

SOUTH STATE Corp
Form 10-Q
May 03, 2019
Table of Contents

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from to

Commission file number 001-12669

SOUTH STATE CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina 57-0799315
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

520 Gervais Street
Columbia, South Carolina 29201
(Address of principal executive offices) (Zip Code)

(800) 277-2175

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted 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 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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Emerging Growth Company

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

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

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

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock, \$2.50 par value	SSB	Nasdaq Global Select Market

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 April 30, 2019
Common Stock, \$2.50 par value	35,368,523

Table of Contents

South State Corporation and Subsidiary

March 31 2019 Form 10-Q

INDEX

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at March 31, 2019, December 31, 2018 and March 31, 2018</u>	3
<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2019 and 2018</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2019 and 2018</u>	5
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2019 and 2018</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	54
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	80
<u>Item 4. Controls and Procedures</u>	80
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	80
<u>Item 1A. Risk Factors</u>	81
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	81
<u>Item 3. Defaults Upon Senior Securities</u>	81
<u>Item 4. Mine Safety Disclosures</u>	81

<u>Item 5.</u> <u>Other Information</u>	82
<u>Item 6.</u> <u>Exhibits</u>	82

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	March 31, 2019 (Unaudited)	December 31, 2018	March 31, 2018 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	\$ 225,865	\$ 251,411	\$ 227,264
Interest-bearing deposits with banks	723,726	124,895	362,773
Federal funds sold and securities purchased under agreements to resell	—	32,677	54,467
Total cash and cash equivalents	949,591	408,983	644,504
Investment securities:			
Securities held to maturity (fair value of \$0 and \$1,284, respectively)	—	—	1,274
Securities available for sale, at fair value	1,466,249	1,517,067	1,640,837
Other investments	40,624	25,604	23,479
Total investment securities	1,506,873	1,542,671	1,665,590
Loans held for sale	33,297	22,925	42,690
Loans:			
Acquired credit impaired, net of allowance for loan losses	452,258	485,119	597,274
Acquired non-credit impaired	2,378,737	2,594,826	3,274,938
Non-acquired	8,310,613	7,933,286	6,762,512
Less allowance for non-acquired loan losses	(52,008)	(51,194)	(45,203)
Loans, net	11,089,600	10,962,037	10,589,521
Other real estate owned	11,297	11,410	11,073
Premises and equipment, net	322,553	241,076	253,605
Bank owned life insurance	230,629	230,105	226,222
Deferred tax assets	31,884	37,128	46,736
Mortgage servicing rights	32,415	34,727	34,196
Core deposit and other intangibles	59,619	62,900	70,376
Goodwill	1,002,900	1,002,900	999,592
Other assets	136,229	119,466	105,004
Total assets	\$ 15,406,887	\$ 14,676,328	\$ 14,689,109
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			

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Noninterest-bearing	\$ 3,219,864	\$ 3,061,769	\$ 3,120,818
Interest-bearing	8,699,107	8,585,164	8,542,280
Total deposits	11,918,971	11,646,933	11,663,098
Federal funds purchased and securities sold under agreements to repurchase	276,891	270,649	357,574
Other borrowings	616,250	266,084	215,589
Other liabilities	218,298	126,366	130,269
Total liabilities	13,030,410	12,310,032	12,366,530
Shareholders' equity:			
Common stock - \$2.50 par value; authorized 80,000,000 shares; 35,368,521, 35,829,549 and 36,783,438 shares issued and outstanding, respectively	88,421	89,574	91,958
Surplus	1,719,396	1,750,495	1,807,989
Retained earnings	582,034	551,108	452,982
Accumulated other comprehensive loss	(13,374)	(24,881)	(30,350)
Total shareholders' equity	2,376,477	2,366,296	2,322,579
Total liabilities and shareholders' equity	\$ 15,406,887	\$ 14,676,328	\$ 14,689,109

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	2018
	2019	
Interest income:		
Loans, including fees	\$ 131,834	\$ 127,041
Investment securities:		
Taxable	8,597	8,788
Tax-exempt	1,496	1,559
Federal funds sold and securities purchased under agreements to resell	1,463	660
Total interest income	143,390	138,048
Interest expense:		
Deposits	16,645	6,913
Federal funds purchased and securities sold under agreements to repurchase	753	454
Other borrowings	2,725	1,708
Total interest expense	20,123	9,075
Net interest income	123,267	128,973
Provision for loan losses	1,488	2,454
Net interest income after provision for loan losses	121,779	126,519
Noninterest income:		
Fees on deposit accounts	17,808	22,543
Mortgage banking income	2,385	4,948
Trust and investment services income	7,269	7,514
Securities gains, net	541	—
Recoveries on acquired loans	1,867	2,975
Other	2,188	2,575
Total noninterest income	32,058	40,555
Noninterest expense:		
Salaries and employee benefits	58,431	62,465
Net occupancy expense	7,199	8,166
Information services expense	9,009	9,738
Furniture and equipment expense	4,413	4,626
OREO expense and loan related	751	1,661
Amortization of intangibles	3,281	3,413
Supplies, printing and postage expense	1,504	1,392
Professional fees	2,240	1,699
FDIC assessment and other regulatory charges	1,535	1,263
Advertising and marketing	807	736
Merger and branch consolidation related expense	1,114	11,296
Other	7,955	7,008
Total noninterest expense	98,239	113,463

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Earnings:		
Income before provision for income taxes	55,598	53,611
Provision for income taxes	11,231	11,285
Net income	\$ 44,367	\$ 42,326
Earnings per common share:		
Basic	\$ 1.25	\$ 1.15
Diluted	\$ 1.25	\$ 1.15
Dividends per common share	\$ 0.38	\$ 0.33
Weighted average common shares outstanding:		
Basic	35,445	36,646
Diluted	35,619	36,899

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 44,367	\$ 42,326
Other comprehensive income:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	16,752	(22,082)
Tax effect	(3,686)	4,890
Reclassification adjustment for gains included in net income	541	—
Tax effect	(119)	—
Net of tax amount	13,488	(17,192)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges:		
Unrealized holding gains (losses) arising during period	(2,651)	36
Tax effect	583	(8)
Reclassification adjustment for gains (losses) included in interest expense	(10)	47
Tax effect	2	(10)
Net of tax amount	(2,076)	65
Change in pension plan obligation:		
Change in pension and retiree medical plan obligation during period	—	—
Tax effect	—	—
Reclassification adjustment for changes included in net income	121	194
Tax effect	(26)	(43)
Net of tax amount	95	151
Other comprehensive gain (loss), net of tax	11,507	(16,976)
Comprehensive income	\$ 55,874	\$ 25,350

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)

Three months ended March 31, 2019 and 2018

(Dollars in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	36,759,656	\$ 91,899	\$ 1,807,601	\$ 419,847	\$ (10,427)	\$ 2,308,920
Comprehensive income	—	—	—	42,326	(16,976)	25,350
Cash dividends declared on common stock at \$0.33 per share	—	—	—	(12,138)	—	(12,138)
AOCI reclassification to retained earnings from adoption of ASU 2018-02				2,947	(2,947)	
Stock options exercised	2,240	5	61	—	—	66
Restricted stock awards	1,169	3	(3)	—	—	—
Stock issued pursuant to restricted stock units	38,365	96	(96)	—	—	—
Common stock repurchased	(17,992)	(45)	(1,567)	—	—	(1,612)
Share-based compensation expense	—	—	1,993	—	—	1,993
Balance, March 31, 2018	36,783,438	\$ 91,958	\$ 1,807,989	\$ 452,982	\$ (30,350)	\$ 2,322,579

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Balance, December 31, 2018	35,829,549	\$ 89,574	\$ 1,750,495	\$ 551,108	\$ (24,881)	\$ 2,366,296
Comprehensive income	—	—	—	44,367	11,507	55,874
Cash dividends declared on common stock at \$0.38 per share	—	—	—	(13,441)	—	(13,441)
Stock options exercised	12,722	32	370	—	—	402
Restricted stock awards	31	1	(1)	—	—	—
Common stock repurchased - buyback plan	(500,000)	(1,250)	(32,017)	—	—	(33,267)
Common stock repurchased	(23,010)	(58)	(1,460)	—	—	(1,518)
Stock issued pursuant to restricted stock units	49,229	122	(122)	—	—	—
Share-based compensation expense	—	—	2,131	—	—	2,131
Balance, March 31, 2019	35,368,521	\$ 88,421	\$ 1,719,396	\$ 582,034	\$ (13,374)	\$ 2,376,477

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

Table of Contents

South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 44,367	\$ 42,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,527	8,939
Provision for loan losses	1,488	2,454
Deferred income taxes	1,998	3,993
Gain on sale of securities, net	(541)	—
Share-based compensation expense	2,131	1,993
Accretion of discount related to performing acquired loans	(3,170)	(9,656)
(Gain) loss on disposal of premises and equipment	271	(72)
Gain on sale of OREO	(2)	(58)
Net amortization of premiums on investment securities	1,699	1,966
OREO write downs	98	777
Fair value adjustment for loans held for sale	(156)	(215)
Originations and purchases of loans held for sale	(127,166)	(154,234)
Proceeds from sales of loans	116,951	182,649
Net change in:		
Accrued interest receivable	(968)	1,553
Prepaid assets	(2,061)	(526)
Operating Leases	256	—
Miscellaneous other assets	(13,306)	14,251
Accrued interest payable	969	775
Accrued income taxes	9,231	6,984
Miscellaneous other liabilities	(3,102)	1,846
Net cash provided by operating activities	37,514	105,745
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	134,486	5,215
Proceeds from maturities and calls of investment securities held to maturity	—	1,255
Proceeds from maturities and calls of investment securities available for sale	55,242	57,972
Proceeds from sales of other investment securities	45	2,125
Purchases of investment securities available for sale	(122,774)	(79,661)
Purchases of other investment securities	(15,066)	(2,556)
Net increase in loans	(127,840)	(10,461)
Net cash received from acquisitions	—	6
Recoveries of loans previously charged off	958	966
Purchases of premises and equipment	(3,436)	(3,615)
Proceeds from sale of OREO	1,019	2,516

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Proceeds from sale of premises and equipment	6	6
Net cash used in investing activities	(77,360)	(26,232)
Cash flows from financing activities:		
Net increase in deposits	272,038	130,332
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	6,242	70,717
Proceeds from FHLB advances	500,000	50,000
Repayment of other borrowings	(150,002)	(50,001)
Common stock repurchase	(34,785)	(1,612)
Dividends paid on common stock	(13,441)	(12,138)
Stock options exercised	402	66
Net cash provided by financing activities	580,454	187,364
Net increase in cash and cash equivalents	540,608	266,877
Cash and cash equivalents at beginning of period	408,983	377,627
Cash and cash equivalents at end of period	\$ 949,591	\$ 644,504
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	\$ 19,154	\$ 8,300
Income taxes	\$ 874	\$ 786
Initial measurement and recognition of operating lease assets in exchange for lease liabilities per ASU 2016-02	\$ 82,160	\$