

WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ **to** _____

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

(State or other jurisdiction of incorporation)

57-0799315

(IRS Employer Identification No.)

520 Gervais Street

Columbia, South Carolina

(Address of principal executive offices)

29201

(Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

FIRST FINANCIAL HOLDINGS, INC.

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

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

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

Class	Outstanding as of July 31, 2014
Common Stock, \$2.50 par value	24,133,813

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South State Corporation and Subsidiary

June 30, 2014 Form 10-Q

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PART I FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
South State Corporation and Subsidiary
Condensed Consolidated Balance Sheets
(Dollars in thousands, except par value)

	June 30, 2014 (Unaudited)	December 31, 2013 (Note 1)	June 30, 2013 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 388,852	\$ 184,611	\$ 157,362
Interest-bearing deposits with banks	6,418	32,632	4,478
Federal funds sold and securities purchased under agreements to resell	194,253	262,218	274,641
Total cash and cash equivalents	589,523	479,461	436,481
Investment securities:			
Securities held to maturity (fair value of \$11,058, \$12,891, and \$13,047, respectively)	10,389	12,426	12,427
Securities available for sale, at fair value	795,741	786,791	511,347
Other investments	10,518	13,386	7,805
Total investment securities	816,648	812,603	531,579
Loans held for sale	56,407	30,586	47,980
Loans:			
Acquired credit impaired (covered of \$243,942, \$289,123, and \$207,485, respectively; non-covered of \$803,394, \$931,516 and \$613,105, respectively), net of allowance for loan losses	1,047,336	1,220,638	820,590
Acquired non-credit impaired (covered of \$7,538, \$7,824, and \$0, respectively; non-covered of \$1,440,045, \$1,593,111 and \$69,653, respectively)	1,447,583	1,600,935	69,653
Non-acquired	3,174,625	2,865,216	2,665,595
Less allowance for non-acquired loan losses	(35,422)	(34,331)	(38,625)
Loans, net	5,634,122	5,652,458	3,517,213
FDIC receivable for loss share agreements	43,766	86,447	104,048
Other real estate owned (covered of \$21,998, \$27,520, and \$35,142, respectively; non-covered of \$31,735, \$37,398, and \$33,486, respectively)	53,733	64,918	68,628
Premises and equipment, net	184,113	188,114	109,794
Bank owned life insurance	97,933	97,197	43,286
Deferred tax assets	66,780	72,914	36,144
Mortgage servicing rights	21,015	20,729	
Core deposit and other intangibles	53,371	59,908	23,159
Goodwill	317,385	317,385	103,292
Other assets	58,890	48,778	21,474
Total assets	\$ 7,993,686	\$ 7,931,498	\$ 5,043,078
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	\$ 1,623,291	\$ 1,487,798	\$ 1,038,382

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Interest-bearing	4,952,847	5,067,699	3,144,587
Total deposits	6,576,138	6,555,497	4,182,969
Federal funds purchased and securities sold under agreements to repurchase	280,595	211,401	262,447
Other borrowings	101,045	102,060	54,372
Other liabilities	82,890	81,071	26,698
Total liabilities	7,040,668	6,950,029	4,526,486
Shareholders' equity:			
Preferred stock - \$.01 par value; authorized 10,000,000 shares; 0, 65,000, and 0 shares issued and outstanding, respectively		1	
Common stock - \$2.50 par value; authorized 40,000,000 shares; 24,130,006, 24,104,124, and 17,032,061 shares issued and outstanding, respectively	60,325	60,260	42,580
Surplus	699,324	762,354	330,563
Retained earnings	192,961	168,577	153,040
Accumulated other comprehensive income (loss)	408	(9,723)	(9,591)
Total shareholders' equity	953,018	981,469	516,592
Total liabilities and shareholders' equity	\$ 7,993,686	\$ 7,931,498	\$ 5,043,078

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

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South State Corporation and Subsidiary
Condensed Consolidated Statements of Income (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Loans, including fees	\$ 79,322	\$ 53,816	\$ 161,163	\$ 106,199
Investment securities:				
Taxable	3,997	2,096	7,878	4,257
Tax-exempt	1,071	1,174	2,227	2,381
Federal funds sold and securities purchased under agreements to resell	441	444	901	862
Total interest income	84,831	57,530	172,169	113,699
Interest expense:				
Deposits	2,261	1,463	4,654	3,023
Federal funds purchased and securities sold under agreements to repurchase	89	115	191	251
Other borrowings	1,508	668	3,009	1,340
Total interest expense	3,858	2,246	7,854	4,614
Net interest income	80,973	55,284	164,315	109,085
Provision for loan losses	2,169	179	3,018	1,239
Net interest income after provision for loan losses	78,804	55,105	161,297	107,846
Noninterest income:				
Service charges on deposit accounts	9,144	5,736	18,132	11,497
Bankcard services income	7,741	4,245	14,865	8,138
Trust and investment services income	4,812	2,438	9,355	4,752
Mortgage banking income	4,683	1,922	7,974	5,277
Securities gains	88		88	
Accretion of FDIC indemnification assets, net	(5,815)	(7,310)	(12,893)	(14,481)
Other	3,746	1,454	7,557	2,825
Total noninterest income	24,399	8,485	45,078	18,008
Noninterest expense:				
Salaries and employee benefits	40,276	23,746	79,369	46,998
Merger and branding related expense	6,510	860	12,495	2,823
Net occupancy expense	5,731	3,272	11,321	6,617
Information services expense	4,313	2,992	8,535	6,184
Furniture and equipment expense	3,264	2,266	7,018	4,783
Bankcard expense	2,187	1,236	4,486	2,400
Amortization of intangibles	2,084	1,022	4,188	2,056
OREO expense and loan related	1,875	2,820	6,144	5,922
FDIC assessment and other regulatory charges	1,267	1,096	2,843	2,320
Professional fees	1,190	760	2,460	1,451
Advertising and marketing	1,054	648	2,188	1,490
Other	6,138	4,167	12,265	8,282
Total noninterest expense	75,889	44,885	153,312	91,326
Earnings:				
Income before provision for income taxes	27,314	18,705	53,063	34,528
Provision for income taxes	9,368	6,173	18,200	11,347
Net income	\$ 17,946	\$ 12,532	\$ 34,863	\$ 23,181
Preferred stock dividends			1,073	

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Net income available to common shareholders	\$	17,946	\$	12,532	\$	33,790	\$	23,181
Earnings per common share:								
Basic	\$	0.75	\$	0.75	\$	1.41	\$	1.38
Diluted	\$	0.74	\$	0.74	\$	1.40	\$	1.36
Dividends per common share	\$	0.20	\$	0.18	\$	0.39	\$	0.36
Weighted-average common shares outstanding:								
Basic		23,892		16,790		23,882		16,804
Diluted		24,141		16,990		24,126		16,986

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

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South State Corporation and Subsidiary
Condensed Consolidated Statements of Comprehensive Income (unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 17,946	\$ 12,532	\$ 34,863	\$ 23,181
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	7,005	(13,360)	16,163	(16,563)
Tax effect	(2,671)	5,094	(6,163)	6,315
Reclassification adjustment for gains included in net income	(88)		(88)	
Tax effect	34		34	
Net of tax amount	4,280	(8,266)	9,946	(10,248)
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	(107)	276	(178)	301
Tax effect	41	(105)	68	(115)
Reclassification adjustment for losses included in interest expense	73	76	149	153
Tax effect	(28)	(29)	(57)	(58)
Net of tax amount	(21)	218	(18)	281
Changes in pension plan obligation:				
Reclassification adjustment for changes included in net income	330		330	
Tax effect	(127)		(127)	
Net of tax amount	203		203	
Other comprehensive income (loss), net of tax	4,462	(8,048)	10,131	(9,967)
Comprehensive income	\$ 22,408	\$ 4,484	\$ 44,994	\$ 13,214

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

Table of Contents**South State Corporation and Subsidiary****Condensed Consolidated Statements of Changes in Shareholders' Equity (unaudited)****Six months ended June 30, 2014 and 2013***(Dollars in thousands, except per share data)*

	Preferred Stock		Common Stock			Retained	Accumulated Other							
	Shares	Amount	Shares	Amount	Surplus	Earnings	Comprehensive	Total						
							Income (Loss)							
Balance, December 31, 2012		\$	16,937,464	\$	42,344	\$	135,986	\$	376	\$	507,549			
Comprehensive income (loss):														
Net income							23,181				23,181			
Other comprehensive loss, net of tax									(9,967)		(9,967)			
Total comprehensive income											13,214			
Cash dividends declared on common stock at \$.36 per share							(6,127)				(6,127)			
Employee stock purchases			4,932		12		183				195			
Stock options exercised			20,746		51		534				585			
Restricted stock awards			76,254		191		(191)							
Common stock repurchased			(7,335)		(18)		(347)				(365)			
Share-based compensation expense							1,541				1,541			
Balance, June 30, 2013		\$	17,032,061	\$	42,580	\$	330,563	\$	153,040	\$	(9,591)	\$	516,592	
Balance, December 31, 2013	65,000	\$	1	24,104,124	\$	60,260	\$	762,354	\$	168,577	\$	(9,723)	\$	981,469
Comprehensive income (loss):														
Net income							34,863							34,863
Other comprehensive income, net of tax										10,131				10,131
Total comprehensive income														44,994
Cash dividends on Series A preferred stock at annual dividend rate of 9%							(1,073)							(1,073)
Cash dividends declared on common stock at \$.39 per share							(9,406)							(9,406)
Employee stock purchases			3,251		8		185							193
Stock options exercised			4,660		12		117							129
Restricted stock awards			22,810		57		(57)							
Repurchase of Series A preferred stock	(65,000)		(1)				(64,999)							(65,000)
Common stock repurchased			(4,839)		(12)		(283)							(295)
Share-based compensation expense							2,007							2,007
Balance, June 30, 2014		\$	24,130,006	\$	60,325	\$	699,324	\$	192,961	\$	408	\$	953,018	

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

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South State Corporation and Subsidiary
Condensed Consolidated Statements of Cash Flows (unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 34,863	\$ 23,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,540	6,946
Provision for loan losses	3,018	1,239
Deferred income taxes	(80)	2,729
Gain on sale of securities available for sale	(88)	
Share-based compensation expense	2,007	1,541
Negative accretion on FDIC indemnification asset	12,893	14,481
Accretion of discount related to performing acquired loans	(5,186)	(1,143)
Loss on sale of premises and equipment	287	15
Gain on sale of OREO	(5,368)	(4,976)
Net amortization of premium on investment securities	2,004	2,283
OREO write downs	5,724	3,522
Originations and purchases of mortgage loans for sale	(327,034)	(432,732)
Proceeds from sales of mortgage loans for sale	301,212	450,031
Net change in:		
Accrued interest receivable	(2,343)	(1,612)
Prepaid assets	2,886	1,937
FDIC Loss Share Receivable	29,609	27,642
Accrued interest payable	(1,106)	(795)
Accrued income taxes	11,711	6,901
Miscellaneous assets and liabilities	(11,640)	(9,179)
Net cash provided by operating activities	63,909	92,011
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	9,315	
Proceeds from maturities and calls of investment securities held to maturity	1,535	3,014
Proceeds from maturities and calls of investment securities available for sale	66,645	89,297
Proceeds from sales of investment securities held to maturity	411	
Proceeds from sales of other investment securities	2,868	1,963
Purchases of investment securities available for sale	(70,831)	(84,585)
Purchases of other investments	(6,186)	
Net decrease (increase) in loans	(18,716)	29,510
Purchases of premises and equipment	(10,161)	(4,943)
Proceeds from sale of credit card loans	20,350	
Proceeds from sale of OREO	36,289	27,393
Proceeds from sale of premises and equipment	1,437	
Net cash provided by investing activities	32,956	61,649
Cash flows from financing activities:		
Net increase (decrease) in deposits	20,639	(115,391)
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	69,194	23,826
Repayment of other borrowings	(1,184)	(632)
Common stock issuance	193	195

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Preferred stock repurchase	(65,000)	
Common stock repurchase	(295)	(365)
Dividends paid on preferred stock	(1,073)	
Dividends paid on common stock	(9,406)	(6,127)
Stock options exercised	129	585
Net cash provided by (used in) financing activities	13,197	(97,909)
Net increase in cash and cash equivalents	110,062	55,751
Cash and cash equivalents at beginning of period	479,461	380,730
Cash and cash equivalents at end of period	\$ 589,523	\$ 436,481

Supplemental Disclosures:

Cash Flow Information:

Cash paid for:

Interest	\$ 4,973	\$ 5,268
Income taxes	\$ 13,039	\$ 5,036

Schedule of Noncash Investing Transactions:

Real estate acquired in full or in partial settlement of loans (covered of \$11,680 and \$12,893, respectively; and non-covered of \$13,781 and \$15,170, respectively)	\$ 25,461	\$ 28,063
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The Accompanying Notes are an Integral Part of the Financial Statements.

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Basis of Presentation

On June 30, 2014, First Financial Holdings, Inc. changed its name to South State Corporation, and SCBT, the wholly-owned bank subsidiary of South State Corporation, changed its name to South State Bank. 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, a South Carolina banking corporation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for complete financial statements.

Note 2 Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission (the SEC) on February 28, 2014, should be referenced when reading these unaudited condensed consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events for accounting and disclosure purposes through the date the financial statements are issued.

Note 3 Recent Accounting and Regulatory Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, a consensus of the FASB Emerging Issues Task Force (ASU 2014-12). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. An entity may apply the standards (1) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. The adoption of ASU 2014-12 is not expected to have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but does not expect it to have a material impact.

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Note 3 Recent Accounting and Regulatory Pronouncements (Continued)

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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, 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 Update recognized at the date of initial application. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but the Company does not expect it to have a material impact.

In January 2014, the FASB issued ASU 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force* (ASU 2014-04). ASU 2014-04 clarifies that an in-substance foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-04 is effective for public companies for interim and annual periods beginning after December 15, 2014, with early adoption permitted. Once adopted, an entity can elect either (i) a modified retrospective transition method or (ii) a prospective transition method. The modified retrospective transition method is applied by means of a cumulative-effect adjustment to residential mortgage loans and foreclosed residential real estate properties existing as of the beginning of the period for which the amendments of ASU 2014-04 are effective, with real estate reclassified to loans measured at the carrying value of the real estate at the date of adoption and loans reclassified to real estate measured at the lower of net carrying value of the loan or the fair value of the real estate less costs to sell at the date of adoption. The prospective transition method is applied by means of applying the amendments of ASU 2014-04 to all instances of receiving physical possession of residential real estate properties that occur after the date of adoption. The adoption of ASU 2014-04 is not expected to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* (ASU 2014-01). ASU 2014-01 amends FASB ASC 323, *Investments - Equity Method and Joint Ventures*, to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). ASU 2014-01 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 and should be applied retrospectively. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but the Company does not expect it to have a material impact.

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (ASU 2013-10). The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013 and did not have a significant impact on the Company's financial statements.

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Note 4 Mergers and Acquisitions

The following mergers and acquisitions are referenced throughout this Form 10-Q:

- Community Bank & Trust (CBT) January 29, 2010 Federal Deposit Insurance Corporation (FDIC) purchase and assumption agreement
- Habersham Bank (Habersham) February 18, 2011 FDIC purchase and assumption agreement
- BankMeridian, N.A. (BankMeridian) July 29, 2011 FDIC purchase and assumption agreement
- Peoples Bancorporation, Inc. (Peoples) April 24, 2012 Whole bank acquisition
- The Savannah Bancorp, Inc. (Savannah) December 13, 2012 Whole bank acquisition
- Former First Financial Holdings, Inc. (FFHI) July 26, 2013 Whole bank acquisition with FDIC purchase and assumption agreements of Cape Fear Bank (Cape Fear) April 10, 2009 and Plantation Federal Bank (Plantation) April 27, 2012

FDIC purchase and assumption agreement means that only certain assets and liabilities were acquired by the bank from the FDIC. A whole bank acquisition means that the two parties in the transaction agreed to the transaction, and there was no involvement of the FDIC. A whole bank acquisition with FDIC purchase and assumption agreements means that the two parties in the transaction agreed to the merger, and there were existing FDIC purchase and assumption agreements.

First Financial Holdings, Inc. Merger

On July 26, 2013, the Company acquired all of the outstanding common stock of FFHI, of Charleston, South Carolina, the bank holding company for First Federal Bank (First Federal), in a stock transaction. FFHI common shareholders received 0.4237 shares of the Company's common stock in exchange for each share of FFHI common stock, resulting in the Company issuing 7,018,274 shares of its common stock. Each outstanding share of FFHI Fixed Rate Cumulative Perpetual Preferred Stock, Series A (FFHI Preferred Stock), was converted into the right to receive one share of preferred stock of the Company, designated Series A Fixed Rate Cumulative Perpetual Preferred Stock and having such rights, preferences and privileges as are not materially less favorable than the rights, preferences and privileges of the FFHI Preferred Stock. In total, the purchase price for the FFHI acquisition was \$447.0 million including \$65.0 million in preferred stock and the value of in the money outstanding stock options (i.e., stock options for which the exercise price of the stock option is below the market price of the underlying stock) totaling \$530,000.

The FFHI 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. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition. The Company has gathered and completed the assessment of information for the final fair value adjustments related to the acquisition of FFHI. These currently include adjustments that would impact the fair value of other liabilities, the

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fair value of loans, and the fair value of deferred taxes. It is currently expected that these adjustments will not be material to the total fair value of assets acquired and liabilities assumed as of July 26, 2013.

Table of Contents**Note 4 Mergers and Acquisitions (Continued)**

The following table presents the assets acquired and liabilities assumed as of July 26, 2013, as recorded by FFHI on the acquisition date and initial and subsequent fair value adjustments.

(Dollars in thousands)	As Recorded by FFHI	Initial Fair Value Adjustments	Subsequent Fair Value Adjustments	As Recorded by the Company
Assets				
Cash and cash equivalents	\$ 174,082	\$	\$	\$ 174,082
Investment securities	313,200	(1,388)(a)		311,812
Loans held for sale	19,858	6(b)		19,864
Loans	2,355,527	(92,720)(b)	12,957(b)	2,275,764
Premises and equipment	82,399	(5,435)(c)	(475)(c)	76,489
Intangible assets	7,037	33,738(d)	(2,542)(d)	38,233
Mortgage servicing rights	19,156			19,156
Other real estate owned	13,271	(2,065)(e)	1,972(e)	13,178
FDIC receivable for loss sharing agreement	47,459	(18,122)(f),(k)	(7,624)(f)	21,713
Bank owned life insurance	51,513		(493)(m)	51,020
Deferred tax asset	(5,279)	42,741(g)	(4,755)(g)	32,707
Other assets	47,257	(6,125)(h)	4,516(l)	45,648
Total assets	\$ 3,125,480	\$ (49,370)	\$ 3,556	\$ 3,079,666
Liabilities				
Deposits:				
Noninterest-bearing	\$ 430,517	\$	\$	\$ 430,517
Interest-bearing	2,083,495	7,801(i)		2,091,296
Total deposits	2,514,012	7,801		2,521,813
Other borrowings	280,187	21,526(j)		301,713
Other liabilities	25,584	(2,059)(k)	(245)(k)	23,280
Total liabilities	2,819,783	27,268	(245)	2,846,806
Net identifiable assets acquired over (under)				
liabilities assumed	305,697	(76,638)	3,801	232,860
Goodwill		217,894	(3,801)	214,093
Net assets acquired over liabilities assumed	\$ 305,697	\$ 141,256	\$	\$ 446,953
Consideration:				
Common shares issued	7,018,274			
Purchase price per share of the Company's common stock	\$ 54.34			
Company common stock issued and cash exchanged for fractional shares	381,423			
Cash paid for stock options outstanding	530			
Assumption of preferred stock	65,000			
Fair value of total consideration transferred	\$ 446,953			

Explanation of fair value adjustments

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

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- (b) Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio and excludes the allowance for loan losses recorded by FFHL.
- (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 and other intangibles for credit cards and customer lists.
- (e) Adjustment reflects the fair value adjustments to OREO based on the Company's evaluation of the acquired OREO portfolio.
- (f) Adjustment reflects the fair value adjustments to the FDIC receivable for loss sharing agreements based on the Company's evaluation of the losses on the acquired assets covered under loss share agreements with the FDIC net of any clawback.
- (g) Adjustment to record deferred tax asset related to fair value adjustments.
- (h) Adjustment reflects uncollectible portion of accrued interest receivable and loan fees receivable.
- (i) Adjustment arises since the rates on interest-bearing deposits are higher than rates available on similar deposits as of the acquisition date.
- (j) Adjustment reflects the fair value adjustment which was equal to the prepayment fee paid to fully pay off the Federal Home Loan Bank (the FHLB) advances on July 26, 2013. This fair value adjustment and the fair value adjustment of the junior subordinated debt were determined based upon interest rates.

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Note 4 Mergers and Acquisitions (Continued)

(k) Adjustment reflects the reclassification of the clawback to net against the FDIC receivable, the incremental accrual for employee related benefits, lease liabilities, and adjustment of other miscellaneous accruals.

(l) Adjustment reflects the change in insurance-related receivable and increase in the current income tax receivable for the short-period income tax returns filed.

(m) Adjustment reflects the fair value adjustments to bank owned life insurance based on the Company's evaluation of the policies.

The operating results of the Company for the period ended June 30, 2014 include the operating results of the acquired assets and assumed liabilities since the acquisition date of July 26, 2013. Merger and branding related charges of \$6.5 million and \$12.5 million were recorded in the consolidated statements of income for the three and six months ended June 30, 2014, respectively; and include incremental costs related to the closing of certain branch locations, employment related cost, professional cost (legal, accounting and audit related), travel, printing and supplies, and other related costs.

The following table discloses the impact of the merger with FFHI (excluding the impact of merger and branding related expenses) for the three and six months ended June 30, 2014. The table also presents comparative pro forma information as if FFHI had been acquired on January 1, 2013. These results combine the historical results of FFHI in the Company's consolidated statements 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, 2013.

Merger-related costs of \$860,000 and \$2.8 million from the acquisition of Savannah were included in the Company's consolidated statements of income for the three and six months ended June 30, 2013 and are not included in the pro forma information below. The Company expects to incur additional expenses related to systems conversions and other costs of integration during the remainder of 2014 related to the acquisition of FFHI. The Company also expects to achieve further operating cost savings and other business synergies as a result of the systems conversion and integration effort which are not reflected in the pro forma amounts below:

	Three Months Ended June 30, 2014	Pro Forma Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Pro Forma Six Months Ended June 30, 2013
(Dollars in thousands)				
Total revenues (<i>net interest income plus noninterest income</i>)	\$ 105,372	\$ 109,624	\$ 209,393	\$ 221,977
Net operating income available to common shareholders	\$ 22,223	\$ 20,878	\$ 41,999	\$ 39,071

Note 5 Investment Securities

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

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(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
State and municipal obligations	\$ 10,389	\$ 669	\$	\$ 11,058
December 31, 2013:				
State and municipal obligations	\$ 12,426	\$ 480	\$ (15)	\$ 12,891
June 30, 2013:				
State and municipal obligations	\$ 12,427	\$ 629	\$ (9)	\$ 13,047

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Note 5 Investment Securities (Continued)

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Government-sponsored entities debt *	\$ 142,310	\$ 303	\$ (3,086)	139,527
State and municipal obligations	140,075	3,366	(593)	142,848
Mortgage-backed securities **	503,212	7,910	(1,428)	509,694
Corporate stocks	3,161	590	(79)	3,672
	\$ 788,758	\$ 12,169	\$ (5,186)	\$ 795,741
December 31, 2013:				
Government-sponsored entities debt *	\$ 149,708	\$ 185	\$ (6,899)	\$ 142,994
State and municipal obligations	142,934	1,798	(4,081)	140,651
Mortgage-backed securities **	500,000	4,394	(4,915)	499,479
Corporate stocks	3,161	638	(132)	3,667
	\$ 795,803	\$ 7,015	\$ (16,027)	\$ 786,791
June 30, 2013:				
Government-sponsored entities debt *	\$ 100,231	\$ 308	\$ (4,180)	\$ 96,359
State and municipal obligations	140,427	2,338	(3,252)	139,513
Mortgage-backed securities **	272,932	3,668	(1,582)	275,018
Corporate stocks	241	217	(1)	457
	\$ 513,831	\$ 6,531	\$ (9,015)	\$ 511,347

* - 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 fair value of other investment securities:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Federal Home Loan Bank stock	\$ 7,484	\$	\$	7,484
Investment in unconsolidated subsidiaries	3,034			3,034
	\$ 10,518	\$	\$	10,518
December 31, 2013:				
Federal Home Loan Bank stock	\$ 10,352	\$	\$	10,352
Investment in unconsolidated subsidiaries	3,034			3,034
	\$ 13,386	\$	\$	13,386

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June 30, 2013:

Federal Home Loan Bank stock	\$	6,163	\$	\$	6,163
Investment in unconsolidated subsidiaries		1,642			1,642
	\$	7,805	\$	\$	7,805

The Company has determined that the investment in FHLB stock is not other than temporarily impaired as of June 30, 2014 and ultimate recoverability of the par value of these investments is probable.

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Note 5 Investment Securities (Continued)

The amortized cost and fair value of debt securities at June 30, 2014 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		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 730	\$ 742	\$ 4,963	\$ 5,032
Due after one year through five years	986	1,025	36,002	36,323
Due after five years through ten years	8,673	9,291	227,826	229,714
Due after ten years			519,967	524,672
	\$ 10,389	\$ 11,058	\$ 788,758	\$ 795,741

Information pertaining to the Company's securities with gross unrealized losses at June 30, 2014, December 31, 2013 and June 30, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

(Dollars in thousands)	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Securities Available for Sale				
Government-sponsored entities debt	\$ 3	\$ 8,491	\$ 3,083	\$ 82,145
State and municipal obligations	14	7,546	579	35,623
Mortgage-backed securities	234	82,939	1,194	63,403
Corporate Stocks	79	2,152		
	\$ 330	\$ 101,128	\$ 4,856	\$ 181,171
December 31, 2013:				
Securities Held to Maturity				
State and municipal obligations	\$ 15	\$ 486	\$	
Securities Available for Sale				
Government-sponsored entities debt	\$ 6,899	\$ 112,085	\$	
State and municipal obligations	3,901	87,060	180	3,900
Mortgage-backed securities	4,874	263,383	41	2,125
Corporate stocks	132	2,099		
	\$ 15,806	\$ 464,627	\$ 221	\$ 6,025
June 30, 2013:				
Securities Held to Maturity				
State and municipal obligations	\$ 9	\$ 493	\$	
Securities Available for Sale				
Government-sponsored entities debt	\$ 4,180	\$ 83,549	\$	
State and municipal obligations	3,247	90,238	5	283
Mortgage-backed securities	1,582	105,472		

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FHLMC preferred stock		1		10					
	\$	9,010	\$	279,269	\$	5	\$	283	

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Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the anticipated outlook for changes in the general level of interest rates. All securities available for sale in an unrealized loss position as of June 30, 2014 continue to perform as scheduled. As part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2014. Management continues to monitor all of these 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.

Note 6 Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 371,751	\$ 299,951	\$ 285,370
Commercial non-owner occupied	302,961	291,171	298,768
Total commercial non-owner occupied real estate	674,712	591,122	584,138
Consumer real estate:			
Consumer owner occupied	637,071	548,170	460,434
Home equity loans	271,028	257,139	250,988
Total consumer real estate	908,099	805,309	711,422
Commercial owner occupied real estate	849,048	833,513	802,125
Commercial and industrial	353,211	321,824	294,580
Other income producing property	151,928	143,204	136,957
Consumer	170,982	136,410	104,239
Other loans	66,645	33,834	32,134
Total non-acquired loans	3,174,625	2,865,216	2,665,595
Less allowance for loan losses	(35,422)	(34,331)	(38,625)
Non-acquired loans, net	\$ 3,139,203	\$ 2,830,885	\$ 2,626,970

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	\$ 35,880	\$ 58,396	\$ 404
Commercial non-owner occupied	50,593	58,598	3,055
Total commercial non-owner occupied real estate	86,473	116,994	3,459
Consumer real estate:			
Consumer owner occupied	698,580	745,481	21
Home equity loans	248,868	264,150	32,569
Total consumer real estate	947,448	1,009,631	32,590
Commercial owner occupied real estate	68,831	73,714	12,719
Commercial and industrial	41,977	58,773	17,038
Other income producing property	71,684	74,566	3,842
Consumer	231,170	267,257	5
Total FASB ASC Topic 310-20 acquired loans	\$ 1,447,583	\$ 1,600,935	\$ 69,653

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)	June 30, 2014	December 31, 2013	June 30, 2013
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to \$1 million-CBT	\$ 19,557	\$ 24,109	\$ 32,308
Commercial real estate	375,610	439,785	323,843
Commercial real estate construction and development	85,660	114,126	97,813
Residential real estate	428,811	481,247	313,196
Consumer	95,089	103,998	11,417
Commercial and industrial	51,677	68,862	56,279
Single pay	91	129	195
Total FASB ASC Topic 310-30 acquired loans	1,056,495	1,232,256	835,051
Less allowance for loan losses	(9,159)	(11,618)	(14,461)
FASB ASC Topic 310-30 acquired loans, net	\$ 1,047,336	\$ 1,220,638	\$ 820,590

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Note 6 Loans and Allowance for Loan Losses (Continued)

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of acquired credit impaired loans at the acquisition date for FFHI (July 26, 2013) are as follows:

(Dollars in thousands)	Loans Impaired at Acquisition	July 26, 2013 Loans Not Impaired at Acquisition	Total
Contractual principal and interest	\$ 650,331	\$ 222,820	\$ 873,151
Non-accretable difference	(125,701)	(20,161)	(145,862)
Cash flows expected to be collected	524,630	202,659	727,289
Accretable yield	(102,260)	(28,520)	(130,780)
Carrying value	\$ 422,370	\$ 174,139	\$ 596,509

The table above excludes \$1.67 billion (\$1.71 billion in contractual principal less a \$40.6 million fair value adjustment) in acquired loans at fair value that were identified as either performing with no discount related to credit or as revolving lines of credit (commercial or consumer) as of the acquisition date and are 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 acquired credit impaired loans as of June 30, 2014, December 31, 2013 and June 30, 2013 are as follows:

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Contractual principal and interest	\$ 1,463,643	\$ 1,700,129	\$ 1,116,416
Non-accretable difference	(189,514)	(217,533)	(118,490)
Cash flows expected to be collected	1,274,129	1,482,596	997,926
Accretable yield	(217,634)	(250,340)	(162,875)
Carrying value	\$ 1,056,495	\$ 1,232,256	\$ 835,051
Allowance for acquired loan losses	\$ (9,159)	\$ (11,618)	\$ (14,461)

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 difference 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:

(Dollars in thousands)	Six Months Ended June 30, 2014	2013
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Balance at beginning of period	\$	1,220,638	\$	969,395
Net reductions for payments, foreclosures, and accretion		(175,761)		(151,562)
Change in the allowance for loan losses on acquired loans		2,459		2,757
Balance at end of period, net of allowance for loan losses on acquired loans	\$	1,047,336	\$	820,590

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following are changes in the amount of accretable difference for acquired credit impaired loans for the six months ended June 30, 2014 and 2013:

(Dollars in thousands)	Six Months Ended June 30,	
	2014	2013
Balance at beginning of period	\$ 250,340	\$ 160,849
Accretion	(54,950)	(44,145)
Reclass of nonaccretable difference due to improvement in expected cash flows	24,675	51,060
Other changes, net	(2,431)	(4,889)
Balance at end of period	\$ 217,634	\$ 162,875

Our loan loss policy adheres to generally accepted accounting principles in the United States 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 greater than \$250,000, 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.

With the FFHI 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.

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Note 6 Loans and Allowance for Loan Losses (Continued)

In determining the acquisition date fair value of purchased 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 reclassified from the non-accretable difference to accretable difference 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. 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. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses.

An aggregated analysis of the changes in allowance for loan losses is as follows:

(Dollars in thousands)	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Three months ended June 30, 2014:			
Balance at beginning of period	\$ 34,669	\$ 11,046	\$ 45,715
Loans charged-off	(1,889)		(1,889)
Recoveries of loans previously charged off	557		557
Net charge-offs	(1,332)		(1,332)
Provision for loan losses	2,085	(1,438)	647
Benefit attributable to FDIC loss share agreements		1,522	1,522
Total provision for loan losses charged to operations	2,085	84	2,169
Provision for loan losses recorded through the FDIC loss share receivable		(1,522)	(1,522)
Reduction due to loan removals		(449)	(449)
Balance at end of period	\$ 35,422	\$ 9,159	\$ 44,581
Three months ended June 30, 2013:			
Balance at beginning of period	\$ 41,669	\$ 15,605	\$ 57,274
Loans charged-off	(3,220)		(3,220)
Recoveries of loans previously charged off	576		576
Net charge-offs	(2,644)		(2,644)
Provision for loan losses	(400)	320	(80)
Benefit attributable to FDIC loss share agreements		259	259
Total provision for loan losses charged to operations	(400)	579	179
Provision for loan losses recorded through the FDIC loss share receivable		(259)	(259)
Reduction due to loan removals		(1,464)	(1,464)
Balance at end of period	\$ 38,625	\$ 14,461	\$ 53,086

Table of Contents**Note 6 Loans and Allowance for Loan Losses (Continued)**

(Dollars in thousands)	Non-acquired Loans	Acquired Credit Impaired Loans	Total
Six months ended June 30, 2014:			
Balance at beginning of period	\$ 34,331	\$ 11,618	\$ 45,949
Loans charged-off	(3,259)		(3,259)
Recoveries of loans previously charged off	1,595		1,595
Net charge-offs	(1,664)		(1,664)
Provision for loan losses	2,755	(1,134)	1,621
Benefit attributable to FDIC loss share agreements		1,397	1,397
Total provision for loan losses charged to operations	2,755	263	3,018
Provision for loan losses recorded through the FDIC loss share receivable		(1,397)	(1,397)
Reduction due to loan removals		(1,325)	(1,325)
Balance at end of period	\$ 35,422	\$ 9,159	\$ 44,581
Six months ended June 30, 2013:			
Balance at beginning of period	\$ 44,378	\$ 17,218	\$ 61,596
Loans charged-off	(7,827)		(7,827)
Recoveries of loans previously charged off	1,621		1,621
Net charge-offs	(6,206)		(6,206)
Provision for loan losses	453	(536)	(83)
Benefit attributable to FDIC loss share agreements		1,322	1,322
Total provision for loan losses charged to operations	453	786	1,239
Provision for loan losses recorded through the FDIC loss share receivable		(1,322)	(1,322)
Reduction due to loan removals		(2,221)	(2,221)
Balance at end of period	\$ 38,625	\$ 14,461	\$ 53,086

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Three months ended										
June 30, 2014										
Allowance for loan losses:										
Balance, March 31, 2014	\$ 6,322	\$ 3,443	\$ 8,317	\$ 6,122	\$ 2,921	\$ 3,441	\$ 2,848	\$ 1,105	\$ 150	\$ 34,669
Charge-offs	(216)	(92)	(312)	(221)	(273)	(96)	(82)	(597)		(1,889)
Recoveries	97	16	11	39	27	38	153	176		557
Provision	449	31	(58)	597	300	257	(331)	586	254	2,085
Balance, June 30, 2014	\$ 6,652	\$ 3,398	\$ 7,958	\$ 6,537	\$ 2,975	\$ 3,640	\$ 2,588	\$ 1,270	\$ 404	\$ 35,422
Loans individually evaluated for impairment										
	\$ 428	\$ 31	\$ 112	\$ 86	\$	\$ 11	\$ 761	\$ 2	\$	\$ 1,431
Loans collectively evaluated for impairment										
	\$ 6,224	\$ 3,367	\$ 7,846	\$ 6,451	\$ 2,975	\$ 3,629	\$ 1,827	\$ 1,268	\$ 404	\$ 33,991
Loans:										
Loans individually evaluated for impairment										
	\$ 5,678	\$ 6,189	\$ 11,110	\$ 2,505	\$	\$ 749	\$ 6,400	\$ 87	\$	\$ 32,718
Loans collectively evaluated for impairment										
	366,073	296,772	837,938	634,566	271,028	352,462	145,528	170,895	66,645	3,141,907
Total non-acquired loans	\$ 371,751	\$ 302,961	\$ 849,048	\$ 637,071	\$ 271,028	\$ 353,211	\$ 151,928	\$ 170,982	\$ 66,645	\$ 3,174,625
Three months ended										
June 30, 2013										
Allowance for loan losses:										
Balance, March 31, 2013	\$ 9,236	\$ 5,271	\$ 8,208	\$ 6,523	\$ 3,536	\$ 4,785	\$ 3,459	\$ 434	\$ 217	\$ 41,669
Charge-offs	(1,013)		(708)	(238)	(465)	(303)	(134)	(357)		(3,218)
Recoveries	135	73	5	41	27	37	102	154		574
Provision	73	(478)	479	112	(124)	(480)	(167)	195	(10)	(400)
Balance, June 30, 2013	\$ 8,431	\$ 4,866	\$ 7,984	\$ 6,438	\$ 2,974	\$ 4,039	\$ 3,260	\$ 426	\$ 207	\$ 38,625
Loans individually evaluated for impairment										
	\$ 735	\$ 636	\$ 281	\$ 667	\$	\$	\$ 716	\$	\$	\$ 3,035
Loans collectively evaluated for impairment										
	\$ 7,696	\$ 4,230	\$ 7,703	\$ 5,771	\$ 2,974	\$ 4,039	\$ 2,544	\$ 426	\$ 207	\$ 35,590
Loans:										
Loans individually evaluated for impairment										
	\$ 9,746	\$ 3,694	\$ 17,120	\$ 1,322	\$	\$ 1,534	\$ 3,025	\$	\$	\$ 36,441

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Loans collectively evaluated for impairment	275,624	295,074	785,005	459,112	250,988	293,046	133,932	104,239	32,134	2,629,154
Total non-acquired loans	\$ 285,370	\$ 298,768	\$ 802,125	\$ 460,434	\$ 250,988	\$ 294,580	\$ 136,957	\$ 104,239	\$ 32,134	\$ 2,665,595

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

(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	Total
Six months ended June 30, 2014										
Allowance for loan losses:										
Balance, December 31, 2013	\$ 6,789	\$ 3,677	\$ 7,767	\$ 6,069	\$ 2,782	\$ 3,592	\$ 2,509	\$ 937	\$ 209	\$ 34,331
Charge-offs	(308)	(236)	(528)	(299)	(416)	(156)	(168)	(1,148)		(3,259)
Recoveries	242	347	17	242	40	128	159	420		1,595
Provision	(71)	(390)	702	525	569	76	88	1,061	195	2,755
Balance, June 30, 2014	\$ 6,652	\$ 3,398	\$ 7,958	\$ 6,537	\$ 2,975	\$ 3,640	\$ 2,588	\$ 1,270	\$ 404	\$ 35,422
Six months ended June 30, 2013										
Allowance for loan losses:										
Balance, December 31, 2012	\$ 10,836	\$ 4,921	\$ 8,743	\$ 6,568	\$ 3,626	\$ 4,939	\$ 3,747	\$ 781	\$ 217	\$ 44,378
Charge-offs	(3,212)		(1,403)	(388)	(662)	(627)	(473)	(1,062)		(7,827)
Recoveries	393	327	15	130	99	136	111	410		1,621
Provision	414	(382)	629	128	(89)	(409)	(125)	297	(10)	453
Balance, June 30, 2013	\$ 8,431	\$ 4,866	\$ 7,984	\$ 6,438	\$ 2,974	\$ 4,039	\$ 3,260	\$ 426	\$ 207	\$ 38,625

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Note 6 Loans and Allowance for Loan Losses (Continued)

As of June 30, 2014 and 2013, the Company has not recorded any allowance for loan losses for loans acquired and accounted for under FASB ASC Topic 310-20.

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 Loans Greater Than or Equal to \$1 Million-CBT	Commercial Real Estate	Commercial Real Estate- Development	Commercial Construction and Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Three months ended								
June 30, 2014								
Allowance for loan losses:								
Balance, March 31, 2014	\$ 311	\$ 1,938	\$ 1,972	\$ 5,190	\$ 410	\$ 1,119	\$ 106	\$ 11,046
Provision for loan losses before benefit attributable to FDIC loss share agreements	(120)	(322)	(902)	(68)	7	(33)		(1,438)
Benefit attributable to FDIC loss share agreements	171	336	896	84		34	1	1,522
Total provision for loan losses charged to operations	51	14	(6)	16	7	1	1	84
Provision for loan losses recorded through the FDIC loss share receivable	(171)	(336)	(896)	(84)		(34)	(1)	(1,522)
Reduction due to loan removals	10		(255)	(4)	(32)	(136)	(32)	(449)
Balance, June 30, 2014	\$ 201	\$ 1,616	\$ 815	\$ 5,118	\$ 385	\$ 950	\$ 74	\$ 9,159
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment	\$ 201	\$ 1,616	\$ 815	\$ 5,118	\$ 385	\$ 950	\$ 74	\$ 9,159
Loans:*								
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	\$
Loans collectively evaluated for impairment	19,557	375,610	85,660	428,811	95,089	51,677	91	1,056,495
Total acquired loans	\$ 19,557	\$ 375,610	\$ 85,660	\$ 428,811	\$ 95,089	\$ 51,677	\$ 91	\$ 1,056,495
Three months ended								
June 30, 2013:								
Allowance for loan losses:								
Balance, March 31, 2013	\$ 4,666	\$ 842	\$ 2,484	\$ 4,156	\$ 89	\$ 3,086	\$ 282	\$ 15,605
Provision for loan losses before benefit attributable to FDIC loss share	(1,527)	(21)	1,908	588	385	(830)	(183)	320

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agreements

Benefit attributable to FDIC loss share agreements	1,451	(22)	(1,412)	(394)	(326)	788	174	259
Total provision for loan losses charged to operations	(76)	(43)	496	194	59	(42)	(9)	579
Provision for loan losses recorded through the FDIC loss share receivable	(1,451)	22	1,412	394	326	(788)	(174)	(259)
Reduction due to loan removals	(1,284)			(16)		(156)	(8)	(1,464)
Balance, June 30, 2013	\$ 1,855	\$ 821	\$ 4,392	\$ 4,728	\$ 474	\$ 2,100	\$ 91	\$ 14,461
Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	
Loans collectively evaluated for impairment	\$ 1,855	\$ 821	\$ 4,392	\$ 4,728	\$ 474	\$ 2,100	\$ 91	\$ 14,461

Loans:*

Loans individually evaluated for impairment	\$	\$	\$	\$	\$	\$	\$	
Loans collectively evaluated for impairment	32,308	323,843	97,813	313,196	11,417	56,279	195	835,051
Total acquired loans	\$ 32,308	\$ 323,843	\$ 97,813	\$ 313,196	\$ 11,417	\$ 56,279	\$ 195	\$ 835,051

* 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.

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Note 6 Loans and Allowance for Loan Losses (Continued)

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 Loans Greater Than or Equal to \$1 Million-CBT	Commercial Real Estate	Commercial Real Estate- Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Six months ended June 30, 2014								
Allowance for loan losses:								
Balance, December 31, 2013	\$ 303	\$ 1,816	\$ 2,244	\$ 5,132	\$ 538	\$ 1,481	\$ 104	\$ 11,618
Provision for loan losses before benefit attributable to FDIC loss share agreements	(123)	(196)	(613)	73	(105)	(175)	5	(1,134)
Benefit attributable to FDIC loss share agreements	176	220	784	(54)	101	174	(4)	1,397
Total provision for loan losses charged to operations	53	24	171	19	(4)	(1)	1	263
Provision for loan losses recorded through the FDIC loss share receivable	(176)	(220)	(784)	54	(101)	(174)	4	(1,397)
Reduction due to loan removals	21	(4)	(816)	(87)	(48)	(356)	(35)	(1,325)
Balance, June 30, 2014	\$ 201	\$ 1,616	\$ 815	\$ 5,118	\$ 385	\$ 950	\$ 74	\$ 9,159
Six months ended June 30, 2013:								
Allowance for loan losses:								
Balance, December 31, 2012	\$ 5,337	\$ 1,517	\$ 1,628	\$ 4,207	\$ 96	\$ 4,139	\$ 294	\$ 17,218
Provision for loan losses before benefit attributable to FDIC loss share agreements	(1,980)	(696)	2,764	533	378	(1,352)	(183)	(536)
Benefit attributable to FDIC loss share agreements	1,881	504	(2,098)	(104)	(319)	1,284	174	1,322
Total provision for loan losses charged to operations	(99)	(192)	666	429	59	(68)	(9)	786
Provision for loan losses recorded through the FDIC loss share receivable	(1,881)	(504)	2,098	104	319	(1,284)	(174)	(1,322)
Reduction due to loan removals	(1,502)			(12)		(687)	(20)	(2,221)
Balance, June 30, 2013	\$ 1,855	\$ 821	\$ 4,392	\$ 4,728	\$ 474	\$ 2,100	\$ 91	\$ 14,461

As part of the ongoing 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:

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- **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.

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 338,367	\$ 263,698	\$ 236,677	\$ 271,346	\$ 259,120	\$ 252,917	\$ 809,469	\$ 785,406	\$ 749,992
Special mention	20,797	20,814	26,844	22,704	24,779	35,359	23,049	26,148	21,963
Substandard	12,587	15,439	21,849	8,911	7,272	10,492	16,530	21,959	30,170
Doubtful									
	\$ 371,751	\$ 299,951	\$ 285,370	\$ 302,961	\$ 291,171	\$ 298,768	\$ 849,048	\$ 833,513	\$ 802,125

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 346,958	\$ 309,360	\$ 278,364	\$ 135,345	\$ 124,519	\$ 118,081	\$ 1,901,485	\$ 1,742,103	\$ 1,461,789
Special mention	4,775	10,376	7,061	8,763	9,903	9,402	80,088	92,020	118,806
Substandard	1,478	2,088	9,155	7,820	8,753	9,474	47,326	55,511	106,612
Doubtful					29			29	
	\$ 353,211	\$ 321,824	\$ 294,580	\$ 151,928	\$ 143,204	\$ 136,957	\$ 2,028,899	\$ 1,889,663	\$ 1,687,207

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

	Consumer Owner Occupied			Home Equity			Consumer		
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 595,420	\$ 500,999	\$ 418,601	\$ 257,102	\$ 243,615	\$ 238,037	\$ 170,077	\$ 135,476	\$ 103,014
Special mention	24,567	25,317	20,698	8,618	8,437	7,875	634	646	931
Substandard	17,084	21,854	21,135	5,285	5,064	5,051	271	288	294
Doubtful				23	23	25			
	\$ 637,071	\$ 548,170	\$ 460,434	\$ 271,028	\$ 257,139	\$ 250,988	\$ 170,982	\$ 136,410	\$ 104,239

	2014	2013	2013	2014	2013	2013
Pass	\$ 66,644	\$ 33,834	\$ 32,134	\$ 1,089,243	\$ 913,924	\$ 791,786
Special mention	1			33,820	34,400	29,504
Substandard				22,640	27,206	26,480
Doubtful				23	23	25
	\$ 66,645	\$ 33,834	\$ 32,134	\$ 1,145,726	\$ 975,553	\$ 847,795

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

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(Dollars in thousands)	Total Non-acquired Loans		
	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 2,990,728	\$ 2,656,027	\$ 2,427,817
Special mention	113,908	126,420	130,133
Substandard	69,966	82,717	107,620
Doubtful	23	52	25
	\$ 3,174,625	\$ 2,865,216	\$ 2,665,595

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Note 6 Loans and Allowance for Loan Losses (Continued)

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

(Dollars in thousands)	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 34,870	\$ 57,389	\$ 358	\$ 44,020	\$ 56,539	\$ 1,727	\$ 67,527	\$ 71,984	\$ 12,320
Special mention	348	109		5,822	1,565	1,328	310	318	
Substandard	662	898	46	751	494		994	1,412	399
Doubtful									
	\$ 35,880	\$ 58,396	\$ 404	\$ 50,593	\$ 58,598	\$ 3,055	\$ 68,831	\$ 73,714	\$ 12,719

(Dollars in thousands)	Commercial & Industrial			Other Income Producing Property		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 40,255	\$ 56,777	\$ 15,007	\$ 66,678	\$ 70,812	\$ 1,306
Special mention	748	924	1,808	2,004	2,177	234
Substandard	974	1,072	223	3,002	1,577	2,302
Doubtful						
	\$ 41,977	\$ 58,773	\$ 17,038	\$ 71,684	\$ 74,566	\$ 3,842

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

(Dollars in thousands)	Consumer Owner Occupied			Home Equity			Consumer		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 680,759	\$ 742,778	\$ 231,265	\$ 246,274	\$ 28,797	\$ 202,026	\$ 266,645	\$ 4	
Special mention	354	417	21	2,090	6,733	899	2,193	127	
Substandard	17,467	2,286	15,513	11,143	2,873	26,951	485	1	
Doubtful									
	\$ 698,580	\$ 745,481	\$ 21	\$ 248,868	\$ 264,150	\$ 32,569	\$ 231,170	\$ 267,257	\$ 5

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 20):

(Dollars in thousands)	Commercial Loans Greater Than or Equal to \$1 million-CBT			Commercial Real Estate			Commercial Real Estate Construction and Development		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 12,541	\$ 12,047	\$ 13,553	\$ 225,144	\$ 244,293	\$ 178,730	\$ 33,453	\$ 38,748	\$ 34,247
Special mention	1,010	2,513	2,719	37,439	46,159	51,122	11,627	13,762	18,231
Substandard	6,006	9,549	16,036	113,027	149,333	93,832	40,580	61,616	45,335
Doubtful						159			
	\$ 19,557	\$ 24,109	\$ 32,308	\$ 375,610	\$ 439,785	\$ 323,843	\$ 85,660	\$ 114,126	\$ 97,813

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	Residential Real Estate			Consumer			Commercial & Industrial		
	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013	June 30, 2014	December 31, 2013	June 30, 2013
Pass	\$ 225,366	\$ 203,296	\$ 175,601	\$ 27,665	\$ 8,804	\$ 9,023	\$ 29,680	\$ 38,450	\$ 40,922
Special mention	43,090	91,468	47,110	6,572	38,322	478	3,189	3,968	3,476
Substandard	160,355	186,405	90,380	60,852	56,872	1,916	18,808	26,444	11,881
Doubtful		78	105						
	\$ 428,811	\$ 481,247	\$ 313,196	\$ 95,089	\$ 103,998	\$ 11,417	\$ 51,677	\$ 68,862	\$ 56,279

	June 30, 2014	Single Pay December 31, 2013	June 30, 2013
Pass	\$ 61	\$ 52	\$ 56
Special mention			
Substandard	30	77	139
Doubtful			
	\$ 91	\$ 129	\$ 195

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Note 6 Loans and Allowance for Loan Losses (Continued)

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. In an FDIC-assisted acquisition, covered acquired loans are initially recorded at their fair value, including a credit discount due to the high concentration of substandard and doubtful loans. In addition to the credit discount and the allowance for loan losses on covered acquired loans, the Company's risk of loss is mitigated by the FDIC loss share arrangement.

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
June 30, 2014						
Commercial real estate:						
Construction and land development	\$ 1,651	\$ 347	\$ 1,035	\$ 3,033	\$ 368,718	\$ 371,751
Commercial non-owner occupied	1,377	397	5,318	7,092	295,869	302,961
Commercial owner occupied	1,173	909	2,505	4,587	844,461	849,048
Consumer real estate:						
Consumer owner occupied	462	1,063	1,577	3,102	633,969	637,071
Home equity loans	959	189	735	1,883	269,145	271,028
Commercial and industrial	86	70	279	435	352,776	353,211
Other income producing property	382	21	2,227	2,630	149,298	151,928
Consumer	277	96	73	446	170,536	170,982
Other loans	66	22	35	123	66,522	66,645
	\$ 6,433	\$ 3,114	\$ 13,784	\$ 23,331	\$ 3,151,294	\$ 3,174,625
December 31, 2013						
Commercial real estate:						
Construction and land development	\$ 557	\$ 476	\$ 2,707	\$ 3,740	\$ 296,211	\$ 299,951
Commercial non-owner occupied	1,780	1	2,684	4,465	286,706	291,171
Commercial owner occupied	457	650	3,601	4,708	828,805	833,513
Consumer real estate:						
Consumer owner occupied	1,526	1,107	2,621	5,254	542,916	548,170
Home equity loans	780	214	422	1,416	255,723	257,139
Commercial and industrial	390	105	370	865	320,959	321,824
Other income producing property	950	19	2,634	3,603	139,601	143,204
Consumer	337	142	28	507	135,903	136,410
Other loans	33	36	30	99	33,735	33,834
	\$ 6,810	\$ 2,750	\$ 15,097	\$ 24,657	\$ 2,840,559	\$ 2,865,216
June 30, 2013						
Commercial real estate:						
Construction and land development	\$ 935	\$ 1,134	\$ 5,678	\$ 7,747	\$ 277,623	\$ 285,370
Commercial non-owner occupied	291		3,558	3,849	294,919	298,768
Commercial owner occupied	2,607	116	7,602	10,325	791,800	802,125
Consumer real estate:						
Consumer owner occupied	3,651	922	3,307	7,880	452,554	460,434
Home equity loans	553	489	152	1,194	249,794	250,988

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Commercial and industrial	1,127	129	1,555	2,811	291,769	294,580
Other income producing property	714	1,092	2,648	4,454	132,503	136,957
Consumer	178	46	29	253	103,986	104,239
Other loans	53	12	36	101	32,033	32,134
	\$ 10,109	\$ 3,940	\$ 24,565	\$ 38,614	\$ 2,626,981	\$ 2,665,595

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Note 6 Loans and Allowance for Loan Losses (Continued)

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
June 30, 2014						
Commercial real estate:						
Construction and land development	\$	\$	\$ 228	\$ 228	\$ 35,652	\$ 35,880
Commercial non-owner occupied					50,593	50,593
Commercial owner occupied			248	248	68,583	68,831
Consumer real estate:						
Consumer owner occupied	40	41	2,047	2,128	696,452	698,580
Home equity loans	241	71	866	1,178	247,690	248,868
Commercial and industrial	402		231	633	41,344	41,977
Other income producing property			85	85	71,599	71,684
Consumer	220	306	316	842	230,328	231,170
	\$ 903	\$ 418	\$ 4,021	\$ 5,342	\$ 1,442,241	\$ 1,447,583
December 31, 2013						
Commercial real estate:						
Construction and land development	\$ 371	\$	\$ 464	\$ 835	\$ 57,561	\$ 58,396
Commercial non-owner occupied	105		17	122	58,476	58,598
Commercial owner occupied		71	272	343	73,371	73,714
Consumer real estate:						
Consumer owner occupied	3,368	393	1,196	4,957	740,524	745,481
Home equity loans	857	67	625	1,549	262,601	264,150
Commercial and industrial	827	894	282	2,003	56,770	58,773
Other income producing property	431			431	74,135	74,566
Consumer	291	213	154	658	266,599	267,257
	\$ 6,250	\$ 1,638	\$ 3,010	\$ 10,898	\$ 1,590,037	\$ 1,600,935
June 30, 2013						
Commercial real estate:						
Construction and land development	\$	\$	\$ 46	\$ 46	\$ 358	\$ 404
Commercial non-owner occupied					3,055	3,055
Commercial owner occupied					12,719	12,719
Consumer real estate:						
Consumer owner occupied					21	21
Home equity loans	443	128	227	798	31,771	32,569
Commercial and industrial	39		90	129	16,909	17,038
Other income producing property	141		583	724	3,118	3,842
Consumer			1	1	4	5
	\$ 623	\$ 128	\$ 947	\$ 1,698	\$ 67,955	\$ 69,653

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Note 6 Loans and Allowance for Loan Losses (Continued)

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
June 30, 2014						
Commercial loans greater than or equal to \$1 million-CBT	\$ 794	\$	\$ 5,213	\$ 6,007	\$ 13,550	\$ 19,557
Commercial real estate	7,708	781	17,333	25,822	349,788	375,610
Commercial real estate construction and development	2,636	1,484	9,940	14,060	71,600	85,660
Residential real estate	5,735	2,489	18,971	27,195	401,616	428,811
Consumer	1,587	647	1,566	3,800	91,289	95,089
Commercial and industrial	353	2,366	3,296	6,015	45,662	51,677
Single pay					91	91
	\$ 18,813	\$ 7,767	\$ 56,319	\$ 82,899	\$ 973,596	\$ 1,056,495
December 31, 2013						
Commercial loans greater than or equal to \$1 million-CBT	\$	\$	\$ 7,217	\$ 7,217	\$ 16,892	\$ 24,109
Commercial real estate	4,493	3,728	24,362	32,583	407,202	439,785
Commercial real estate construction and development	4,847	9,166	17,567	31,580	82,546	114,126
Residential real estate	13,794	3,792	27,061	44,647	436,600	481,247
Consumer	2,390	552	2,050	4,992	99,006	103,998
Commercial and industrial	3,875	634	3,829	8,338	60,524	68,862
Single pay			46	46	83	129
	\$ 29,399	\$ 17,872	\$ 82,132	\$ 129,403	\$ 1,102,853	\$ 1,232,256
June 30, 2013						
Commercial loans greater than or equal to \$1 million-CBT	\$	\$ 1,210	\$ 11,657	\$ 12,867	\$ 19,441	\$ 32,308
Commercial real estate	8,728	3,008	14,485	26,221	297,622	323,843
Commercial real estate construction and development	1,469	1,237	18,877	21,583	76,230	97,813
Residential real estate	7,130	3,376	19,072	29,578	283,618	313,196
Consumer	528	79	618	1,225	10,192	11,417
Commercial and industrial	405	369	3,821	4,595	51,684	56,279
Single pay	30	47	62	139	56	195
	\$ 18,290	\$ 9,326	\$ 68,592	\$ 96,208	\$ 738,843	\$ 835,051

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following is a summary of information pertaining to impaired non-acquired and acquired loans accounted for under FASB ASC Topic 310-20:

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
June 30, 2014					
Commercial real estate:					
Construction and land development	\$ 7,251	\$ 2,700	\$ 2,978	\$ 5,678	\$ 428
Commercial non-owner occupied	8,236	5,079	1,110	6,189	31
Commercial owner occupied	13,293	6,912	4,198	11,110	112
Consumer real estate:					
Consumer owner occupied	2,763		2,505	2,505	86
Home equity loans					
Commercial and industrial	908	369	380	749	11
Other income producing property	6,612	914	5,486	6,400	761
Consumer	87		87	87	2
Other loans					
Total impaired loans	\$ 39,150	\$ 15,974	\$ 16,744	\$ 32,718	\$ 1,431
December 31, 2013					
Commercial real estate:					
Construction and land development	\$ 7,341	\$ 3,555	\$ 2,184	\$ 5,739	\$ 704
Commercial non-owner occupied	3,592	2,681		2,681	
Commercial owner occupied	14,017	10,441	1,119	11,560	10
Consumer real estate:					
Consumer owner occupied	3,063		3,013	3,013	271
Home equity loans					
Commercial and industrial	477	405		405	
Other income producing property	2,794	554	2,095	2,649	646
Consumer					
Other loans					
Total impaired loans	\$ 31,284	\$ 17,636	\$ 8,411	\$ 26,047	\$ 1,631
June 30, 2013					
Commercial real estate:					
Construction and land development	\$ 19,888	\$ 7,005	\$ 2,741	\$ 9,746	\$ 735

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Commercial non-owner occupied	4,879	1,523	2,171	3,694	636
Commercial owner occupied	21,055	14,610	2,510	17,120	281
Consumer real estate:					
Consumer owner occupied	1,419		1,322	1,322	667
Home equity loans					
Commercial and industrial	1,799	1,534		1,534	
Other income producing property	3,666	592	2,433	3,025	716
Consumer					
Other loans					
Total impaired loans	\$ 52,706	\$ 25,264	\$ 11,177	\$ 36,441	\$ 3,035

Acquired credit impaired loans are accounted for in pools as shown on page 20 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following summarizes the average investment in impaired loans, non-acquired and acquired loans accounted for under FASB ASC Topic 310-20, and interest income recognized on these loans:

(Dollars in thousands)	Three Months Ended June 30,			
	2014		2013	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	\$ 5,869	\$ 16	\$ 11,406	\$ 9
Commercial non-owner occupied	6,175	13	4,620	
Commercial owner occupied	11,489	35	16,985	13
Consumer real estate:				
Consumer owner occupied	2,533	12	1,322	2
Home equity loans	31			
Commercial and industrial	993		1,900	
Other income producing property	6,189	33	3,771	
Consumer	87	1		
Other loans				
Total Impaired Loans	\$ 33,366	\$ 110	\$ 40,004	\$ 24

(Dollars in thousands)	Six Months Ended June 30,			
	2014		2013	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	\$ 5,948	\$ 35	\$ 12,457	\$ 27
Commercial non-owner occupied	5,469	28	4,838	1
Commercial owner occupied	10,561	76	15,141	61
Consumer real estate:				
Consumer owner occupied	1,858	33	1,336	7
Home equity loans				
Commercial and industrial	592	13	2,024	
Other income producing property	5,884	60	4,117	8
Consumer	56	3		
Other loans				
Total Impaired Loans	\$ 30,368	\$ 248	\$ 39,913	\$ 104

Table of Contents**Note 6 Loans and Allowance for Loan Losses (Continued)**

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Commercial non-owner occupied real estate:			
Construction and land development	\$ 3,259	\$ 5,819	\$ 8,575
Commercial non-owner occupied	5,496	2,912	3,742
Total commercial non-owner occupied real estate	8,755	8,731	12,317
Consumer real estate:			
Consumer owner occupied	6,916	8,382	8,596
Home equity loans	1,567	1,128	755
Total consumer real estate	8,483	9,510	9,351
Commercial owner occupied real estate	4,843	7,753	11,801
Commercial and industrial	682	586	1,847
Other income producing property	3,696	4,704	5,450
Consumer	87	49	88
Other loans			
Restructured loans	8,409	10,690	11,689
Total loans on nonaccrual status	\$ 34,955	\$ 42,023	\$ 52,543

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).

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Note 6 Loans and Allowance for Loan Losses (Continued)

The following table presents non-acquired and acquired non-credit impaired loans designated as TDRs segregated by class and type of concession that were restructured during the three and six months ended June 30, 2014 and 2013:

(Dollars in thousands)	Number of loans	Three Months Ended June 30,					
		2014 Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of loans	2013 Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	
Interest rate modification							
Construction and land development	2	\$ 602	\$ 589		\$	\$	
Commercial non-owner occupied				1	247	247	
Commercial owner occupied				1	750	750	
Consumer owner occupied	1	69	68				
Other income producing property	1	147	136				
Total interest rate modifications	4	818	793	2	997	997	
Term modification							
Construction and land development	1	99	98				
Total term modifications	1	99	98				
	5	\$ 917	\$ 891	2	\$ 997	\$ 997	

(Dollars in thousands)	Number of loans	Six Months Ended June 30,					
		2014 Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of loans	2013 Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	
Interest rate modification							
Construction and land development	2	\$ 602	\$ 589		\$	\$	
Commercial non-owner occupied				1	247	247	
Commercial owner occupied				1	750	750	
Consumer owner occupied	2	286	281	1	124	122	
Other income producing property	1	147	136				
Total interest rate modifications	5	1,035	1,006	3	1,121	1,119	
Term modification							
Construction and land development	1	99	98	1	696	134	
Total term modifications	1	99	98	1	696	134	
	6	\$ 1,134	\$ 1,104	4	\$ 1,817	\$ 1,253	

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At June 30, 2014 and 2013, the balance of accruing TDRs was \$6.9 million and \$4.3 million, respectively.

The following table presents the changes in status of non-acquired loans restructured within the previous 12 months as of June 30, 2014 by type of concession:

(Dollars in thousands)	Paying Under Restructured Terms		Converted to Nonaccrual		Foreclosures and Defaults	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Interest rate modification	6	\$ 1,123		\$		\$
Term modification	2	2,066				
	8	\$ 3,189		\$		\$

Table of Contents**Note 6 Loans and Allowance for Loan Losses (Continued)**

The amount of specific reserve associated with non-acquired restructured loans was \$714,000 at June 30, 2014, none of which was related to the restructured loans that had subsequently defaulted. The Company had \$232,000 remaining availability under commitments to lend additional funds on these restructured loans at June 30, 2014.

Note 7 FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

(Dollars in thousands)	Six Months Ended June 30,	
	2014	2013
Balance at beginning of period	\$ 86,447	\$ 146,171
Decrease in expected losses on loans	(1,397)	(1,321)
Additional losses (recoveries) on OREO	(2,846)	574
Reimbursable expenses	1,383	2,607
Amortization of discounts and premiums, net	(12,893)	(14,481)
Reimbursements from FDIC	(26,928)	(29,502)
Balance at end of period	\$ 43,766	\$ 104,048

The FDIC indemnification asset is measured separately from the related covered assets. At June 30, 2014, the projected cash flows related to the FDIC indemnification asset for losses on assets acquired were approximately \$22.5 million less than the current carrying value. This amount is being recognized as negative accretion (in non-interest income) over the shorter of the underlying asset's remaining life or remaining term of the loss share agreements. Subsequent to June 30, 2014, the Company expects to receive \$7.4 million from loss share claims filed, including reimbursable expenses.

Included in the FDIC indemnification asset is an expected true up with the FDIC related to both the BankMeridian and Plantation acquisitions. This amount is determined each reporting period and at June 30, 2014 was estimated to be approximately \$3.9 million related to the BankMeridian acquisition at the end of the loss share agreement (July 2021) and \$3.1 million related to the Plantation acquisition at the end of the loss share agreement (April 2017). The actual payment will be determined at the end of the loss sharing agreement term for each of the five FDIC-assisted acquisitions and is based on the negative bid, expected losses, intrinsic loss estimate, and assets covered under loss share. There was no true up expected from the CBT, Cape Fear, or Habersham FDIC-assisted transactions as of June 30, 2014.

Effective June 30, 2014, the Commercial Shared-Loss Agreement with the FDIC for Cape Fear expired and losses on assets covered under this agreement are no longer claimable after filing the second quarter of 2014 commercial loss share certificate. The Commercial Shared-Loss Agreement for CBT will expire March 31, 2015 and losses on assets covered under this agreement will no longer be claimable after this date.

Note 8 Other Real Estate Owned

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The following is a summary of information pertaining to OREO at June 30, 2014:

(Dollars in thousands)	OREO		Covered OREO		Total	
Balance, December 31, 2013	\$	37,398	\$	27,520	\$	64,918
Additions		13,781		11,680		25,461
Write-downs		(2,480)		(3,244)		(5,724)
Sold		(16,964)		(13,958)		(30,922)
Balance, June 30, 2014	\$	31,735	\$	21,998	\$	53,733

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Note 8 Other Real Estate Owned (Continued)

The following is a summary of information pertaining to OREO at June 30, 2013:

(Dollars in thousands)		OREO	Covered OREO	Total
Balance, December 31, 2012	\$	32,248	\$ 34,257	\$ 66,505
Additions		15,170	12,893	28,063
Write-downs		(2,587)	(935)	(3,522)
Sold		(11,345)	(11,073)	(22,418)
Balance, June 30, 2013	\$	33,486	\$ 35,142	\$ 68,628

The covered OREO above is covered pursuant to the FDIC loss share agreements and is presented net of the related fair value discount. At June 30, 2014, there were 401 properties included in OREO, with 200 uncovered and 201 covered by loss share agreement with the FDIC. At June 30, 2013, there were 311 properties included in OREO, with 140 uncovered and 171 covered by loss share agreement with the FDIC.

Note 9 Deposits

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

(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2013
Certificates of deposit	\$ 1,373,498	\$ 1,525,567	\$ 944,080
Interest-bearing demand deposits	2,899,532	2,893,646	1,847,375
Non-interest bearing demand deposits	1,623,291	1,487,798	1,038,382
Savings deposits	676,482	647,648	350,061
Other time deposits	3,335	838	3,071
Total deposits	\$ 6,576,138	\$ 6,555,497	\$ 4,182,969

At June 30, 2014, December 31, 2013, and June 30, 2013, the Company had \$136.2 million, \$166.1 million, and \$116.7 million in certificates of deposits greater than \$250,000, respectively. At June 30, 2014, December 31, 2013, and June 30, 2013, the Company had \$29.7 million, \$34.8 million and \$1.3 million, in traditional, out-of-market brokered deposits, respectively.

Note 10 Retirement Plans

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The Company and the Bank provide certain retirement benefits to their employees in the form of a non-contributory defined benefit pension plan and an employees' savings plan. The non-contributory defined benefit pension plan covers all employees hired on or before December 31, 2005, who have attained age 21, and who have completed a year of eligible service. Employees hired on or after January 1, 2006 are not eligible to participate in the non-contributory defined benefit pension plan. On this date, a new benefit formula applies only to participants who have not attained age 45 or who do not have five years of service.

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of June 30, 2014.

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Note 10 Retirement Plans (Continued)

The components of net periodic pension expense recognized during the three and six months ended June 30, 2014 and 2013 are as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest cost	\$ (277)	\$ (250)	\$ (555)	\$ (500)
Expected return on plan assets	487	430	975	860
Recognized net actuarial loss	(165)	(301)	(330)	(602)
Net periodic pension benefit (expense)	\$ 45	\$ (121)	\$ 90	\$ (242)

The Company contributed \$300,000 and \$600,000 to the pension plan for the three and six months ended June 30, 2014, and does not expect to make any additional contributions during the remainder of 2014. The plans assets currently exceed the projected benefit obligation of the plan, and no additional contributions are required for 2014.

Electing employees are eligible to participate in the employees' savings plan, under the provisions of Internal Revenue Code Section 401(k), after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Effective September 1, 2012, employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of salary. Prior to September 1, 2012, participating employees received a 50% matching of their 401(k) plan contribution, up to 6% of salary. The Company expensed \$1.2 million and \$748,000 for the 401(k) plan during the three months ended June 30, 2014 and 2013, respectively. The Company expensed \$2.4 million and \$1.2 million for the 401(k) plan during the six months ended June 30, 2014 and 2013, respectively.

Employees hired on January 1, 2006 or thereafter will not participate in the defined benefit pension plan, but are eligible to participate in the employees' savings plan.

Employees can enter the savings plan on or after the first day of each month. The employee may enter into a salary deferral agreement at any time to select an alternative deferral amount or to elect not to defer in the plan. If the employee does not elect an investment allocation, the plan administrator will select a retirement-based portfolio according to the employee's number of years until normal retirement age. The plan's investment valuations are generally provided on a daily basis.

Note 11 Earnings Per Share

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Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted-average shares of common stock outstanding during each period, excluding non-vested shares. The Company's diluted earnings per share are based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options or vesting of restricted shares. The weighted-average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits.

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Note 11 Earnings Per Share (Continued)

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013:

(Dollars and shares in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Net income available to common shareholders	\$ 17,946	\$ 12,532	\$ 33,790	\$ 23,181
Weighted-average basic shares	23,892	16,790	23,882	16,804
Basic earnings per share	\$ 0.75	\$ 0.75	\$ 1.41	\$ 1.38
Diluted earnings per share:				
Net income available to common shareholders	\$ 17,946	\$ 12,532	\$ 33,790	\$ 23,181
Weighted-average basic shares	23,892	16,790	23,882	16,804
Effect of dilutive securities	249	200	244	182
Weighted-average dilutive shares	24,141	16,990	24,126	16,986
Diluted earnings per share	\$ 0.74	\$ 0.74	\$ 1.40	\$ 1.36

The calculation of diluted earnings per common share excludes outstanding stock options for which the results would have been anti-dilutive under the treasury stock method as follows:

(Shares in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Number of shares	22,497	21,361	22,497	21,361
Range of exercise prices	\$61.49-\$66.32	\$41.45-\$41.45	\$61.49-\$66.32	\$41.45-\$41.45

Note 12 Share-Based Compensation

The Company's 2004 and 2012 share-based compensation programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options, restricted stock, and restricted stock units (RSUs).

Stock Options

With the exception of non-qualified stock options granted to directors under the 2004 and 2012 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than a year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within a year following the date of the grant, as these incentive stock options become exercisable in 25% increments pro rata over the four-year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and expire ten years from the date of grant. No options were granted under the 2004 plan after January 26, 2012, and the 2004 plan is closed other than for any options still unexercised and outstanding. The 2012 plan is the only plan from which new share-based compensation grants may be issued. It is the Company's policy to grant options out of the 1,684,000 shares registered under the 2012 plan, of which no more than 817,476 shares can be granted as restricted stock or RSUs.

Table of Contents**Note 12 Share-Based Compensation (Continued)**

Activity in the Company's stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Options	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value (000 \$)
Outstanding at January 1, 2014	295,916	\$ 33.26		
Granted	22,497	65.59		
Exercised	(4,660)	27.70		
Expired/Forfeited	(13)	27.22		
Outstanding at June 30, 2014	313,740	35.66	4.79	\$ 8,053
Exercisable at June 30, 2014	258,814	33.07	3.99	\$ 7,233
Weighted-average fair value of options granted during the year	\$ 26.44			

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting periods. The following weighted-average assumptions were used in valuing options issued:

	Six Months Ended June 30,	
	2014	2013
Dividend yield	1.27%	1.70%
Expected life	6 years	6 years
Expected volatility	43.8%-44.7%	42.0%
Risk-free interest rate	2.10%	1.02%

As of June 30, 2014, there was \$845,000 of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.54 years as of June 30, 2014. The total fair value of shares vested during the six months ended June 30, 2014 was \$413,000.

Restricted Stock

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is established as the fair market value of the stock at the time of

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the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Restricted stock grants to employees typically cliff vest after four years. Grants to non-employee directors typically vest within a 12-month period.

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Note 12 Share-Based Compensation (Continued)

Nonvested restricted stock for the six months ended June 30, 2014 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	232,547	\$ 35.15
Granted	26,014	60.40
Vested	(17,896)	39.72
Forfeited	(3,204)	41.45
Nonvested at June 30, 2014	237,461	37.49

As of June 30, 2014, there was \$5.3 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.71 years as of June 30, 2014. The total fair value of shares vested during the six months ended June 30, 2014 was \$711,000.

Restricted Stock Units

The Company from time-to-time also grants performance RSUs to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Performance RSU grants contain a three year performance period. The Company communicates threshold, target, and maximum performance RSU awards and performance targets to the applicable key employees at the beginning of a performance period. Dividends are not paid in respect to the awards during the performance period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over three years based upon the probable performance target that will be met. For the six months ended June 30, 2014, the Company accrued at the target RSU award level, or for 85% of the RSUs granted, based on Management's expectations of performance.

Nonvested RSUs for the six months ended June 30, 2014 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	43,820	\$ 51.01
Granted	37,802	61.49
Nonvested at June 30, 2014	81,622	55.87

As of June 30, 2014, there was \$3.2 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 1.93 years as of June 30, 2014.

Note 13 Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At June 30, 2014, commitments to extend credit and standby letters of credit totaled \$1.4 billion. The Company does not anticipate any material losses as a result of these transactions.

The Company has been named as defendant in various legal actions, arising from its normal business activities, in which damages in various amounts are claimed. The Company is also exposed to litigation risk related to the prior business activities of banks acquired through whole bank acquisitions as well as banks from which assets were acquired and liabilities assumed in FDIC-assisted transactions. Although the amount of any ultimate liability with respect to such matters cannot be

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determined, in the opinion of management, any such liability will not have a material effect on the Company's consolidated financial statements.

Note 14 Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. FASB ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities, derivative contracts, and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

FASB ASC 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1	Observable inputs such as quoted prices in active markets;
Level 2	Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following is a description of valuation methodologies used for assets recorded at fair value.

Investment Securities

Securities available for sale are valued on a recurring basis at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and The NASDAQ Stock Market, or U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities and debentures issued by government sponsored entities, municipal bonds and corporate debt securities. Securities held to maturity are valued at quoted market prices or dealer quotes similar to securities available for sale. The carrying value of FHLB stock approximates fair value based on the redemption provisions.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair values of mortgage loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics. As such, the fair value adjustments for mortgage loans held for sale are nonrecurring Level 2.

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Note 14 Fair Value (Continued)

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At June 30, 2014, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral; require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (OREO)

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-covered and covered OREO are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals. At the time of foreclosure, 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. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense, net of any FDIC indemnification proceeds in the case of covered OREO.

Derivative Financial Instruments

Fair value is estimated using pricing models of derivatives with similar characteristics; accordingly, the derivatives are classified within Level 2 of the fair value hierarchy (see Note 16 Derivative Financial Instruments for additional information).

Mortgage servicing rights (MSRs)

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The estimated fair value of MSR is obtained through an independent derivatives dealer analysis of future cash flows. The evaluation utilizes assumptions market participants would use in determining fair value including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market driven data, as well as the market's perception of future interest rate movements. MSR is classified as Level 3.

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Note 14 Fair Value (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Quoted Prices In Active Markets for Identical Assets	Significant Other Observable	Significant Unobservable
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