# South State Corporation

## 2015 Letter to Shareholders

## Dear Shareholders,

We are very pleased to report the progress made in 2015. Against the backdrop of uneven economic conditions and an ever-changing regulatory environment, our company continued to make significant gains and produced another strong year of results. In 2015, we were able to make investments for the future while also producing strong financial results.

We had many accomplishments this year and are especially proud of the continued progress in building a great team. The past and future success of South State Corporation starts with our people and company culture. Our culture is a key differentiator and the reason we have been able to attract and retain the best bankers. Increasingly, we are the alternative to larger banks in our markets and are moving customer relationships to South State because of the hard work of our employees.

Each year there are numerous examples of our team's significant contributions to South State and its success, and this year was no different. While technology offers convenient opportunities for customers to bank with us, our commitment continues to be building relationships and delivering a high level of service. This commitment to service has been at the core of our company since its founding and continues to drive our decisions each day.

We continue to be guided by the three fundamentals on which we have built and grown our company for over 80 years—Soundness, Profitability and Growth.

The banking industry and economy will continue to experience both good times and bad. Therefore, adhering to these principles remains an important component of our future success and establishes a foundation to create shareholder value.

## Soundness, Profitability and Growth

A primary measure of soundness is represented by the strength of our balance sheet. At year-end, our liquidity, asset quality and capital levels have us well positioned. With over $1.7 billion of cash and liquid assets on hand, we have the ability to expand borrowing relationships without taking on debt. This liquidity is created by a strong and growing customer base that represents a significant strength for us. Core funding reflects strong relationships with customers and a unique position in our markets.

Asset quality, as measured by past due loans and problem assets, remains at a very low level and reflects our strong credit culture. For the year, net non-acquired loan charge-offs equaled only .09% of average loans outstanding and loans past due 30 days or more totaled .84%. Both of these measures are at or near historic lows and represent the results of improving credit conditions over the past few years, in addition to a consistent adherence to a strong credit culture.

The company maintains strong capital levels and at year-end, tangible common equity to tangible assets equaled 8.24%, and total capital represented 13.3% of risk weighted assets. This capital strength affords us the opportunity to take advantage of growth in our markets as well as potential acquisitions.

From a profitability standpoint, in 2015 we were focused on implementing changes to improve our productivity, efficiency and expense management, while continuing to grow the balance sheet. Operating earnings per share rose 14.9% in 2015 to $4.31. These earnings produced an operating Return on Average Assets (ROAA) for the year of 1.27% and Return on Tangible Common Equity (ROTE) of 15.97%.

We operate and maintain a meaningful banking position in some of the most desirable markets in the Southeast. In 2015, loans grew over $285 million and currently total approximately $6.0 billion. A relentless focus on customer service and strong teams enables us to win new customer relationships and participate in the economic growth of the communities we serve. The combination of attractive markets, a great team and the ability to win relationships from other banks positions us well for future growth.

## Company Highlights

In 2015, we continued to focus on building fee income businesses. Our mortgage team helped drive production to over $1.2 billion in loan volume. Wealth Management also continues to experience strong growth. Last year, assets under administration for customers rose to just under $4.0 billion and contributed over $20 million in revenue. Together these two areas contributed $41.9 million in non-interest income to the company in 2015. Our strong Mortgage and Wealth Management business models and teams are reasons why we are consisently winning business.

We are fortunate today to serve over 590,000 customers, an 8% increase over 2014. And while our customer base continues to grow, so do customer expectations to access and manage banking relationships electronically. In 2015, we experienced a 15.6% increase in the use of online services and launched new services, including Mobile Deposits, Apple Pay™ and Visa Checkout, to offer more convenience to our customers.

In August 2015, we completed the acquisition of 13 branches and 30 ATMs from Bank of America. This allowed us to deepen our presence in three existing markets and enter six new contiguous communities. With over $430 million in deposits, this transaction improved core funding and liquidity while also increasing fee income. Considerable planning and effort went into making this a smooth transition for our new employees and customers.

Despite making significant investments in many areas of the bank, including business platforms, people, technology and risk management, we were able to reduce non-interest expenses overall. This expense management helped reduce our operating efficiency ratio from 65.8% in 2014 to 62.6% this year. As we grow, there will be more opportunities to generate improved operational efficiency.

A year ago the quarterly cash dividend to our shareholders was $.23 per share. Effective with the first quarter dividend of 2016, the cash dividend payment was increased to $0.28 per share. This represents a 21.7% increase from a year ago. In addition to the higher dividend, tangible book value per share rose 8.9% to $27.88 per share during 2015.

## Our Future

Our efforts in 2015 continued to set us apart from both the larger and smaller banks – allowing us to add important new customer relationships and expand our talented teams. Our people, a strong balance sheet, excellent markets and a focused growth strategy continue to be differentiators for South State. The pieces are in place for your company to enjoy success as we remain committed to soundness, profitability and growth—and creating value for our shareholders.

Thank you for your continued interest and support. We look forward to the years ahead as we identify ways to better serve our customers and strategically grow a sound and profitable company.

**Robert R. Horger**
Chairman

**Robert R. Hill, Jr.**
Chief Executive Officer

## Financial Highlights:

- Operating earnings per share improved 14.9% to $4.31.
- Non-acquired loan growth for 2015 was $752.9 million, or 21.7%.
- Efficiency ratio improved to 64.2% from 71.4%.
- Net loan growth totaled $288.9 million, or 5.0%.
- OREO decreased $12.2 million to $30.6 million.
- Non-interest bearing deposits increased by $336.5, or 20.5%.
- Tangible book value per share rose 8.9% to $27.88 per share.
- Tangible common equity to tangible assets totaled 8.24%.
- Nonperforming assets (NPAs) declined by 32.5%, or $25.8 million to $53.7 million.

SOUTH STATE
CORPORATION

**Please read the following disclosure along with the annual shareholder letter.**

**Forward Looking Statement**

This Report contains certain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements may address issues that involve significant risks and uncertainties. Although we believe that the expectations reflected in this discussion are reasonable, actual results may be materially different. Please refer to the Company's Annual Report on Form 10-K for the year-ended December 31, 2015 (the "Form 10-K"), for a more thorough description of the types of risks and uncertainties that may affect management's forward-looking statements. Such risks and uncertainties include, among others, risks related to the adequacy of our allowance for loan losses and the amount of loan loss provisions required in future periods; risks associated with mergers and acquisitions, including integration and implementation risks; cybersecurity risks relating to our dependence on internal computer systems and the technology of outside service providers and the potential impacts of third-party security breaches resulting from deliberate attacks or unintentional events, which could result in potential business disruptions or financial losses; regulatory change risks resulting from new laws, rules, regulations, proscribed practices or ethical standards, or from changes in regulators' application of existing laws, regulations and standards, including the impact of the new capital rules under Basel III; and other risks and uncertainties discussed in the Form 10-K.

**www.SouthStateBank.com**