:

(Dollars in thousands)	
Year ended December 31:	
2019	$ 1,185,607
2020	349,515
2021	115,223
2022	101,662
2023	21,403
Thereafter	4,764
	$ 1,778,174

Note 9—Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to three days from the transaction date, but may have maturities as long as nine months per our policies. Certain of the borrowings have no defined maturity date. Information concerning federal funds purchased and securities sold under agreements to repurchase are below:

(Dollars in thousands)	December 31, 2018 Amount	Rate	2017 Amount	Rate	2016 Amount	Rate
At period-end:						
Federal funds purchased and securities sold under repurchase agreements	$ 270,649	1.08 %	$ 286,857	0.45 %	$ 313,773	0.24 %
Average for the year:						
Federal funds purchased and securities sold under repurchase agreements	$ 312,768	0.75 %	$ 325,713	0.33 %	$ 320,901	0.18 %
Maximum month-end balance:						
Federal funds purchased and securities sold under repurchase agreements	$ 362,047		$ 401,786		$ 334,260	

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase (“repurchase agreements”) represent funds received from customers, generally on an overnight or continuous basis, which are collateralized by investment securities owned or, at times, borrowed and re-hypothecated by the Company. Repurchase agreements are subject to terms and conditions of the master repurchase agreements between the Company and the client and are accounted for as secured borrowings. The Company monitors the fair value of the underlying securities on a daily basis. Some securities underlying these

Table of Contents

agreements include arrangements to resell securities from broker dealers approved by the Company. Repurchase agreements are reflected at the amount of cash received in connection with the transaction and included in federal funds purchased and securities sold under agreements to repurchase on the condensed consolidated balance sheets.

At December 31, 2018 and December 31, 2017, the Company's repurchase agreements totaled $205.3 million and $211.1 million, respectively. All of the Company's repurchase agreements were overnight or continuous (until-further-notice) agreements at December 31, 2018 and December 31, 2017. These borrowings were collateralized with government, government-sponsored enterprise, or state and political subdivision-issued securities with a carrying value of $205.3 million and $211.1 million at December 31, 2018 and December 31, 2017, respectively. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Note 10— Other Borrowings

The Company's other borrowings were as follows:

		2018			2017		
(Dollars in thousands)	Maturity	Interest Rate at 12/31/2018	Balance	Weighted Average Interest Rate	Interest Rate at 12/31/2017	Balance	Weighted Average Interest Rate
Short-term borrowings:							
Federal Home Loan Bank Fixed Rate Credit	1/16/2018	— %	$ —		1.40	$ 50,000	
Federal Home Loan Bank Fixed Rate Credit	4/27/2018	— %	—		1.57	50,000	
Federal Home Loan Bank Short Term Advance	12/31/2019	2.64 %	150,000		—	—	
Total short-term borrowings			150,000	2.64 %		100,000	1.48 %
Long-term borrowings							
SCBT Capital Trust I junior subordinated debt(1)	6/15/2035	4.58 %	12,372		3.38 %	12,372	
	6/15/2035	4.58 %	8,248		3.38 %	8,248	

SCBT Capital Trust II junior subordinated debt(1)							
SCBT Capital Trust III junior subordinated debt(1)	7/18/2035	4.38 %	20,619		3.18 %	20,619	
SAVB Capital Trust I junior subordinated debt(1)	10/7/2033	5.29 %	6,186		4.21 %	6,186	
SAVB Capital Trust II junior subordinated debt(1)	12/15/2034	4.99 %	4,124		3.79 %	4,124	
TSB Statutory Trust I junior subordinated debt(1)	3/14/2037	4.51 %	3,093		3.31 %	3,093	
Southeastern Bank Financial Statutory Trust I junior subordinated debt(1)	12/15/2035	4.19 %	10,310		2.99 %	10,310	
Southeastern Bank Financial Statutory Trust II junior subordinated debt(1)	6/15/2036	4.19 %	10,310		2.99 %	10,310	
CSBC Statutory Trust I junior subordinated debt(1)	12/15/2035	4.36 %	15,464		3.16 %	15,464	
Community Capital Statutory Trust I junior subordinated debt(1)	6/15/2036	4.34 %	10,310		3.14 %	10,310	
FCRV Statutory Trust I junior subordinated debt(1)	12/15/2036	4.49 %	5,155		3.29 %	5,155	
Provident Community Bancshares Capital Trust I junior subordinated debt(1)	3/1/2037	4.14 %	4,124		3.08 %	4,124	
Provident Community Bancshares Capital Trust II junior subordinated debt(1)	10/1/2036	4.48 %	8,248		3.22 %	8,248	
Fair Market Value Discount Trust Preferred Debt Acquired			(3,397)			(4,063)	
Other	Various	4.14 %	918		4.09 %	1,885	
Total long-term borrowings			116,084	4.45 %		116,385	3.26 %
Total borrowings			$ 266,084			$ 216,385	

(1) All of the junior subordinated debt above is adjustable rate based on three-month LIBOR plus a spread ranging from 140 basis points to 285 basis points.

Short-Term FHLB Advances

The Company has from time to time entered into borrowing agreements with the FHLB. Advances under these agreements are collateralized by stock in the FHLB, qualifying first and second mortgage residential loans, and commercial real estate loans under a blanket floating lien.

As of December 31, 2018, and 2017, there was $150.0 million and $100.0 million in outstanding Short-Term FHLB advances, respectively. For the years ended December 31, 2018 and 2017, the average balance for Short-Term FHLB advances was $42.3 million and $25.6 million, respectively. The weighted average cost of the Short-Term FHLB

advances at period end December 31, 2018 was 2.64% and the weighted average cost year to date for the year ended December 31, 2018 was 1.57%. The weighted average cost of the FHLB advances at period end December 31, 2017 was 1.48% and the weighted average cost year to date for the year ended December 31, 2017 was 0.97%. The Company did not have any short-term FHLB borrowings outstanding in 2016. Net eligible loans of the Company pledged via a blanket lien to the FHLB for advances and letters of credit at December 31, 2018, were approximately $2.5 billion which allows the Company a total borrowing capacity at FHLB of approximately $1.9 billion. After accounting for letters of credit totaling $11.5 million, the Company had unused net credit available with the FHLB in the amount of approximately $1.7 billion at December 31, 2018.

Junior Subordinated Debt

The obligations of the Company with respect to the issuance of the capital securities constitute a full and unconditional guarantee by the Company of the trusts' obligations with respect to the capital securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities.

All of the Company's junior subordinated debt is callable after five years from issuance. Therefore, all of the junior subordinated debt is callable at December 31, 2018.

As of December 31, 2018, the sole assets of the trusts were an aggregate of $115.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the trust preferred securities.

As of December 31, 2018, the Company recorded a $115.2 million liability for the junior subordinated debt securities, net of a $3.4 million discount recorded on Southeastern Bank Financial Statutory Trust I and II, Citizens South Banking Corporation Statutory Trust I, Community Capital Statutory Trust I, FCRV Statutory Trust I, Provident Community Bancshares Capital Trust I and II. The Company, as issuer, can call any of these subordinated debt securities without penalty. If the Company were to call the securities, the amount paid to the holders would be $118.6 million and the Company would fully amortize any remaining discount into interest expense. The remaining discount is being amortized over either a two and one-half year period or five year period.

As of December 31, 2018, and 2017, there was $115.2 million (net of discount of $3.4 million) and $114.5 million (net of discount of $4.1 million), respectively, in junior subordinated debt. The weighted average cost of the junior subordinated debt at period end December 31, 2018 was 4.45% and the weighted average cost year to date for the year ended December 31, 2018 of 3.90%. This does not take into account the discount. If the discount were taken into account the weighted average cost year to date would be 4.61%. This compares to a weighted average cost of the junior subordinated debt at period end December 31, 2017 of 3.26% and the weighted average cost year to date for the year ended December 31, 2017 of 2.99%. If the discount were taken into account the weighted average cost year to

date would be 3.94% in 2017.

For regulatory purposes, the junior subordinated debt securities may be classified as Tier 1 Capital. The trust preferred securities represent a minority investment in an unconsolidated subsidiary, which is currently included in Tier 1 Capital so long as it does not exceed 25% of total Tier 1 Capital.

Line of Credit

On November 15, 2018, the Company entered into an amendment to its Credit Agreement (the “Agreement”) with U.S. Bank National Association (the “Lender”). The Agreement provides for a $10 million unsecured line of credit by the Lender to the Company. The maturity date of the Agreement is November 15, 2019, provided that the Agreement may be extended subject to the approval of the Lender. Borrowings by the Company under the Agreement will bear interest at a rate per annum equal to one-month LIBOR plus 1.50%. As of December 31, 2018 and 2017, and there was no outstanding balance associated with the line of credit.

Table of Contents

Principal maturities of other borrowings are summarized below:

(Dollars in thousands)	Junior Subordinated Debt	FHLB Advances	Other	Total
Year Ended December 31,				
2019	$ —	$ 150,000	$ 7	$ 150,007
2020	—	—	7	7
2021	—	—	8	8
2022	—	—	8	8
2023	—	—	8	8
Thereafter	115,166	—	880	116,046
	$ 115,166	$ 150,000	$ 918	$ 266,084

Note 11—Income Taxes

On December 22, 2017, the President signed into law the Tax Reform Act which, among other things, lowered the maximum corporate tax rate from 35% to 21% beginning in 2018. 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.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company recognized a provisional tax impact of $26.6 million as additional income tax expense related to the revaluation of deferred tax assets and liabilities and included that amount in its consolidated financial statements for the year ended December 31, 2017. In addition to that, during 2018, the Company finalized its calculation for the revaluation of deferred tax assets and liabilities and recorded that impact of $991,000 as an income tax benefit in its consolidated financial statements for the year ended December 31, 2018.

The provision for income taxes consists of the following:

	Year Ended December 31,		
(Dollars in thousands)	2018	2017	2016
Current:			
Federal	$ 25,275	$ 46,153	$ 37,187
State	6,783	3,018	3,325
Total current tax expense	32,058	49,171	40,512

Deferred:		
Federal	12,557	31,971