CORPORATE OFFICE PROPERTIES TRUST
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended September 30, 2018
or

o 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 1-14023 (Corporate Office Properties Trust)
Commission file number 333-189188 (Corporate Office Properties, L.P.)
Corporate Office Properties Trust
Corporate Office Properties, L.P.
(Exact name of registrant as specified in its charter)

Corporate Office Properties Trust	Maryland (State or other jurisdiction of incorporation or organization)	23-2947217 (IRS Employer Identification No.)
Corporate Office Properties, L.P.	Delaware (State or other jurisdiction of incorporation or organization)	23-2930022 (IRS Employer Identification No.)
6711 Columbia Gateway Drive, Suite 300, Columbia, MD (Address of principal executive offices)	21046 (Zip Code)	

Registrant’s telephone number, including area code: (443) 285-5400

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.

Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Corporate Office Properties Trust ý Yes o No
Corporate Office Properties, L.P. ý Yes o No

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

Corporate Office Properties Trust

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

Corporate Office Properties, L.P.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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.

Corporate Office Properties Trust o
Corporate Office Properties, L.P. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Corporate Office Properties Trust o Yes ý No
Corporate Office Properties, L.P. o Yes ý No

As of October 19, 2018, 108,855,016 of Corporate Office Properties Trust’s Common Shares of Beneficial Interest, $0.01 par value, were issued and outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 of Corporate Office Properties Trust (“COPT”) and subsidiaries (collectively, the “Company”) and Corporate Office Properties, L.P. (“COPLP”) and subsidiaries (collectively, the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, “we,” “our,” and “us” refer collectively to COPT, COPLP and their subsidiaries.

COPT is a real estate investment trust, or REIT, and the sole general partner of COPLP. As of September 30, 2018, COPT owned approximately 98.8% of the outstanding common units in COPLP; the remaining common units and all of the outstanding COPLP preferred units were owned by third parties. As the sole general partner of COPLP, COPT controls COPLP and can cause it to enter into major transactions including acquisitions, dispositions and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in this Form 10-Q. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the two operate as an interrelated, consolidated company. COPT is a REIT whose only material asset is its ownership of partnership interests of COPLP. As a result, COPT does not conduct business itself, other than acting as the sole general partner of COPLP, issuing public equity and guaranteeing certain debt of COPLP. COPT itself is not directly obligated under any indebtedness but guarantees some of the debt of COPLP. COPLP owns substantially all of the assets of COPT either directly or through its subsidiaries, conducts almost all of the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by COPT, which are contributed to COPLP in exchange for partnership units, COPLP generates the capital required by COPT's business through COPLP's operations, by COPLP's direct or indirect incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests, shareholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of COPT and those of COPLP. The common limited partnership interests in COPLP not owned by COPT are accounted for as partners' capital in COPLP's consolidated financial statements and as noncontrolling interests in COPT's consolidated financial statements. COPLP's consolidated financial statements also reflect COPT's noncontrolling interests in certain real estate partnerships and limited liability companies ("LLCs"); the differences between shareholders' equity, partners' capital and noncontrolling interests result from the differences in the equity issued at the COPT and COPLP levels and in COPT's noncontrolling interests in these real estate partnerships and LLCs. The only other significant differences between the consolidated financial statements of COPT and those of COPLP are assets in connection with a non-qualified elective deferred compensation plan (comprised primarily of mutual funds and equity securities) and the corresponding liability to the plan's participants that are held directly by COPT.

We believe combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report results in the following benefits:

- combined reports better reflect how management, investors and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:
- Note 4, Fair Value Measurements of COPT and subsidiaries and COPLP and subsidiaries; and
- Note 15, Earnings per Share of COPT and subsidiaries and Earnings per Unit of COPLP and subsidiaries;
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPT"; and
- "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources of COPLP."

This report also includes separate sections under Part I, Item 4. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of COPT and COPLP to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that COPT and COPLP are compliant with Rule 13a-15 and Rule 15d-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

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PART I: FINANCIAL INFORMATION
ITEM 1. Financial Statements

Corporate Office Properties Trust and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Properties, net:		
Operating properties, net	$ 2,796,577	$ 2,737,611
Projects in development or held for future development	410,850	403,494
Total properties, net	3,207,427	3,141,105
Assets held for sale, net	42,226	42,226
Cash and cash equivalents	9,492	12,261
Investment in unconsolidated real estate joint venture	40,318	41,787
Accounts receivable (net of allowance for doubtful accounts of $850 and $607, respectively)	19,245	31,802
Deferred rent receivable (net of allowance of $438 and $364, respectively)	89,171	86,710
Intangible assets on real estate acquisitions, net	47,065	59,092
Deferred leasing costs (net of accumulated amortization of $30,832 and $29,560, respectively)	49,510	48,322
Investing receivables	55,688	57,493
Interest rate derivatives	10,875	3,073
Prepaid expenses and other assets, net	79,349	71,334
Total assets	$ 3,650,366	$ 3,595,205
Liabilities and equity		
Liabilities:		
Debt, net	$ 1,808,030	$ 1,828,333
Accounts payable and accrued expenses	90,224	108,137
Rents received in advance and security deposits	23,159	25,648
Dividends and distributions payable	30,483	28,921

Deferred revenue associated with operating leases	10,006			11,682	
Deferred property sale	43,377			43,377	
Capital lease obligation	660			15,853	
Other liabilities	9,267			41,822	
Total liabilities	2,015,206			2,103,773	
Commitments and contingencies (Note 16)					
Redeemable noncontrolling interests	25,431			23,125	
Equity:					
Corporate Office Properties Trust’s shareholders’ equity:					
Common Shares of beneficial interest ($0.01 par value; 150,000,000 shares authorized; shares issued and outstanding of 108,848,223 at September 30, 2018 and 101,292,299 at December 31, 2017)	1,088			1,013	
Additional paid-in capital	2,390,484			2,201,047	
Cumulative distributions in excess of net income	(833,508	)		(802,085	)
Accumulated other comprehensive income	10,108		&# #D9D9D9 ;border-bottom:1pt none #D9D9D9 ;border-right:1pt none #D9D9D9 ;background-color: #CCEEFF;padding:0pt;">		

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:				
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.

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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 March 31, 2019	2018
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

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.

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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.

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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	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

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.

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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

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	$ —
Recognition of operating lease assets in exchange for lease liabilities	$ 1,956	$ —
Schedule of Noncash Investing Transactions:		
Acquisitions:		
Fair value of tangible assets acquired	$ —	$ (5)
Net identifiable assets acquired over liabilities assumed	—	(5)
Real estate acquired in full or in partial settlement of loans	$ 1,004	$ 2,895

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

South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 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 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 three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

The condensed consolidated balance sheet at December 31, 2018 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 our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission (the “SEC”) on February 22, 2019, should be referenced when reading these unaudited condensed consolidated financial statements. Unless otherwise mentioned or unless the context requires otherwise, references herein to “South State,” the “Company” “we,” “us,” “our” or similar references mean South State Corporation and its consolidated subsidiary. References to the “Bank” means South State Corporation’s wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

Leases (Topic 842) and Method of Adoption

On January 1, 2019, we adopted the requirements of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; ASU No. 2018-11, Targeted Improvements; and ASU No. 2019-01, Codification Improvements to Topic 842 Leases. The purpose of the update was to increase transparency and comparability between organizations that enter into lease agreements. The key difference between the previous guidance and the update is the recognition of a right-of-use asset (ROU) and lease liability on the statement of financial position for those leases previously classified as operating leases under the old guidance. Accounting Standards Codification ("ASC") Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. In applying this standard, we reviewed our material contracts to determine if they included a lease by this new definition and did not identify any new leases. Our lease agreements in which ASC Topic 842 has been applied are primarily for real estate properties, including retail branch locations, operations and administration locations and stand-alone ATM locations. These leases have lease terms from greater than 12 months to leases with options of more than 24 years. Related to lease payment terms, some are fixed payments or based on a fixed annual increases while others are variable and the annual increases are based on market rates. We performed an analysis on equipment leases for the implementation of ASC Topic 842 and determined the number and dollar amount of our equipment leases was not material.

A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. We chose the transition method of adoption provided by ASU 2018-11, Leases (Topic 842) – Targeted Improvements, where we initially apply the new lease standard at the effective date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption if applicable. Therefore, we will apply this standard to all existing leases as of the adoption date of January 1, 2019, recording a ROU asset and a lease liability in an equal amount. We did not have a

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cumulative-effect adjustment to the opening balance of retained earnings. With this transition method, we will not have to restate comparative prior periods presented in the financial statements related to ASC Topic 842, but will present comparative prior periods disclosures using the previous accounting guidance for leases. This adoption method is considered a change in accounting principle requiring additional disclosure of the nature of and reason for the change, which is solely a result of the adoption of the required standard.

ASC Topic 842 provides a package of practical expedients in applying the lease standard that had to be chosen at the date of adoption. We chose to elect this package of practical expedients. With this election, we do not have to reassess whether any expired or existing contracts are or contain a lease, do not have to reassess the classification of any expired or existing leases, do not have to separate lease and non-lease components and can account for both as a single lease component, and do not have to reassess initial direct costs or cash incentives for any existing leases due to immateriality. In addition, we chose not to apply ASC Topic 842 to short-term leases (leases with terms of 12 months or less) and not to record an underlying ROU asset or lease liability based on the uncertainty around the renewal of these leases. We will recognize lease expense for such leases on a straight-line basis over the lease term.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We determined that we do not have any leases classified as finance leases and that all of our leases are operating leases. ROU assets and liabilities for operating leases are recognized at commencement date based on present value of lease payments not yet paid, discounted using the discount rate for the lease at the lease commencement date over the lease term. For operating leases, lease expense is determined by the sum of the lease payments to be recognized on a straight-line basis over the lease term. Based on the transition method that we chose to follow, the commencement date of the lease term for all existing leases is January 1, 2019. The lease term used for the calculation of the initial ROU asset and lease liability will include the initial lease term in addition to any renewal options or termination costs in the lease that we think are reasonably certain to be exercised or incurred. We received input from several levels of management and our corporate real estate department in determining which options were reasonably certain to be exercised. A discount rate is also needed in the calculation of the initial ROU assets and lease liability. ASC Topic 842 requires that the implicit rate within the lease agreement be used if available. If not available, we should use its incremental borrowing rate in effect at the time of the lease commencement date. We looked at the incremental borrowing rate from several of our borrowing sources to determine an average rate to be used in the calculation of the initial ROU asset and lease liability. We also considered the term of the borrowings as they relate to the terms of the leases.

The adoption of the new standard had a material impact on our consolidated balance sheet, with the recording of ROU asset and lease liability of $82.2 million at the commencement date of January 1, 2019. We did not have a cumulative-effect adjustment to the opening balance of retained earnings at commencement. As of March 31, 2019, we had ROU assets of $82.8 million recorded within premises and equipment on the balance sheet and a lease liability of $83.0 million recorded within other liabilities on the balance sheet. The adoption of ASC Topic 842 did not have a material impact on our consolidated income statement.

Revenue from Contracts with Customers (Topic 606) and Method of Adoption

On January 1, 2018, we adopted the requirements of ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"). The majority of our revenue is derived primarily from interest income from receivables (loans) and securities. Other revenues are derived from fees received in connection with deposit accounts, mortgage banking activities including gains from the sale of loans and loan origination fees, and trust and investment advisory services. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

We adopted Topic 606 using the retrospective transition approach which requires restatement of prior periods. We selected this method even though there were no material changes in the timing of revenue recognition due to the fact that Topic 606 requires us to report network costs associated with debit card and ATM transactions netted against the related fees from such transactions. Previously, such network costs were reported as a component of other noninterest expense. We did restate prior periods for this reclassification. For the three months ended March 31, 2019, gross interchange and debit card transaction fees totaled $5.5 million while related network costs totaled $2.9 million. On a net basis we reported $2.6 million as interchange and debit card transactions fees in the accompanying Consolidated Statements of Income as noninterest income for the three months ended March 31, 2019. We also made this reclassification for the comparable period in 2018. For the three months ended March 31, 2018, gross interchange and debit card transaction fees totaled $10.6 million while related network costs totaled $3.0 million. On a net basis we reported $7.6 million as net interchange and debit card transactions fees as noninterest income for the three months ended March 31, 2018. This adoption method is considered a change in accounting principle requiring additional disclosure of the nature of and reason for the change, which is solely a result of the adoption of the required standard. When applying the retrospective approach under Topic 606, we elected, as a practical expedient, to apply the revenue standard only to contracts that are not completed as of January 1, 2018. A completed contract is considered to be a contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that was in effect before January 1, 2018. There were no uncompleted contracts as of January 1, 2018 for which application of the new standard required an adjustment to retained earnings.

The following disclosures related to Topic 606 involve income derived from contracts with customers. Within the scope of Topic 606, we maintain contracts to provide services, primarily for investment advisory and/or custody of assets. Through our wholly-owned subsidiaries, the Bank and South State Advisory, Inc., we contract with our customers to perform IRA, Trust, and/or Custody and Agency advisory services. Total revenue recognized from these contracts with customers was $7.3 million and $7.5 million, respectively, for the three months ended March 31, 2019 and 2018. The Bank contracts with our customers to perform deposit account services. Total revenue recognized from these contracts with customers is $18.1 million and $25.8 million, respectively, for the three months ended March 31, 2019 and 2018. Due to the nature of our relationship with the customers that we provide services, we do not incur costs to obtain contracts and there are no material incremental costs to fulfill these contracts that should be capitalized.

Disaggregation of Revenue - Our portfolio of services provided to our customers consists of approximately 816,000 active contracts at March 31, 2019 compared to approximately 791,000 at March 31, 2018. We have disaggregated revenue according to timing of the transfer of service. Total revenue derived from contracts in which services are transferred at a point in time was $24.1 million and $33.8 million, respectively, for the three months ended March 31, 2019 and 2018. Total revenue derived from contracts in which services are transferred over time was $5.0 million and $4.8 million, respectively, for the three months ended March 31, 2019 and 2018. Revenue is recognized as the services are provided to the customers. Economic factors impacting the customers could affect the nature, amount, and timing of these cash flows, as unfavorable economic conditions could impair the customers' ability to provide payment for services. This risk is mitigated as we generally deduct payments from customers' accounts as services are rendered.

Contract Balances - The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on our balance sheet. Most contracts call for payment by a charge or deduction to the respective customer account but there are some that require a receipt of payment from the customer. For fee per transaction contracts, the customers are billed as the transactions are processed. For hourly rate and monthly service contracts related to trust and some investment revenues, the customers are billed monthly (generally as a percentage basis point of the market value of the investment account). In some cases, specific to South State Advisory, Inc., customers are billed in advance for quarterly services to be performed based on the past quarter's average account balance. These do create contract liabilities or deferred revenue, as the customers pay in advance for service. Neither the contract liabilities nor the accounts receivables balances are material to our balance sheet.

Performance Obligations - A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The performance obligations for these contracts are satisfied as the service is provided to the customer (either over time or at a point in time). The payment terms of the contracts are typically based on a basis point percentage of the investment account market value, fee per hour of service, or fee for service incurred. There are no significant financing components in the contracts. Excluding deposit services revenues which are mostly billed at a point in time as a fee for services incurred, all other contracts within the scope of Topic 606 contain variable consideration in that fees earned are derived from market values of accounts or from hours worked for services performed which determines the amount of consideration to which we are entitled. The variability is resolved when the hours are incurred or services are provided. The contracts do not include obligations for returns, refunds, or warranties. The contracts are specific to the amounts owed to the Company for services performed during a period should the contracts be terminated.

Significant Judgments - All of the contracts create performance obligations that are satisfied at a point in time excluding the contracts billed in advance through South State Advisory, Inc. and some immaterial deposit revenues.

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Revenue is recognized as services are billed to the customers. Variable consideration does exist for contracts related to our trust and investment services as revenues are based on market values and services performed. We have adopted the right-to-invoice practical expedient for trust management contracts through the Bank which we contract with our customers to perform IRA, trust, and/or custody services.

Note 3 — Recent Accounting and Regulatory Pronouncements

Accounting Standards Adopted in 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASC Topic 842 related to leases. ASC Topic 842 applies a right-of-use, which we refer to herein as ROU, model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. In July 2018, ASU 2018-11 - Targeted Improvements - Leases (Topic 842) ("ASU 2018-11") was issued which provided targeted improvements related to ASC Topic 842. ASU 2018-11 updates the new lease standard ASC Topic 842 by providing another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date instead of at the beginning of the earliest period presented in the financial statements as required in the original pronouncement. ASU 2018-11 also provides updated guidance for lessors related to separating lease and nonlease components in a contract and allocating the consideration in the contract to the separate components. In December 2018, the FASB issued ASU No. 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors ("ASU 2018-20"). ASU 2018-20 updates the new lease standard ASC Topic 842 by addressing several issues related to lessors which should reduce lessors' implementation and ongoing costs related to the new lease standard. In March 2019, the FASB issued ASU No. 2019-01, Leases (Topic 842): Codification Improvements ("ASU 2019-01"). ASU 2019-01 provides clarification on several issues related to ASC Topic 842. None of these issues had a material effect on our financial statements. For public business entities, the amendments in ASU 2016-02, ASU 2018-11, ASU 2018-20 and ASU 2019-01 are effective for interim and annual periods beginning after December 15, 2018. In transition, lessees and lessors have the choice to recognize and measure leases at the beginning of the earliest period presented in financials using a modified retrospective approach or to allow the entity to recognize and measure leases as of the adoption date and not in comparative periods. We chose the option to recognize and measure leases as of the adoption date and not in comparative periods. See Note 2 – Summary of Significant Accounting Policies and Note 7 – Leases for further discussion around the adoption of these standards related to leases. On January 1, 2019, we recorded a ROU asset and a lease liability of approximately $82.2 million. The guidance did not have a material impact on our statement of operations.

In October 2018, the FASB issued ASU No. 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Derivatives and Hedging - Topic 815) ("ASU 2018-16"). The amendments in this ASU permit the OIS rate based on SOFR as a U.S.

benchmark interest rate. Including the OIS rate based on SOFR as an eligible benchmark interest rate during the early stages of the marketplace transition will facilitate the London Interbank Offered Rate (LIBOR) to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. The guidance is effective for public companies for annual periods beginning on or after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. This guidance became effective on January 1, 2019 and we determined that the implementation of this standard did not have a material impact to our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Subtopic 350-40) ("ASU 2018-15"). This ASU clarifies certain aspects of ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which was issued in April 2015. Specifically, ASU 2018-15 "align[s] the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).” This ASU does not affect the accounting for the service element of a hosting arrangement that is a service contract. An entity would expense the capitalized implementation costs related to a hosting arrangement that is a service contract over the hosting arrangement’s term, which comprises the arrangement’s noncancelable term and any renewal options whose exercise is reasonably certain. The expense would be presented in the same line item in the statement of income as that in which the fee associated with the hosting arrangement is presented. For public business entities, the amendments in ASU 2018-15 are effective for interim and annual periods beginning after December 15, 2019 and an entity has the option of using either a retrospective or prospective transition method. Early adoption is permitted. We are early adopting this standard as of January 1, 2019, but do not believe it will have a material impact on our consolidated financial statements. There were no capitalized costs in the first quarter of 2019, but we do expect to begin to capitalize costs starting in the second quarter of 2019.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”). ASU 2017-12 amends ASU 2018-16 to better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments will improve the transparency of information about an entity’s risk management activities and simplify the application of hedge accounting. The guidance is effective for public companies for annual periods beginning on or after December 15, 2018 and interim periods within those fiscal years. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. This guidance became effective on January 1, 2019 and we determined that the implementation of this standard did not have a material impact to our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Cost (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities; (“ASU 2017-08”). ASU 2017-08 shortens the amortization period of the premium for certain callable debt securities, from the contractual maturity date to the earliest call date. The amendments do not require an accounting change for securities held at a discount; an entity will continue to amortize to the contractual maturity date the discount related to callable debt securities. The amendments apply to the amortization of premiums on callable debt securities with explicit, noncontingent call features that are callable at fixed prices on preset dates. For public business entities, ASU 2017-08 is effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For entities other than public business entities, the amendments are effective in fiscal years beginning after December 15, 2019 and in interim periods in fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including in an interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are adopted. This guidance became effective on January 1, 2019 and we determined that the implementation of this standard did not have a material impact to our consolidated financial statements.

Accounting Standards Adopted in 2018

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10) (“ASU 2018-03”). ASU 2018-03 updates the new financial instruments standard by clarifying issues that arose from ASU 2016-01, but does not change the core principle of the new standard. The issues addressed in this ASU include: (1) Equity securities without a readily determinable fair value-discontinuation, (2) Equity securities without a readily determinable fair value-adjustments, (3) Forward contracts and purchased options, (4) Presentation requirements for certain fair value option liabilities, (5) Fair value option liabilities denominated in a foreign currency, (6) Transition guidance for equity securities without a readily determinable fair value, and (7) Transition and open effective date information. For public business entities, the amendments in ASU

2018-03 and ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2018-03 and ASU 2016-01. This guidance became effective on January 1, 2018 and we determined that the implementation of this standard did not have a material impact to our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). ASU 2018-02 amends ASC Topic 220 and allows a reclassification from accumulated other comprehensive

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income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”). Consequently, this amendment eliminates the stranded tax effects resulting from the Tax Reform Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Reform Act, the underlying guidance that requires that the effects of the change in tax laws or rates be included in income from continuing operations is not affected. The guidance is effective for public companies for annual periods beginning on or after December 15, 2018 and interim periods within those fiscal years. Early adoption was permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. This amendment should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in U.S. federal corporate income tax rate in the Tax Reform Act is recognized. We early adopted this amendment in the first quarter of 2018 and reclassified $2.9 million from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Reform Act.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 provides clarity by offering guidance on the scope of modification accounting for share-based payment awards and gives direction on which changes to the terms or conditions of these awards require an entity to apply modification accounting. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or a liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for all companies for annual periods beginning on or after December 15, 2017. We adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). ASU 2017-07 applies to any employer that sponsors a defined benefit pension plan, other postretirement benefit plan, or other types of benefits accounted for under Topic 715. The amendments require that an employer disaggregate the service cost component from the other components of net benefit cost, as follows (1) service cost must be presented in the same line item(s) as other employee compensation costs, which costs are generally included within income from continuing operations, but in some cases may be eligible for capitalization, (2) all other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented, and (3) the amendments permit capitalizing only the service cost component of net benefit cost, assuming such costs meet the criteria required for capitalization by other GAAP , rather than total net benefit cost which has been permitted under prior GAAP. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. The amendments should be adopted prospectively and allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior periods to apply the retrospective presentation requirements. We adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). These amendments are intended to clarify the definition of a business to assist companies and other reporting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC Topic 606. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. We adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on our consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20"). ASU 2016-20 updates the new revenue standard by clarifying issues that arose from ASU 2014-09, but does not change the core principle of the new standard. The issues addressed in this ASU include: (1) Loan guarantee fees, (2) Impairment testing of contract costs, (3) Interaction of impairment testing with guidance in other topics, (4) Provisions for losses on construction-type and production-type contracts, (5) Scope of topic 606, (6) Disclosure of remaining performance obligations, (7) Disclosure of prior-period

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performance obligations, (8) Contract modifications, (9) Contract asset vs. receivable, (10) Refund liability, (11) Advertising costs, (12) Fixed-odds wagering contracts in the casino industry, (13) Cost capitalization for advisors to private funds and public funds. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on January 1, 2018 and we refined our disclosures around the standard in the first quarter of 2018. See Note 2 – Summary of Significant Accounting Policies for additional information. We determined that there is no material change on how we recognize our revenue streams and the adoption of these standards did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 addresses eight classification issues related to the statement of cash flows: Debt prepayment or debt extinguishment costs; Settlement of zero-coupon bonds; Contingent consideration payments made after a business combination; Proceeds from the settlement of insurance claims; Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; Distributions received from equity method investees; Beneficial interests in securitization transactions; and Separately identifiable cash flows and application of the predominance principle. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard's provisions using a retrospective transition method to each period presented. We adopted this standard in the first quarter of 2018 and determined that this guidance did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). ASU 2016-08 updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) Clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. For public business entities, the effective date and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2014-09 which is effective for interim and annual periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on January 1, 2018 and we refined its disclosures around the standard in the first quarter of 2018. We determined that there is no material change on how we recognize our revenue streams and the adoption of these standards did not have a material impact on our consolidated financial statements, other than the required disclosures and the reclassification of interchange costs from noninterest expense to noninterest income on the Consolidated Statement of Income which we applied retrospectively to each prior reporting period. See further discussion in Note 2 – Summary of Significant Accounting Policies.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10); Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This update is intended to improve the recognition and measurement of financial instruments and it requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 also provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes and requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public business entities, the amendments in ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the ASU 2016-01. This guidance became effective on January 1, 2018 and we determined that the implementation of this standard did not have a material impact to our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, Topic 606 (“ASU 2014-09”). The new standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue includes net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. ASU 2016-20, ASU 2016-08 and ASU 2014-09 became effective on January 1, 2018 and we refined our disclosures around the standard in the first quarter of 2018. See Note 2 – Summary of Significant Accounting Policies for additional information. We determined that there is no material change on how we recognize our revenue streams, other than the required disclosures and the reclassification of interchange costs from noninterest expense to noninterest income on the Consolidated Statement of Income which we applied retrospectively to each prior reporting period.

Issued But Not Yet Adopted Accounting Standards

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans (Subtopic 715-20) (“ASU 2018-14”). ASU 2018-14 amends ASC 715-20 to add, remove, and clarify disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public business entities, ASU 2018-14 is effective for fiscal years ending after December 15, 2020 and requires entities to apply the amendment on a retrospective basis. Early adoption is permitted. At this point in time, we do not expect that this guidance will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) (“ASU 2018-13”). ASU 2018-13 removes, modifies, and adds certain disclosure requirements in ASC 820 related to Fair Value Measurement on the basis of the concepts in the FASB Concepts Statement Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted upon issuance of this ASU, including in any interim period for which financial statements have not yet been issued or made available for issuance. Entities making this election are permitted to early adopt the eliminated or modified disclosure requirements and delay the adoption of all the new disclosure requirements until their effective date. The ASU requires application of the prospective method of transition (for only the most recent interim or annual period presented in the initial fiscal year of adoption) to the new disclosure requirement additions. The ASU also requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments made by the ASU must be applied retrospectively to all periods presented. The Company is still assessing the impact of this new guidance, but does not believe it will have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangible-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under ASC Topic 350 and eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods

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within those years. The amendments should be adopted prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are still assessing the impact of this new guidance, but at this point in time, do not believe it will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in earlier recognition of credit losses for loans, investment securities portfolio, and purchased financial assets with credit deterioration. ASU 2016-13 also will require enhanced disclosures. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. A cross-functional working group comprised of individuals from credit administration, risk management, accounting and finance, information technology, among others are in place implementing and developing the data, forecast, processes, and portfolio segmentation that will be used in the models that will estimate the expected credit loss for each loan segment. We also contracted with a third party vendor solution to assist us in the application and analysis of ASU 2016-13 in aggregating the results of the models and provide macroeconomic forecast for the markets served relative to each loan segment. We are currently unable to reasonably estimate the impact of adopting ASU 2016-13, and it will be influenced by the composition, characteristics and quality of our loan and securities portfolio, as well as the economic conditions and forecasts as of each reporting period. These economic conditions and forecasts could be significantly different in future periods.

Note 4 — Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2019:				
State and municipal obligations	$ —	$ —	$ —	$ —
December 31, 2018:				
State and municipal obligations	$ —	$ —	$ —	$ —
March 31, 2018:				
State and municipal obligations	$ 1,274	$ 10	$ —	$ 1,284

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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
March 31, 2019:				
Government-sponsored entities debt*	$ 65,567	$ 441	$ (304)	$ 65,704
State and municipal obligations	190,302	3,170	(54)	193,418
Mortgage-backed securities**	1,216,669	1,991	(11,533)	1,207,127
	$ 1,472,538	$ 5,602	$ (11,891)	$ 1,466,249
December 31, 2018:				
Government-sponsored entities debt*	$ 48,982	$ 21	$ (752)	$ 48,251
State and municipal obligations	200,184	1,709	(1,125)	200,768
Mortgage-backed securities**	1,291,484	697	(24,133)	1,268,048
	$ 1,540,650	$ 2,427	$ (26,010)	$ 1,517,067
March 31, 2018:				
Government-sponsored entities debt*	$ 91,483	$ —	$ (1,737)	$ 89,746
State and municipal obligations	224,994	2,232	(1,540)	225,686
Mortgage-backed securities**	1,353,356	248	(28,199)	1,325,405
	$ 1,669,833	$ 2,480	$ (31,476)	$ 1,640,837

* - Our 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, Federal Home Loan Bank (“FHLB”), and Federal Farm Credit Banks (“FFCB”).

** - All of the mortgage-backed securities are issued by government-sponsored entities; there are no private-label holdings. Also, included in our mortgage-backed securities are debt securities offered by the Small Business Administration (“SBA”), which have the full faith and credit backing of the United States Government.

The following is the amortized cost and carrying value of other investment securities:

(Dollars in thousands)	Carrying Value
March 31, 2019:	
Federal Home Loan Bank stock	$ 34,544
Investment in unconsolidated subsidiaries	3,563
Other nonmarketable investment securities	2,517
	$ 40,624
December 31, 2018:	
Federal Home Loan Bank stock	$ 19,524

Investment in unconsolidated subsidiaries	3,563
Other nonmarketable investment securities	2,517
	$ 25,604
March 31, 2018:	
Federal Home Loan Bank stock	$ 17,399
Investment in unconsolidated subsidiaries	3,563
Other nonmarketable investment securities	2,517
	$ 23,479

Our other investment securities consist of non-marketable equity securities that have no readily determinable market value. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of March 31, 2019, we determined that there was no impairment on its other investment securities.

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The amortized cost and fair value of debt and equity securities at March 31, 2019 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.

	Securities Held to Maturity		Securities Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 9,437	$ 9,415
Due after one year through five years	—	—	74,473	74,860
Due after five years through ten years	—	—	361,457	360,630
Due after ten years	—	—	1,027,171	1,021,344
	$ —	$ —	$ 1,472,538	$ 1,466,249

Information pertaining to our securities with gross unrealized losses at March 31, 2019, December 31, 2018 and March 31, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	Less Than Twelve Months		Twelve Months or More	
(Dollars in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2019:				
Securities Available for Sale				
Government-sponsored entities debt	$ 49	$ 11,687	$ 255	$ 30,490
State and municipal obligations	—	—	54	10,310
Mortgage-backed securities	726	110,389	10,807	826,714
	$ 775	$ 122,076	$ 11,116	$ 867,514
December 31, 2018:				
Securities Available for Sale				