SOUTH STATE Corp
Form 10-Q
November 04, 2016

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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 September 30, 2016

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

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

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

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

Class	Outstanding as of October 31, 2016
Common Stock, $2.50 par value	24,218,820

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South State Corporation and Subsidiary

September 30, 2016 Form 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	September 30, 2016 (Unaudited)	December 31, 2015 (Note 1)	September 30, 2015 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$ 168,774	$ 178,664	$ 156,489
Interest-bearing deposits with banks	66,335	218,883	492,346
Federal funds sold and securities purchased under agreements to resell	272,408	298,247	240,545
Total cash and cash equivalents	507,517	695,794	889,380
Investment securities:			
Securities held to maturity (fair value of $7,076, $9,723 and $9,758, respectively)	6,851	9,314	9,314
Securities available for sale, at fair value	925,374	1,009,541	885,798
Other investments	9,482	8,893	9,031
Total investment securities	941,707	1,027,748	904,143
Loans held for sale	57,052	41,649	48,985
Loans:			
Acquired credit impaired (covered of $0, $98,459 and $103,329, respectively; non-covered of $632,617, $635,411 and $665,277, respectively), net of allowance for loan losses	632,617	733,870	768,606
Acquired non-credit impaired (covered of $0, $8,047 and $7,990, respectively; non-covered of $885,657, $1,041,491 and $1,099,450, respectively)	885,657	1,049,538	1,107,440
Non-acquired	5,008,113	4,220,726	3,994,716
Less allowance for non-acquired loan losses	(37,319)	(34,090)	(35,116)
Loans, net	6,489,068	5,970,044	5,835,646
FDIC indemnification asset	—	4,401	7,942
Other real estate owned (covered of $0, $5,751 and $5,465, respectively; non-covered of $22,211, $24,803 and $25,913, respectively)	22,211	30,554	31,378
Premises and equipment, net	179,450	174,537	174,662
Bank owned life insurance	103,427	101,588	100,967
Deferred tax assets	25,357	37,827	40,090

Mortgage servicing rights	23,064	26,202	24,665
Core deposit and other intangibles	41,738	47,425	49,982
Goodwill	338,340	338,340	338,342
Other assets	68,234	61,239	53,694
Total assets	$ 8,797,165	$ 8,557,348	$ 8,499,876
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	$ 2,176,155	$ 1,976,480	$ 1,927,309
Interest-bearing	5,071,251	5,123,948	5,150,700
Total deposits	7,247,406	7,100,428	7,078,009
Federal funds purchased and securities sold under agreements to repurchase	305,268	288,231	260,521
Other borrowings	55,306	55,158	55,107
Other liabilities	65,053	54,147	57,927
Total liabilities	7,673,033	7,497,964	7,451,564
Shareholders' equity:			
Preferred stock - $.01 par value; authorized 10,000,000 shares; no shares issued and outstanding	—	—	—
Common stock - $2.50 par value; authorized 40,000,000 shares; 24,209,122, 24,162,657 and 24,211,793 shares issued and outstanding, respectively	60,523	60,407	60,529
Surplus	705,124	703,929	706,227
Retained earnings	354,490	298,919	279,681
Accumulated other comprehensive income (loss)	3,995	(3,871)	1,875
Total shareholders' equity	1,124,132	1,059,384	1,048,312
Total liabilities and shareholders' equity	$ 8,797,165	$ 8,557,348	$ 8,499,876

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	$ 77,344	$ 79,857	$ 231,752	$ 238,111
Investment securities:				
Taxable	4,309	4,106	13,579	11,590
Tax-exempt	962	1,112	2,970	3,262
Federal funds sold and securities purchased under agreements to resell	666	487	2,174	1,362
Total interest income	83,281	85,562	250,475	254,325
Interest expense:				
Deposits	1,412	1,811	4,380	5,550
Federal funds purchased and securities sold under agreements to repurchase	137	95	418	296
Other borrowings	487	641	1,431	2,138
Total interest expense	2,036	2,547	6,229	7,984
Net interest income	81,245	83,015	244,246	246,341
Provision for loan losses	912	1,075	6,198	5,038
Net interest income after provision for loan losses	80,333	81,940	238,048	241,303
Noninterest income:				
Fees on deposit accounts	20,776	19,212	62,439	53,403
Mortgage banking income	6,286	4,817	16,104	18,532
Trust and investment services income	4,877	5,489	14,573	15,474
Securities gains, net	—	—	122	—
Amortization of FDIC indemnification asset, net	—	(1,871)	(5,901)	(7,120)
Recoveries on acquired loans	2,207	879	5,130	2,099
Other	1,194	1,245	5,032	3,970
Total noninterest income	35,340	29,771	97,499	86,358
Noninterest expense:				
Salaries and employee benefits	41,972	40,013	123,941	120,754
Net occupancy expense	5,464	5,395	16,364	15,678
Information services expense	5,237	4,736	15,353	13,076
Furniture and equipment expense	3,234	2,554	9,157	8,461
OREO expense and loan related	2,085	2,717	4,733	7,750
Bankcard expense	2,940	2,448	8,859	6,713
Amortization of intangibles	1,891	2,078	5,687	6,058
Supplies, printing and postage expense	1,345	1,377	4,910	4,391
Professional fees	1,758	1,383	4,663	4,377
FDIC assessment and other regulatory charges	1,001	1,248	3,162	3,685

Advertising and marketing	790	1,054	2,293	2,918
Branch consolidation and merger-related expense	709	3,091	3,240	5,328
Other	4,765	5,100	16,712	16,019
Total noninterest expense	73,191	73,194	219,074	215,208
Earnings:				
Income before provision for income taxes	42,482	38,517	116,473	112,453
Provision for income taxes	14,387	13,377	39,368	38,515
Net income	$ 28,095	$ 25,140	$ 77,105	$ 73,938
Earnings per common share:				
Basic	$ 1.17	$ 1.05	$ 3.21	$ 3.09
Diluted	$ 1.16	$ 1.04	$ 3.18	$ 3.05
Dividends per common share	$ 0.31	$ 0.25	$ 0.89	$ 0.72
Weighted average common shares outstanding:				
Basic	24,016	23,984	23,989	23,956
Diluted	24,278	24,285	24,229	24,235

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 28,095	$ 25,140	$ 77,105	$ 73,938
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	(4,388)	5,991	12,162	2,981
Tax effect	1,673	(2,284)	(4,638)	(1,137)
Reclassification adjustment for gains included in net income	—	—	(122)	—
Tax effect	—	—	47	—
Net of tax amount	(2,715)	3,707	7,449	1,844
Unrealized gains (losses) on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	51	(154)	(147)	(245)
Tax effect	(19)	59	56	93
Reclassification adjustment for losses included in interest expense	69	89	209	230
Tax effect	(27)	(34)	(80)	(88)
Net of tax amount	74	(40)	38	(10)
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	204	225	612	674
Tax effect	(78)	(86)	(233)	(256)
Net of tax amount	126	139	379	418
Other comprehensive income (loss), net of tax	(2,515)	3,806	7,866	2,252
Comprehensive income	$ 25,580	$ 28,946	$ 84,971	$ 76,190

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)

Nine months ended September 30, 2016 and 2015

(Dollars in thousands, except for share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	—	$ —	24,150,702	$ 60,377	$ 701,764	$ 223,156	$ (377)	$ 984,920
Comprehensive income:								
Net income	—	—	—	—	—	73,938	—	73,938
Other comprehensive income, net of tax effects	—	—	—	—	—	—	2,252	2,252
Total comprehensive income								76,190
Cash dividends declared on common stock at $0.72 per share	—	—	—	—	—	(17,413)	—	(17,413)
Employee stock purchases	—	—	6,971	17	427	—	—	444
Stock options exercised	—	—	30,560	77	881	—	—	958
Restricted stock awards	—	—	41,105	102	(102)	—	—	—
Common stock repurchased	—	—	(17,545)	(44)	(1,057)	—	—	(1,101)
Share-based compensation expense	—	—	—	—	4,314	—	—	4,314
Balance, September 30, 2015	—	$ —	24,211,793	$ 60,529	$ 706,227	$ 279,681	$ 1,875	$ 1,048,312
	—	$ —	24,162,657	$ 60,407	$ 703,929	$ 298,919	$ (3,871)	$ 1,059,384

Balance, December 31, 2015								
Comprehensive income:								
Net income	—	—	—	—	—	77,105	—	77,105
Other comprehensive income, net of tax effects	—	—	—	—	—	—	7,866	7,866
Total comprehensive income								84,971
Cash dividends declared at $0.89 per share	—	—	—	—	—	(21,534)	—	(21,534)
Employee stock purchases			7,793	19	455			474
Stock options exercised	—	—	44,491	111	1,402	—	—	1,513
Restricted stock awards	—	—	39,431	99	(99)	—	—	—
Stock issued pursuant to restricted stock units	—	—	35,903	90	(90)	—	—	—
Common stock repurchased - buyback plan			(32,900)	(82)	(2,048)			(2,130)
Common stock repurchased	—	—	(48,253)	(121)	(3,129)	—	—	(3,250)
Share-based compensation expense	—	—	—	—	4,704	—	—	4,704
Balance, September 30, 2016	—	$ —	24,209,122	$ 60,523	$ 705,124	$ 354,490	$ 3,995	$ 1,124,132

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 77,105	$ 73,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,016	15,704
Provision for loan losses	6,198	5,038
Deferred income taxes	7,622	1,213
Gain on sale of securities, net	(122)	—
Share-based compensation expense	4,704	4,314
Amortization of FDIC indemnification asset	3,566	7,120
Accretion of discount related to performing acquired loans	(4,183)	(4,777)
(Gain) Loss on disposals of premises and equipment	(52)	432
Gain on sale of OREO	(1,672)	(1,492)
Net amortization of premiums on investment securities	4,095	3,293
OREO write downs	4,070	7,673
Fair value adjustment for loans held for sale	(732)	(104)
Originations and purchases of mortgage loans for sale	(557,388)	(725,597)
Proceeds from mortgage loans sales	542,717	738,558
Net change in:		
Accrued interest receivable	(419)	(248)
Prepaid assets	(563)	187
FDIC indemnification asset	3,177	7,098
Miscellaneous other assets	(7,983)	787
Accrued interest payable	(806)	(2,009)
Accrued income taxes	6,775	15,435
Miscellaneous other liabilities	10,393	3,322
Net cash provided by operating activities	112,518	149,885
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	137	—
Proceeds from maturities and calls of investment securities held to maturity	2,466	345
Proceeds from maturities and calls of investment securities available for sale	324,110	175,875
Proceeds from calls of other investment securities	—	1,392
Proceeds from sales of other investment securities	71	95
Purchases of investment securities available for sale	(232,016)	(255,218)
Purchases of other investment securities	(660)	—
Net increase in loans	(533,393)	(175,094)
Net cash received from acquisitions	—	403,548
Payment to terminate FDIC Loss Share Agreements	(2,342)	—

Recoveries of loans previously charged off	2,620	—
Purchases of premises and equipment	(18,320)	(11,677)
Proceeds from sale of OREO	17,392	28,189
Proceeds from sale of premises and equipment	52	25
Net cash provided by (used in) investing activities	(439,883)	167,480
Cash flows from financing activities:		
Net increase in deposits	146,990	178,675
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	17,037	38,980
Repayment of other borrowings	(12)	(46,397)
Common stock issuance	474	444
Common stock repurchase	(5,380)	(1,101)
Dividends paid on common stock	(21,534)	(17,413)
Stock options exercised	1,513	958
Net cash provided by financing activities	139,088	154,146
Net increase (decrease) in cash and cash equivalents	(188,277)	471,511
Cash and cash equivalents at beginning of period	695,794	417,869
Cash and cash equivalents at end of period	$ 507,517	$ 889,380
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	$ 7,036	$ 9,993
Income taxes	$ 25,364	$ 21,946
Schedule of Noncash Investing Transactions:		
Real estate acquired in full or in partial settlement of loans (covered of $2,151 and $6,832, respectively; and non-covered of $9,296 and $16,190, respectively)	$ 11,447	$ 23,022

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

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South State Corporation and Subsidiary

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior period information has been reclassified to conform to the current period presentation, and these reclassifications had no impact on net income or equity as previously reported. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for complete financial statements.

Note 2 — Summary of Significant Accounting Policies

The information contained in the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on February 24, 2016, 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 subsidiaries. References to the "Bank" means South State Corporation's wholly owned subsidiary, South State Bank, a South Carolina banking corporation.

Note 3 — Recent Accounting and Regulatory Pronouncements

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

In June 2016, the FASB 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. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The updated 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. The Company is currently assessing the impact of the new guidance on the Company’s consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share –Based Payment Accounting; ("ASU 2016-09"). ASU 2016-09 introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, ASU 2016-09 requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an "APIC pool." For public business entities, ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the provisions of ASU 2016-09 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent considerations (Reporting Revenue Gross versus Net); ("ASU 2016-08"). ASU 2016-08 updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) Clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. For public business entities, the effective date and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2014-09 which is effective for interim and annual periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. The Company is currently evaluating the provisions of ASU 2016-08 in connection with the provisions of ASU 2014-09 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting; ("ASU 2016-07"). ASU 2016-07 requires an investor to initially apply the equity method of accounting from the date it qualifies for that method, i.e., the date the investor obtains significant influence over the operating and financial policies of an investee. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. For public business entities, the amendments in ASU 2016-05 are effective for interim and annual periods beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The Company is currently evaluating the provisions of ASU 2016-07 to determine the potential impact the new standard will have to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05"). ASU 2016-05 requires an entity to discontinue a designated hedging relationship in certain circumstances, including termination of the derivative hedging instrument or if the entity wishes to change any of the critical terms of the hedging relationship. ASU 2016-05 amends Topic 815 to clarify that novation of a derivative (replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. For public business entities, the amendments in ASU 2016-05 are effective for interim and annual periods beginning after December 15, 2016. An entity has an option to apply the amendments in ASU 2016-05 on either a prospective basis or a modified retrospective basis. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. For public business entities, the amendments in ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach which includes a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the provisions of ASU 2016-02 to determine the potential impact the new standard will have to the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10); Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). This update is intended to improve the recognition and measurement of financial instruments and it requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 also provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes and requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public business entities, the amendments in ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the ASU 2016-01. The Company is currently evaluating the provisions of ASU 2016-01 to determine the potential impact the new standard will have to the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments (“ASU 2015-16”). The update simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. For public companies, this update became effective for interim and annual periods beginning after December 15, 2015, and is to be applied prospectively. ASU 2015-16 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, the FASB issued ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, expanding the guidance provided in ASU 2015-03 by permitting the presentation of costs associated with securing a revolving line of credit as an asset, regardless of whether or not the line of credit is funded. For public companies, both updates will be effective for interim and annual periods beginning after December 15, 2015, and are to be applied retrospectively. ASU 2015-03 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (ii) eliminate the presumption that a general partner should consolidate a limited partnership; (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party

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relationships; and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 became effective for interim and annual reporting periods beginning after December 15, 2015. ASU 2015-02 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, a consensus of the FASB Emerging Issues Task Force ("ASU 2014-16"). This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. ASU 2014-16 is effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. ASU 2014-16 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2015. An entity may apply the standards (i) prospectively to all share-based payment awards that are granted or modified on or after the effective date, or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier application is permitted. ASU 2014-12 became effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures ("ASU 2014-11"). ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company's financial statements. See Note 21–Repurchase Agreements for the disclosure required under the provisions of ASU 2014-11.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, Topic 606 ("ASU 2014-09"). The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. The Company is currently evaluating the provisions of ASU 2014-09 to determine the potential impact the new standard will have to the Company’s financial statements.

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Note 4 — Mergers and Acquisitions

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

- Community Bank & Trust (“CBT”) – January 29, 2010 – Federal Deposit Insurance Corporation (“FDIC”) purchase and assumption agreement
- Habersham Bank (“Habersham”) – February 18, 2011 – FDIC purchase and assumption agreement
- BankMeridian, N.A. (“BankMeridian”) – July 29, 2011 – FDIC purchase and assumption agreement
- Peoples Bancorporation, Inc. (“Peoples”) – April 24, 2012 – Whole bank acquisition
- The Savannah Bancorp, Inc. (“Savannah”) – December 13, 2012 – Whole bank acquisition
- First Financial Holdings, Inc. (“FFHI”) – July 26, 2013 – Whole bank acquisition which resulted in the assumption of FDIC purchase and assumption agreements with respect to Cape Fear Bank (“Cape Fear”) – April 10, 2009 and Plantation Federal Bank (“Plantation”) – April 27, 2012
- Bank of America, N.A. (“BOA”) – August 21, 2015 – Branch acquisition which resulted in the purchase of 12 South Carolina branch locations and one Georgia branch location from BOA

“FDIC purchase and assumption agreement” means that only certain assets and liabilities were acquired by the bank from the FDIC. A “whole bank acquisition” means that the two parties in the transaction agreed to the transaction, and there was no involvement of the FDIC. A “whole bank acquisition with FDIC purchase and assumption agreements” means that the two parties in the transaction agreed to the merger, and there were existing FDIC purchase and assumption agreements. A “branch acquisition” means that the Company purchased specific branches, including certain deposits and loans associated with such branches, from the seller at an agreed upon price. We refer to the loans acquired by the Bank upon the completion of mergers and acquisitions as “acquired loans.”

Southeastern Bank Financial Corporation Acquisition

On June 16, 2016, South State Corporation, (“SSB”) entered into an Agreement and Plan of Merger with Southeastern Bank Financial Corporation, a Georgia corporation ("SBFC"), and a bank holding company headquartered in Augusta, Georgia. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, SBFC will merge with and into SSB, with SSB as the surviving corporation in the Merger. Immediately following the Merger, SBFC's wholly owned bank subsidiary, Georgia Bank & Trust Company of Augusta ("Georgia Bank & Trust"), will merge with and into the Bank, with the Bank as the surviving entity in the bank merger.   At September 30, 2016, SBFC reported $1.9 billion in total assets, $1.0 billion in loans and $1.6 billion in deposits. Georgia Bank & Trust has nine full service branches in Augusta, Georgia, three full service branches in Aiken, South Carolina that serve individuals and businesses and a limited service loan production office in Athens, Georgia.

Under the terms of the merger agreement, SBFC common shareholders will receive aggregate consideration of approximately 4,969,147 shares of SSB common stock. The common stock consideration is based upon a fixed exchange ratio of 0.7307 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

Special shareholder meetings of SBFC and SSB to ratify the merger proposal were held on October 18, 2016 and the merger proposal was approved. All regulatory approvals have been received from the Georgia Department of Banking and Finance, South Carolina State Board of Financials Institutions, the FDIC and the Federal Reserve Bank of Richmond. The transaction is expected to close on or around January 3, 2017.

Branch Acquisition

On August 21, 2015, the Bank completed its acquisition from BOA of 12 South Carolina branches located in Florence, Greenwood, Orangeburg, Sumter, Newberry, Batesburg-Leesville, Abbeville and Hartsville, South Carolina, and one Georgia branch located in Hartwell, Georgia. Under the terms of the Purchase and Assumption Agreement dated April 22, 2015, the Bank paid a deposit premium of $25.0 million, equal to 5.5% of the average daily deposits for the 30- day period immediately prior to the acquisition date. In addition, the Bank acquired approximately $3.1 million in loans and $4.1 million in premises and equipment. This transaction was fully taxable and there were no deferred tax assets or liabilities recorded as a result of this transaction.

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The branch acquisition was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date. Fair values are preliminary and subject to refinement for up to a year after the closing date of the acquisition.

The following table presents the assets acquired and liabilities assumed as of August 21, 2015 and their initial fair value estimates:

(Dollars in thousands)	As Recorded by BOA	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 428,567	$ —		$ 428,567
Loans	3,445	(295)	(a)	3,150
Premises and equipment	6,267	(2,138)	(b)	4,129
Intangible assets	—	6,800	(c)	6,800
Other assets	66	—		66
Total assets	$ 438,345	$ 4,367		$ 442,712
Liabilities				
Deposits:				
Noninterest-bearing	$ 97,440	$ —		$ 97,440
Interest-bearing	340,849	—		340,849
Total deposits	438,289	—		438,289
Other liabilities	56	—		56
Total liabilities	438,345	—		438,345
Net identifiable assets acquired over (under) liabilities assumed	—	4,367		4,367
Goodwill	—	20,652		20,652
Net assets acquired over (under) liabilities assumed	$ —	$ 25,019		$ 25,019
Consideration:				
Cash paid as deposit premium	$ 25,019			
Fair value of total consideration transferred	$ 25,019			

Explanation of fair value adjustments

(a)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired loan portfolio.

(b)—Adjustment reflects the fair value adjustments based on the Company's evaluation of the acquired premises and equipment.

(c)— Adjustment reflects the recording of the core deposit intangible on the acquired core deposit accounts.

Note 5 — 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
September 30, 2016:				
State and municipal obligations	$ 6,851	$ 225	$ —	$ 7,076
December 31, 2015:				
State and municipal obligations	$ 9,314	$ 409	$ —	$ 9,723
September 30, 2015:				
State and municipal obligations	$ 9,314	$ 444	$ —	$ 9,758

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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
September 30, 2016:				
Government-sponsored entities debt*	$ 62,996	$ 20	$ (36)	$ 62,980
State and municipal obligations	112,797	4,542	(15)	117,324
Mortgage-backed securities**	729,699	11,721	(143)	741,277
Corporate stocks	3,658	380	(245)	3,793
	$ 909,150	$ 16,663	$ (439)	$ 925,374
December 31, 2015:				
Government-sponsored entities debt*	$ 163,577	$ 39	$ (1,109)	$ 162,507
State and municipal obligations	127,293	4,185	(114)	131,364
Mortgage-backed securities**	710,816	4,063	(3,030)	711,849
Corporate stocks	3,673	440	(292)	3,821
	$ 1,005,359	$ 8,727	$ (4,545)	$ 1,009,541
September 30, 2015:				
Government-sponsored entities debt*	$ 123,926	$ 188	$ (320)	$ 123,794
State and municipal obligations	130,553	3,946	(161)	134,338
Mortgage-backed securities**	616,341	9,170	(438)	625,073
Corporate stocks	3,161	411	(979)	2,593
	$ 873,981	$ 13,715	$ (1,898)	$ 885,798

* - The Company's government-sponsored entities holdings are comprised of debt securities offered by Federal Home Loan Mortgage Corporation ("FHLMC") or Freddie Mac, Federal National Mortgage Association ("FNMA") or Fannie Mae, FHLB, and Federal Farm Credit Banks ("FFCB"). Also included in the Company's government-sponsored entities are debt securities offered by the Small Business Administration ("SBA"), which have the full faith and credit backing of the United States Government.

** - All of the mortgage-backed securities are issued by government-sponsored entities; there are no private-label holdings.

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
Federal Home Loan Bank stock	$ 7,840	$ —	$ —	$ 7,840
Investment in unconsolidated subsidiaries	1,642	—	—	1,642

	$ 9,482	$ —	$ —	$ 9,482
December 31, 2015:				
Federal Home Loan Bank stock	$ 7,251	$ —	$ —	$ 7,251
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 8,893	$ —	$ —	$ 8,893
September 30, 2015:				
Federal Home Loan Bank stock	$ 7,389	$ —	$ —	$ 7,389
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 9,031	$ —	$ —	$ 9,031

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The amortized cost and fair value of debt securities at September 30, 2016 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. Corporate Stocks including equity and preferred stocks with no stated maturity are included in the due after ten years category.

	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	$ 1,928	$ 1,969	$ 6,804	$ 6,861
Due after one year through five years	2,984	3,084	90,063	90,966
Due after five years through ten years	1,939	2,023	153,896	158,477
Due after ten years	—	—	658,387	669,070
	$ 6,851	$ 7,076	$ 909,150	$ 925,374

Information pertaining to the Company’s securities with gross unrealized losses at September 30, 2016, December 31, 2015 and September 30, 2015, 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
September 30, 2016:				
Securities Available for Sale				
Government-sponsored entities debt	$ 36	$ 11,962	$ —	$ —
State and municipal obligations	15	1,947	—	—
Mortgage-backed securities	106	56,023	37	2,325
Corporate stocks	—	—	245	1,496
	$ 157	$ 69,932	$ 282	$ 3,821
December 31, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	$ 717	$ 88,224	$ 392	$ 17,598
State and municipal obligations	9	3,755	105	2,650
Mortgage-backed securities	2,600	347,380	430	23,772
Corporate stocks	—	—	292	1,450
	$ 3,326	$ 439,359	$ 1,219	$ 45,470
September 30, 2015:				
Securities Available for Sale				
Government-sponsored entities debt	$ 77	$ 14,915	$ 243	$ 32,732
State and municipal obligations	12	5,074	149	4,221

Mortgage-backed securities	179	32,579	259	24,555
Corporate stocks	—	—	979	1,251
	$ 268	$ 52,568	$ 1,630	$ 62,759

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or for a debt security whether it is more-likely-than-not that the Company will be required to sell the debt security prior to recovering its fair value, and (5) the anticipated outlook for changes in the general level of interest rates. All debt securities available for sale in an unrealized loss position as of September 30, 2016 continue to perform as scheduled. All equity securities available for sale in an unrealized loss position as of September 30, 2016 continue to pay dividends. As part of the Company's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategy, cash flow

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needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at September 30, 2016. Management continues to monitor all of these securities with a high degree of scrutiny. There can be no assurance that the Company will not conclude in future periods that conditions existing at that time indicate some or all of these securities may be sold or are other than temporarily impaired, which would require a charge to earnings in such periods.

Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 562,336	$ 401,979	$ 372,077
Commercial non-owner occupied	630,437	487,777	406,489
Total commercial non-owner occupied real estate	1,192,773	889,756	778,566
Consumer real estate:			
Consumer owner occupied	1,183,441	1,018,984	987,863
Home equity loans	363,825	319,255	308,563
Total consumer real estate	1,547,266	1,338,239	1,296,426
Commercial owner occupied real estate	1,153,480	1,033,398	1,012,428
Commercial and industrial	617,525	503,808	462,588
Other income producing property	179,595	175,848	169,997
Consumer	305,687	233,104	223,210
Other loans	11,787	46,573	51,501
Total non-acquired loans	5,008,113	4,220,726	3,994,716
Less allowance for loan losses	(37,319)	(34,090)	(35,116)
Non-acquired loans, net	$ 4,970,794	$ 4,186,636	$ 3,959,600

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

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
FASB ASC Topic 310-20 acquired loans:			

Commercial non-owner occupied real estate:			
Construction and land development	$ 10,683	$ 13,849	$ 16,482
Commercial non-owner occupied	35,775	40,103	42,172
Total commercial non-owner occupied real estate	46,458	53,952	58,654
Consumer real estate:			
Consumer owner occupied	435,132	518,107	542,278
Home equity loans	168,758	190,968	203,025
Total consumer real estate	603,890	709,075	745,303
Commercial owner occupied real estate	29,444	39,220	42,524
Commercial and industrial	14,201	25,475	27,459
Other income producing property	43,152	51,169	56,092
Consumer	148,512	170,647	177,408
Total FASB ASC Topic 310-20 acquired loans	$ 885,657	$ 1,049,538	$ 1,107,440

The unamortized discounted related to the acquired non-credit impaired loans totaled $12.6 million, $16.8 million, and $18.7 million at September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

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In accordance with FASB ASC Topic 310-30, the Company aggregated acquired loans that have common risk characteristics into pools of loan categories as described in the table below. The following is a summary of acquired credit impaired loans accounted for under FASB ASC Topic 310-30 (identified as credit impaired at the time of acquisition), net of related discount:

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-CBT	$ 10,958	$ 12,628	$ 12,963
Commercial real estate	220,489	255,430	266,465
Commercial real estate—construction and development	47,081	54,272	55,168
Residential real estate	268,968	313,319	330,754
Consumer	61,866	70,734	73,632
Commercial and industrial	26,658	31,193	34,074
Single pay	—	—	24
Total FASB ASC Topic 310-30 acquired loans	636,020	737,576	773,080
Less allowance for loan losses	(3,403)	(3,706)	(4,474)
FASB ASC Topic 310-30 acquired loans, net	$ 632,617	$ 733,870	$ 768,606

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of acquired credit impaired loans as of September 30, 2016, December 31, 2015 and September 30, 2015 are as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Contractual principal and interest	$ 822,340	$ 968,857	$ 1,025,557
Non-accretable difference	(22,222)	(29,743)	(52,463)
Cash flows expected to be collected	800,118	939,114	973,094
Accretable yield	(164,098)	(201,538)	(200,014)
Carrying value	$ 636,020	$ 737,576	$ 773,080
Allowance for acquired loan losses	$ (3,403)	$ (3,706)	$ (4,474)

Income on acquired credit impaired loans that are not impaired at the acquisition date is recognized in the same manner as loans impaired at the acquisition date. A portion of the fair value discount on acquired non-impaired loans has been ascribed as an accretable difference that is accreted into interest income over the estimated remaining life of the loans. The remaining nonaccretable difference represents cash flows not expected to be collected.

The following are changes in the carrying value of acquired credit impaired loans:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 733,870	$ 919,402
Net reductions for payments, foreclosures, and accretion	(101,556)	(153,687)
Change in the allowance for loan losses on acquired loans	303	2,891
Balance at end of period, net of allowance for loan losses on acquired loans	$ 632,617	$ 768,606

The table below reflects refined accretable yield balance for acquired credit impaired loans:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 201,538	$ 306,826
Accretion	(56,850)	(76,168)
Reclass of nonaccretable difference due to improvement in expected cash flows	18,631	39,030
Other changes, net	779	(69,674)
Balance at end of period	$ 164,098	$ 200,014

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In the third quarter of 2016, the accretable yield balance declined by $17.3 million as loan accretion (income) was recognized. This was partially offset by improved expected cash flows of $5.5 million.

During the recast in the first quarter of 2015, the accretable yield balance declined significantly by $64.1 million. This decline was primarily the result of an increase in the assumed prepayment speed of certain acquired loan pools from the FFHI acquisition. The actual cash flows were faster than what had been previously expected (assumed) and required an adjustment in the assumed prepayment speed used to forecast expected cash flows. The result was a decrease in the accretable yield balance, however, there was no impairment since this changed the timing and amount of the receipt of future cash on these pools of loans (the Company anticipates receiving the cash sooner than previously expected).

Our loan loss policy adheres to generally accepted accounting principles in the United States as well as interagency guidance. The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management's judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowances for losses on loans. These agencies may require management to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these and other factors, it is possible that the allowances for losses on loans may change. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The allowance for loan losses on non-acquired loans consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience for each class of loans and management's evaluation and "risk grading" of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. Currently, these adjustments are applied to the non-acquired loan portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Generally, the need for specific reserve is evaluated on impaired loans, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

With the FFHI acquisition, the Company segregated the loan portfolio into performing loans ("non-credit impaired") and acquired credit impaired loans. The performing loans and revolving type loans are accounted for under FASB ASC 310-20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non-acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of acquired credit impaired loans, and in subsequent accounting, the Company generally aggregates purchased loans into pools of loans with common risk characteristics. Expected cash flows at the acquisition date in excess of the fair value of loans are recorded as interest income over the life of the loans using a level yield method if the timing and amount of the future cash flows of the pool is reasonably estimable. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are reclassified from the non-accretable difference to accretable yield and recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Management

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analyzes the acquired loan pools using various assessments of risk to determine an expected loss. The expected loss is derived based upon a loss given default based upon the collateral type and/or detailed review by loan officers and the probability of default that is determined based upon historical data at the loan level. All acquired loans managed by the Bank's Special Assets Management Group are reviewed quarterly and assigned a loss given default. Acquired loans not managed by the Bank's Special Assets Management Group are reviewed twice a year in a similar method to the Company's originated portfolio of loans which follow review thresholds based on risk rating categories. In the fourth quarter of 2015, the Company modified its methodology to a more granular approach in determining loss given default on substandard loans with a net book balance between $100,000 and $500,000 by adjusting the loss given default to 90% of the most current collateral valuation based on appraised value. Substandard loans greater than $500,000 were individually assigned loss given defaults each quarter. Trends are reviewed in terms of accrual status, past due status, and weighted-average grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the mark is assessed to correlate the directional consistency of the expected loss for each pool. Offsetting the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC is adjusted to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses.

On June 23, 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its outstanding loss share agreements. The loss share agreements were entered into with the FDIC in 2009, 2010, 2011 and 2012 either by the Bank or by First Federal Bank, acquired by the Bank in July of 2013. As a result of the termination agreement, all assets previously classified as covered became uncovered effective June 23, 2016, and as a result the Bank will now recognize the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts.

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

(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Three Months Ended September 30, 2016:				
Balance at beginning of period	$ 36,939	$ —	$ 3,752	$ 40,691
Loans charged-off	(1,108)	(280)	—	(1,388)
Recoveries of loans previously charged off (1)	713	120	—	833
Net charge-offs	(395)	(160)	—	(555)
Provision	775	160	(23)	912
Benefit attributable to FDIC loss share agreements	—	—	—	—
Total provision for loan losses charged to operations	775	160	(23)	912
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(326)	(326)
Balance at end of period	$ 37,319	$ —	$ 3,403	$ 40,722
Three Months Ended September 30, 2015:				

Balance at beginning of period	$ 34,782	$ —	$ 4,688	$ 39,470
Loans charged-off	(1,530)	(141)	—	(1,671)
Recoveries of loans previously charged off (1)	655	273	—	928
Net charge-offs	(875)	132	—	(743)
Provision	1,209	(132)	(2)	1,075
Benefit attributable to FDIC loss share agreements	—	—	—	—
Total provision for loan losses charged to operations	1,209	(132)	(2)	1,075
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(212)	(212)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590

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(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Nine Months Ended September 30, 2016:				
Balance at beginning of period	$ 34,090	$ —	$ 3,706	$ 37,796
Loans charged-off	(4,384)	(810)	—	(5,194)
Recoveries of loans previously charged off (1)	2,358	262	—	2,620
Net charge-offs	(2,026)	(548)	—	(2,574)
Provision	5,255	548	372	6,175
Benefit attributable to FDIC loss share agreements	—	—	23	23
Total provision for loan losses charged to operations	5,255	548	395	6,198
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(23)
Reduction due to loan removals	—	—	(675)	(675)
Balance at end of period	$ 37,319	$ —	$ 3,403	$ 40,722
Nine Months Ended September 30, 2015:				
Balance at beginning of period	$ 34,539	$ —	$ 7,365	$ 41,904
Loans charged-off	(4,206)	(2,510)	—	(6,716)
Recoveries of loans previously charged off (1)	2,253	323	—	2,576
Net charge-offs	(1,953)	(2,187)	—	(4,140)
Provision	2,530	2,187	300	5,017
Benefit attributable to FDIC loss share agreements	—	—	21	21
Total provision for loan losses charged to operations	2,530	2,187	321	5,038
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(21)	(21)
Reduction due to loan removals	—	—	(3,191)	(3,191)
Balance at end of period	$ 35,116	$ —	$ 4,474	$ 39,590

(1) – Recoveries related to acquired credit impaired loans are recorded through other noninterest income on the consolidated statement of income and do not run through the allowance for loan losses.

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

nds)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans
led									
.6									
n									

2016	$ 4,665	$ 4,656	$ 8,003	$ 7,530	$ 3,148	$ 4,269	$ 1,812	$ 2,014	$ 842
	—	—	(16)	(45)	—	(31)	—	(1,016)	—
	241	28	25	27	64	104	8	216	—
)	(795)	(93)	516	338	69	368	(201)	1,094	(521)
16	$ 4,111	$ 4,591	$ 8,528	$ 7,850	$ 3,281	$ 4,710	$ 1,619	$ 2,308	$ 321
y									
	$ 359	$ 181	$ 65	$ 58	$ 38	$ 385	$ 289	$ 4	$ —
	$ 3,752	$ 4,410	$ 8,463	$ 7,792	$ 3,243	$ 4,325	$ 1,330	$ 2,304	$ 321
y									
	$ 3,431	$ 764	$ 6,352	$ 3,127	$ 1,599	$ 1,453	$ 4,319	$ 142	$ —
	558,905	629,673	1,147,128	1,180,314	362,226	616,072	175,276	305,545	11,787
d									
	$ 562,336	$ 630,437	$ 1,153,480	$ 1,183,441	$ 363,825	$ 617,525	$ 179,595	$ 305,687	$ 11,787
led									
15									
n									
	$ 4,998	$ 3,038	$ 8,684	$ 7,125	$ 2,868	$ 3,983	$ 2,019	$ 1,608	$ 459
	(85)	(5)	(23)	(230)	(74)	(102)	—	(1,011)	—
	122	23	7	89	91	79	11	233	—
)	(826)	268	376	471	26	16	(3)	886	(5)
15	$ 4,209	$ 3,324	$ 9,044	$ 7,455	$ 2,911	$ 3,976	$ 2,027	$ 1,716	$ 454
y									
	$ 585	$ 26	$ 248	$ 121	$ 3	$ 21	$ 430	$ 3	$ 19
	$ 3,624	$ 3,298	$ 8,796	$ 7,334	$ 2,908	$ 3,955	$ 1,597	$ 1,713	$ 435
y									
	$ 5,727	$ 2,569	$ 11,445	$ 7,818	$ 293	$ 1,045	$ 4,788	$ 101	$ 693
	366,350	403,920	1,000,983	980,045	308,270	461,543	165,209	223,109	50,808
d									
	$ 372,077	$ 406,489	$ 1,012,428	$ 987,863	$ 308,563	$ 462,588	$ 169,997	$ 223,210	$ 51,501

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(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Ot Lo
Nine Months Ended September 30, 2016									
Allowance for loan losses:									
Balance, December 31, 2015	$ 4,116	$ 3,568	$ 8,341	$ 7,212	$ 2,929	$ 3,974	$ 1,963	$ 1,694	$ 2
Charge-offs	(159)	—	(117)	(174)	(767)	(358)	(7)	(2,802)	
Recoveries	848	59	46	125	239	207	47	787	
Provision (benefit)	(694)	964	258	687	880	887	(384)	2,629	2
Balance, September 30, 2016	$ 4,111	$ 4,591	$ 8,528	$ 7,850	$ 3,281	$ 4,710	$ 1,619	$ 2,308	$ 3
Nine Months Ended September 30, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$ 5,666	$ 3,154	$ 8,415	$ 6,866	$ 2,829	$ 3,561	$ 2,232	$ 1,367	$ 4
Charge-offs	(185)	(88)	(575)	(274)	(282)	(357)	(13)	(2,432)	
Recoveries	256	52	23	134	201	745	77	765	
Provision (benefit)	(1,528)	206	1,181	729	163	27	(269)	2,016	5
Balance, September 30, 2015	$ 4,209	$ 3,324	$ 9,044	$ 7,455	$ 2,911	$ 3,976	$ 2,027	$ 1,716	$ 4

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

rs in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Months Ended nber 30, 2016									
ance for loan									
e at beginning od	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	—	—	(3)	—	(105)	(23)	—	(149)	(280)
eries	1	—	—	3	89	1	—	26	120

on (benefit)	(1)	—	3	(3)	16	22	—	123	160
e, nber 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	10,683	35,775	29,444	435,132	168,758	14,201	43,152	148,512	885,6
acquired edit impaired									
	$ 10,683	$ 35,775	$ 29,444	$ 435,132	$ 168,758	$ 14,201	$ 43,152	$ 148,512	$ 885,6
Months Ended nber 30, 2015									
ance for loan									
e at beginning od	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
e-offs	—	—	—	8	(79)	(7)	—	(63)	(141)
eries	1	—	—	95	161	2	3	11	273
on (benefit)	(1)	—	—	(103)	(82)	5	(3)	52	(132)
e, nber 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
individually ted for ment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
collectively ted for ment	16,482	42,172	42,524	542,278	203,025	27,459	56,092	177,408	1,107
acquired edit impaired									
	$ 16,482	$ 42,172	$ 42,524	$ 542,278	$ 203,025	$ 27,459	$ 56,092	$ 177,408	$ 1,107

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(Dollars in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Total
Nine Months Ended September 30, 2016									
Allowance for loan losses:									
Balance, December 31, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	(3)	—	(292)	(30)	—	(485)	(810)
Recoveries	3	—	—	9	197	3	1	49	262
Provision (benefit)	(3)	—	3	(9)	95	27	(1)	436	548
Balance, September 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Nine Months Ended September 30, 2015									
Allowance for loan losses:									
Balance, December 31, 2014	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	(360)	(1,459)	(120)	(3)	(568)	(2,510)
Recoveries	3	—	—	100	178	17	4	21	323
Provision (benefit)	(3)	—	—	260	1,281	103	(1)	547	2,187
Balance, September 30, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Three Months Ended September 30, 2016								
Allowance for loan losses:								
Balance, June 30, 2016	$ —	$ 35	$ 151	$ 2,592	$ 778	$ 196	$ —	$ 3,752
Provision (benefit) for loan losses before benefit attributable to	—	—	—	2	(23)	(2)	—	(23)

FDIC loss share agreements								
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision (benefit) for loan losses charged to operations	—	—	—	2	(23)	(2)	—	(23)
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	—	5	(6)	(102)	(211)	(12)	—	(326)
Balance, September 30, 2016	$ —	$ 40	$ 145	$ 2,492	$ 544	$ 182	$ —	$ 3,403
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ —	$ 40	$ 145	$ 2,492	$ 544	$ 182	$ —	$ 3,403
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	10,958	220,489	47,081	268,968	61,866	26,658	—	636,020
Total acquired credit impaired loans	$ 10,958	$ 220,489	$ 47,081	$ 268,968	$ 61,866	$ 26,658	$ —	$ 636,020
Three Months Ended September 30, 2015								
Allowance for loan losses:								
Balance , June 30, 2015	$ (66)	$ 532	$ 344	$ 3,183	$ 449	$ 197	$ 49	$ 4,688
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	7	—	433	(160)	(249)	15	(48)	(2)
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision (benefit) for loan losses charged to operations	7	—	433	(160)	(249)	15	(48)	(2)

Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	59	(7)	(49)	(160)	(44)	(12)	1	(212)
Balance, September 30, 2015	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	12,963	266,465	55,168	330,754	73,632	34,074	24	773,080
Total acquired credit impaired loans	$ 12,963	$ 266,465	$ 55,168	$ 330,754	$ 73,632	$ 34,074	$ 24	$ 773,080

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(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Nine Months Ended September 30, 2016								
Allowance for loan losses:								
Balance, December 31, 2015	$ —	$ 56	$ 177	$ 2,986	$ 313	$ 174	$ —	$ 3,706
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	—	1	—	(178)	511	38	—	372
Benefit attributable to FDIC loss share agreements	—	—	—	23	—	—	—	23
Total provision (benefit) for loan losses charged to operations	—	1	—	(155)	511	38	—	395
Provision (benefit) for loan losses recorded through the FDIC loss share receivable	—	—	—	(23)	—	—	—	(23)
Reduction due to loan removals	—	(16)	(32)	(316)	(281)	(30)	—	(675)
Balance, September 30, 2016	$ —	$ 41	$ 145	$ 2,492	$ 543	$ 182	$ —	$ 3,403
Nine Months Ended September 30, 2015								
Allowance for loan losses:								
Balance, December 31, 2014	$ 135	$ 1,444	$ 336	$ 4,387	$ 275	$ 718	$ 70	$ 7,365
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	7	3	443	(138)	141	(107)	(49)	300
Benefit attributable to FDIC loss share agreements	—	—	—	—	(107)	127	1	21
Total provision (benefit) for loan losses charged to	7	3	443	(138)	34	20	(48)	321

operations								
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	107	(127)	(1)	(21)
Reduction due to loan removals	(142)	(922)	(51)	(1,386)	(260)	(411)	(19)	(3,191)
Balance, September 30, 2015	$ —	$ 525	$ 728	$ 2,863	$ 156	$ 200	$ 2	$ 4,474

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

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

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

· Pass—These loans range from minimal credit risk to average, however, still acceptable credit risk.

· Special mention—A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.

· Substandard—A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

· Doubtful—A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
rs in nds)	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	Septem 2015
	$ 548,984	$ 382,167	$ 349,808	$ 615,521	$ 471,466	$ 388,303	$ 1,118,421	$ 994,442	$ 970,(
l n	8,492	13,633	15,629	11,499	13,912	14,888	26,429	29,478	28,79
ndard	4,860	6,179	6,640	3,417	2,399	3,298	8,630	9,478	13,53
ful	—	—	—	—	—	—	—	—	—
	$ 562,336	$ 401,979	$ 372,077	$ 630,437	$ 487,777	$ 406,489	$ 1,153,480	$ 1,033,398	$ 1,012

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	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	Septem 2015
	$ 604,058	$ 497,572	$ 456,912	$ 165,451	$ 163,975	$ 157,233	$ 3,052,435	$ 2,509,622	$ 2,322
l									
n	11,246	4,472	4,321	12,099	8,047	8,808	69,765	69,542	72,44
ndard	2,221	1,764	1,355	2,045	3,826	3,956	21,173	23,646	28,78
ful	—	—	—	—	—	—	—	—	—
	$ 617,525	$ 503,808	$ 462,588	$ 179,595	$ 175,848	$ 169,997	$ 3,143,373	$ 2,602,810	$ 2,423

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

	Consumer Owner Occupied			Home Equity			Consumer		
rs in ands)	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	Septen 2015
	$ 1,155,481	$ 984,780	$ 953,523	$ 349,382	$ 304,744	$ 294,712	$ 304,117	$ 231,294	$ 221,
al									
on	14,370	17,777	17,198	8,493	8,171	7,987	611	771	897
andard	13,590	16,427	17,142	5,950	6,318	5,842	959	1,039	798
tful	—	—	—	—	22	22	—	—	—
	$ 1,183,441	$ 1,018,984	$ 987,863	$ 363,825	$ 319,255	$ 308,563	$ 305,687	$ 233,104	$ 223,

	Other			Consumer Total		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 11,787	$ 46,573	$ 51,501	$ 1,820,767	$ 1,567,391	$ 1,521,251
Special mention	—	—	—	23,474	26,719	26,082
Substandard	—	—	—	20,499	23,784	23,782
Doubtful	—	—	—	—	22	22
	$ 11,787	$ 46,573	$ 51,501	$ 1,864,740	$ 1,617,916	$ 1,571,137

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

	Total Non-acquired Loans		
(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 4,873,202	$ 4,077,013	$ 3,843,597

Special mention	93,239	96,261	98,527
Substandard	41,672	47,430	52,570
Doubtful	—	22	22
	$ 5,008,113	$ 4,220,726	$ 3,994,716

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

(Dollars in thousands)	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 9,562	$ 12,935	$ 15,196	$ 29,509	$ 33,485	$ 35,562	$ 28,926	$ 38,623	$ 42,189
Special mention	278	109	113	6,173	637	399	—	377	291
Substandard	843	805	1,173	93	5,981	6,211	518	220	44
Doubtful	—	—	—	—	—	—	—	—	—
	$ 10,683	$ 13,849	$ 16,482	$ 35,775	$ 40,103	$ 42,172	$ 29,444	$ 39,220	$ 42,524

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 14,016	$ 24,621	$ 26,473	$ 42,159	$ 49,783	$ 54,684	$ 124,172	$ 159,447	$ 174,104
Special mention	122	166	213	276	592	435	6,849	1,881	1,451
Substandard	63	688	773	717	794	973	2,234	8,488	9,174
Doubtful	—	—	—	—	—	—	—	—	—
	$ 14,201	$ 25,475	$ 27,459	$ 43,152	$ 51,169	$ 56,092	$ 133,255	$ 169,816	$ 184,729

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

	Consumer Owner Occupied			Home Equity			Consumer		
lars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	Septemb 2015
	$ 431,712	$ 514,817	$ 537,884	$ 158,672	$ 180,472	$ 190,648	$ 145,594	$ 167,399	$ 174,4
cial mention	759	557	2,009	5,340	4,202	5,198	1,118	729	630
standard	2,661	2,733	2,385	4,746	6,294	7,179	1,800	2,519	2,313
btful	—	—	—	—	—	—	—	—	—
	$ 435,132	$ 518,107	$ 542,278	$ 168,758	$ 190,968	$ 203,025	$ 148,512	$ 170,647	$ 177,4

	Consumer Total		
	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 735,978	$ 862,688	$ 902,997
Special mention	7,217	5,488	7,837
Substandard	9,207	11,546	11,877
Doubtful	—	—	—
	$ 752,402	$ 879,722	$ 922,711

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

	Total Acquired Non-credit Impaired Loans		
(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ 860,150	$ 1,022,135	$ 1,077,101
Special mention	14,066	7,369	9,288
Substandard	11,441	20,034	21,051
Doubtful	—	—	—
	$ 885,657	$ 1,049,538	$ 1,107,440

The following table presents the credit risk profile by risk grade of acquired credit impaired loans (identified as credit-impaired at the time of acquisition), net of the related discount (this table should be read in conjunction with the allowance for acquired credit impaired loan losses table found on page 22):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate—Construction and Development		
ars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	Septe 2015
	$ 9,616	$ 11,238	$ 11,027	$ 164,737	$ 177,656	$ 179,481	$ 20,889	$ 26,308	$ 25,
al mention	1,000	1,018	1,045	32,081	37,607	37,674	14,092	14,532	12,
andard	342	372	891	23,671	40,167	49,310	12,100	13,432	16,
tful	—	—	—	—	—	—	—	—	—
	$ 10,958	$ 12,628	$ 12,963	$ 220,489	$ 255,430	$ 266,465	$ 47,081	$ 54,272	$ 55,

	Residential Real Estate			Consumer			Commercial & Industrial		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 2015
Pass	$ 143,946	$ 166,309	$ 166,106	$ 9,072	$ 10,703	$ 11,156	$ 18,715	$ 22,358	$ 23,003
Special mention	54,597	63,341	69,998	20,635	23,331	24,248	4,476	2,549	2,092
Substandard	70,425	83,669	94,650	32,159	36,700	38,228	3,467	6,286	8,979
Doubtful	—	—	—	—	—	—	—	—	—
	$ 268,968	$ 313,319	$ 330,754	$ 61,866	$ 70,734	$ 73,632	$ 26,658	$ 31,193	$ 34,074

	Single Pay			Total Acquired Credit Impaired Loans		
	September 30, 2016	December 31, 2015	September 30, 2015	September 30, 2016	December 31, 2015	September 30, 2015
Pass	$ —	$ —	$ 10	$ 366,975	$ 414,572	$ 416,567
Special mention	—	—	—	126,881	142,378	147,932
Substandard	—	—	14	142,164	180,626	208,581
Doubtful	—	—	—	—	—	—
	$ —	$ —	$ 24	$ 636,020	$ 737,576	$ 773,080

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The risk grading of acquired credit impaired loans is determined utilizing a loan's contractual balance, while the amount recorded in the financial statements and reflected above is the carrying value. In an FDIC-assisted acquisition, covered acquired loans are initially recorded at their fair value, including a credit discount due to the high concentration of substandard and doubtful loans. Note that all covered acquired loans are now uncovered due to the early termination agreement with the FDIC on June 23, 2016.

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

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2016						
Commercial real estate:						
Construction and land development	$ 548	$ 249	$ 1,079	$ 1,876	$ 560,460	$ 562,336
Commercial non-owner occupied	655	768	207	1,630	628,807	630,437
Commercial owner occupied	1,795	71	1,267	3,133	1,150,347	1,153,480
Consumer real estate:						
Consumer owner occupied	1,549	894	1,682	4,125	1,179,316	1,183,441
Home equity loans	1,000	186	832	2,018	361,807	363,825
Commercial and industrial	229	739	674	1,642	615,883	617,525
Other income producing property	318	187	413	918	178,677	179,595
Consumer	286	430	302	1,018	304,669	305,687
Other loans	—	—	—	—	11,787	11,787
	$ 6,380	$ 3,524	$ 6,456	$ 16,360	$ 4,991,753	$ 5,008,113
December 31, 2015						
Commercial real estate:						
Construction and land development	$ 323	$ 136	$ 915	$ 1,374	$ 400,605	$ 401,979
Commercial non-owner occupied	867	—	184	1,051	486,726	487,777
Commercial owner occupied	1,269	608	1,530	3,407	1,029,991	1,033,398
Consumer real estate:						
Consumer owner occupied	1,503	308	3,149	4,960	1,014,024	1,018,984
Home equity loans	899	1,046	598	2,543	316,712	319,255
Commercial and industrial	173	166	234	573	503,235	503,808
Other income producing property	241	207	275	723	175,125	175,848
Consumer	351	136	395	882	232,222	233,104
Other loans	48	43	64	155	46,418	46,573
	$ 5,674	$ 2,650	$ 7,344	$ 15,668	$ 4,205,058	$ 4,220,726
September 30, 2015						
Commercial real estate:						

Construction and land development	$ 752	$ 209	$ 1,113	$ 2,074	$ 370,003	$ 372,077
Commercial non-owner occupied	1,218	—	1,597	2,815	403,674	406,489
Commercial owner occupied	2,418	108	5,350	7,876	1,004,552	1,012,428
Consumer real estate:						
Consumer owner occupied	1,886	1,180	3,044	6,110	981,753	987,863
Home equity loans	661	275	584	1,520	307,043	308,563
Commercial and industrial	404	90	160	654	461,934	462,588
Other income producing property	246	194	450	890	169,107	169,997
Consumer	656	114	314	1,084	222,126	223,210
Other loans	—	—	—	—	51,501	51,501
	$ 8,241	$ 2,170	$ 12,612	$ 23,023	$ 3,971,693	$ 3,994,716

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

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2016						
Commercial real estate:						
Construction and land development	$ 5	$ —	$ 160	$ 165	$ 10,518	$ 10,683
Commercial non-owner occupied	—	28	—	28	35,747	35,775
Commercial owner occupied	326	110	302	738	28,706	29,444
Consumer real estate:						
Consumer owner occupied	140	417	221	778	434,354	435,132
Home equity loans	719	207	921	1,847	166,911	168,758
Commercial and industrial	38	—	—	38	14,163	14,201
Other income producing property	26	—	—	26	43,126	43,152
Consumer	409	97	549	1,055	147,457	148,512
	$ 1,663	$ 859	$ 2,153	$ 4,675	$ 880,982	$ 885,657
December 31, 2015						
Commercial real estate:						
Construction and land development	$ —	$ 21	$ 48	$ 69	$ 13,780	$ 13,849
Commercial non-owner occupied	—	—	—	—	40,103	40,103
Commercial owner occupied	120	176	44	340	38,880	39,220
Consumer real estate:						
Consumer owner occupied	694	4	688	1,386	516,721	518,107
Home equity loans	897	412	482	1,791	189,177	190,968
Commercial and industrial	1	1	5	7	25,468	25,475
Other income producing property	—	—	7	7	51,162	51,169
Consumer	257	270	797	1,324	169,323	170,647
	$ 1,969	$ 884	$ 2,071	$ 4,924	$ 1,044,614	$ 1,049,538
September 30, 2015						
Commercial real estate:						
Construction and land development	$ —	$ —	$ 39	$ 39	$ 16,443	$ 16,482
Commercial non-owner occupied	32	—	—	32	42,140	42,172
Commercial owner occupied	245	4	39	288	42,236	42,524
Consumer real estate:						
Consumer owner occupied	116	150	516	782	541,496	542,278
Home equity loans	658	92	537	1,287	201,738	203,025
Commercial and industrial	—	2	238	240	27,219	27,459

Other income producing property	97	7	5	109	55,983	56,092
Consumer	598	244	722	1,564	175,844	177,408
	$ 1,746	$ 499	$ 2,096	$ 4,341	$ 1,103,099	$ 1,107,440

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

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
September 30, 2016						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 10,958	$ 10,958
Commercial real estate	896	238	2,813	3,947	216,542	220,489
Commercial real estate—construction and development	266	1,971	1,137	3,374	43,707	47,081
Residential real estate	4,260	2,015	5,717	11,992	256,976	268,968
Consumer	1,124	332	1,233	2,689	59,177	61,866
Commercial and industrial	10	30	637	677	25,981	26,658
Single pay	—	—	—	—	—	—
	$ 6,556	$ 4,586	$ 11,537	$ 22,679	$ 613,341	$ 636,020
December 31, 2015						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 12,628	$ 12,628
Commercial real estate	1,118	426	5,624	7,168	248,262	255,430
Commercial real estate—construction and development	784	367	2,162	3,313	50,959	54,272
Residential real estate	4,705	1,155	8,095	13,955	299,364	313,319
Consumer	1,756	380	2,085	4,221	66,513	70,734
Commercial and industrial	272	137	846	1,255	29,938	31,193
Single pay	—	—	—	—	—	—
	$ 8,635	$ 2,465	$ 18,812	$ 29,912	$ 707,664	$ 737,576
September 30, 2015						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 12,963	$ 12,963
Commercial real estate	1,902	1,145	5,190	8,237	258,228	266,465
Commercial real estate—construction and development	960	983	2,575	4,518	50,650	55,168
Residential real estate	3,735	1,913	8,805	14,453	316,301	330,754
Consumer	1,660	630	2,305	4,595	69,037	73,632
Commercial and industrial	458	153	2,776	3,387	30,687	34,074
Single pay	—	—	—	—	24	24
	$ 8,715	$ 4,824	$ 21,651	$ 35,190	$ 737,890	$ 773,080

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

(Dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Gross Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
September 30, 2016					
Commercial real estate:					
Construction and land development	$ 7,744	$ 1,331	$ 2,100	$ 3,431	$ 359
Commercial non-owner occupied	2,372	228	536	764	181
Commercial owner occupied	10,204	4,301	2,051	6,352	65
Consumer real estate:					
Consumer owner occupied	4,390	1,284	1,843	3,127	58
Home equity loans	2,054	251	1,348	1,599	38
Commercial and industrial	2,738	259	1,194	1,453	385
Other income producing property	5,167	101	4,218	4,319	289
Consumer	342	—	142	142	4
Other loans	—	—	—	—	—
Total	$ 35,011	$ 7,755	$ 13,432	$ 21,187	$ 1,379
December 31, 2015					
Commercial real estate:					
Construction and land development	$ 9,931	$ 1,004	$ 5,276	$ 6,280	$ 615
Commercial non-owner occupied	2,909	233	1,219	1,452	34
Commercial owner occupied	11,516	4,134	3,591	7,725	101
Consumer real estate:					
Consumer owner occupied	9,001	3,505	4,044	7,549	138
Home equity loans	483	186	123	309	3
Commercial and industrial	2,641	273	1,214	1,487	279
Other income producing property	5,763	112	4,779	4,891	422
Consumer	155	—	102	102	3
Other loans	611	—	423	423	12
Total	$ 43,010	$ 9,447	$ 20,771	$ 30,218	$ 1,607
September 30, 2015					
Commercial real estate:					
Construction and land development	$ 8,321	$ 1,128	$ 4,599	$ 5,727	$ 585
Commercial non-owner occupied	3,935	1,644	925	2,569	26
Commercial owner occupied	16,195	7,325	4,120	11,445	248
Consumer real estate:					
Consumer owner occupied	8,969	3,928	3,890	7,818	121
Home equity loans	390	185	108	293	3
Commercial and industrial	1,939	295	750	1,045	21
Other income producing property	5,601	117	4,671	4,788	430
Consumer	151	—	101	101	3

Other	887	—	693	693	19
Total	$ 46,388	$ 14,622	$ 19,857	$ 34,479	$ 1,456

Acquired credit impaired loans are accounted for in pools as shown on page 17 rather than being individually evaluated for impairment; therefore, the table above excludes acquired credit impaired loans.

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

	Three Months Ended September 30,			
	2016		2015	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 3,762	$ 31	$ 5,418	$ 116
Commercial non-owner occupied	992	—	2,590	13
Commercial owner occupied	6,662	150	11,208	89
Consumer real estate:				
Consumer owner occupied	3,547	31	7,070	80
Home equity loans	1,888	13	263	4
Commercial and industrial	1,110	16	1,028	29
Other income producing property	4,659	71	4,788	95
Consumer	135	—	85	1
Other loans	—	—	347	4
Total Impaired Loans	$ 22,755	$ 312	$ 32,797	$ 431

	Nine Months Ended September 30,			
	2016		2015	
(Dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Commercial real estate:				
Construction and land development	$ 4,856	$ 88	$ 5,290	$ 170
Commercial non-owner occupied	1,108	23	3,090	38
Commercial owner occupied	7,038	233	10,303	255
Consumer real estate:				
Consumer owner occupied	5,338	78	5,392	133
Home equity loans	954	43	162	7
Commercial and industrial	1,470	28	976	47
Other income producing property	4,605	157	5,143	174
Consumer	122	3	80	2
Other loans	211	—	347	4
Total Impaired Loans	$ 25,702	$ 653	$ 30,783	$ 830

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

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Commercial non-owner occupied real estate:			
Construction and land development	$ 1,156	$ 1,090	$ 1,291
Commercial non-owner occupied	601	184	1,117
Total commercial non-owner occupied real estate	1,757	1,274	2,408
Consumer real estate:			
Consumer owner occupied	5,048	7,766	8,043
Home equity loans	1,564	1,769	1,533
Total consumer real estate	6,612	9,535	9,576
Commercial owner occupied real estate	2,049	3,056	4,353
Commercial and industrial	587	515	466
Other income producing property	584	746	740
Consumer	796	659	556
Restructured loans	2,499	2,662	5,616
Total loans on nonaccrual status	$ 14,884	$ 18,447	$ 23,715

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

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Commercial non-owner occupied real estate:			
Construction and land development	$ 235	$ 37	$ 39
Commercial non-owner occupied	—	—	95
Total commercial non-owner occupied real estate	235	37	134
Consumer real estate:			
Consumer owner occupied	1,112	976	1,048
Home equity loans	1,588	1,103	1,115
Total consumer real estate	2,700	2,079	2,163
Commercial owner occupied real estate	302	44	40
Commercial and industrial	1	1	243
Other income producing property	149	168	382
Consumer	1,246	1,435	1,168
Total loans on nonaccrual status	$ 4,633	$ 3,764	$ 4,130

In the course of resolving delinquent loans, the Bank may choose to restructure the contractual terms of certain loans. Any loans that are modified are reviewed by the Bank to determine if a troubled debt restructuring (“TDR” or "restructured loan") has occurred. The Bank designates loan modifications as TDRs when it grants a concession to a borrower that it would not otherwise consider due to the borrower experience financial difficulty (FASB ASC Topic 310-40). The concessions granted on TDRs generally include terms to reduce the interest rate, extend the term of the debt obligation, or modify the payment structure on the debt obligation.

Loans on nonaccrual status at the date of modification are initially classified as nonaccrual TDRs. Loans on accruing status at the date of concession are initially classified as accruing TDRs if the note is reasonably assured of repayment and performance is expected in accordance with its modified terms. Such loans may be designated as nonaccrual loans subsequent to the concession date if reasonable doubt exists as to the collection of interest or principal under the restructuring agreement. Nonaccrual TDRs are returned to accruing status when there is economic substance to the restructuring, there is documented credit evaluation of the borrower's financial condition, the remaining balance is reasonably assured of repayment in accordance with its modified terms, and the borrower has demonstrated sustained repayment performance in accordance with the modified terms for a reasonable period of time (generally a minimum of six months). For the three and nine months ended September 30, 2016 and 2015, the Company's TDR's were not material.

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Note 7—FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Balance at beginning of period	$ 4,401	$ 22,161
Decrease in expected losses on loans	(23)	(21)
Additional recoveries on OREO	(1,736)	(4,164)
Reimbursable expenses	71	701
Amortization of discounts and premiums, net	(1,475)	(7,120)
Payments to (from) FDIC	853	(3,615)
Termination of Loss Share Agreement	(2,091)	—
Balance at end of period	$ —	$ 7,942

As noted above, on June 23, 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its outstanding loss share agreements. The Bank recorded a pre-tax charge of $4.4 million, which resulted from a $2.3 million payment to the FDIC as consideration for the early termination, plus the amortization of the remaining FDIC indemnification asset of $2.1 million, net of the clawback, as of March 31, 2016. The entire pre-tax charge was recorded in noninterest income through “Amortization of the FDIC indemnification asset” on the consolidated statements of income.

During 2016, the Bank paid a net $853,000 to the FDIC, prior to the termination of the agreements. The indemnification asset was amortized through March 31, 2016. All assets previously classified as covered became uncovered effective June 23, 2016, and as a result the Bank recognizes the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts. As of the termination date, covered loans totaled $87.4 million and covered other real estate owned (“OREO”) totaled $3.0 million.

Note 8—Other Real Estate Owned

The following is a summary of information pertaining to OREO:

	Nine Months Ended September 30,					
	2016			2015		
(Dollars in thousands)	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$ 24,803	$ 5,751	$ 30,554	$ 26,499	$ 16,227	$ 42,726
Additions	9,296	2,151	11,447	16,190	6,832	23,022
Transfers	4,222	(4,222)	—	2,245	(2,245)	—
Writedowns	(1,939)	(2,131)	(4,070)	(2,763)	(4,910)	(7,673)
Sold	(14,171)	(1,549)	(15,720)	(16,258)	(10,439)	(26,697)
Ending Balance	$ 22,211	$ —	$ 22,211	$ 25,913	$ 5,465	$ 31,378

As noted above, on June 23, 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its outstanding loss share agreements. The covered OREO shown above was presented net of the related fair value discount, and the activity reflected for the covered assets is prior to the early termination of the FDIC loss share agreements. All remaining OREO previously classified as covered became uncovered during the second quarter of 2016, which consisted of 17 properties with a carrying value of $4.2 million as of March 31, 2016.

At September 30, 2016, there were a total of 108 properties included in OREO. This compares to 157 properties included in OREO, with 123 uncovered and 34 covered by loss share agreements with the FDIC, at September 30, 2015. At September 30, 2016, the Company had $3.7 million in residential real estate included in OREO and $4.7 million in residential real estate consumer mortgage loans in the process of foreclosure.

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Note 9 — Deposits

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

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Certificates of deposit	$ 911,453	$ 1,092,750	$ 1,159,285
Interest-bearing demand deposits	3,358,647	3,293,942	3,260,482
Non-interest bearing demand deposits	2,176,155	1,976,480	1,927,309
Savings deposits	795,754	735,961	726,373
Other time deposits	5,397	1,295	4,560
Total deposits	$ 7,247,406	$ 7,100,428	$ 7,078,009

At September 30, 2016, December 31, 2015, and September 30, 2015, the Company had $90.8 million, $114.9 million, and $122.1 million in certificates of deposits of $250,000 and greater, respectively. At September 30, 2016, December 31, 2015, and September 30, 2015, the Company had $2.9 million, $18.9 million and $19.1 million, in traditional, out-of-market brokered deposits, respectively.

Note 10 — Retirement Plans

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

Effective July 1, 2009, the Company suspended the accrual of benefits for pension plan participants under the non-contributory defined benefit plan. The pension plan remained suspended as of September 30, 2016.

The components of net periodic pension expense recognized are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest cost	$ (283)	$ (254)	$ (849)	$ (762)
Expected return on plan assets	534	517	1,602	1,551
Recognized net actuarial loss	(204)	(225)	(612)	(674)
Net periodic pension benefit	$ 47	$ 38	$ 141	$ 115

The Company did not contribute to the pension plan for the three and nine months ended September 30, 2016, and does not expect to make any additional contributions during the remainder of 2016. The Company reserves the right to contribute between the minimum required and maximum deductible amounts as determined under applicable federal laws.

Under the provisions of Internal Revenue Code Section 401(k), electing employees are eligible to participate in the employees' savings plan after attaining age 21. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute 1% to 50% of annual base compensation as a before tax contribution. Employees participating in the plan receive a 100% matching of their 401(k) plan contribution, up to 5% of their salary. Effective January 1, 2015, employees were eligible for an additional 1% discretionary matching contribution contingent upon achievement of the Company's 2015 financial goals which was paid in the first quarter of 2016. The Company is offering the additional 1% discretionary matching contribution again in 2016 upon achievement of the Company's 2016 financial goals. The Company expensed $1.7 million and $1.6 million for the 401(k) plan during the three months ended September 30, 2016 and 2015, respectively. The Company expensed $4.5 million and $4.2 million for the 401(k) plan during the nine months ended September 30, 2016 and 2015, respectively.

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

Note 11 — Earnings Per Share

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

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars and shares in thousands, except for per share amounts)	2016	2015	2016	2015
Basic earnings per common share:				
Net income	$ 28,095	$ 25,140	$ 77,105	$ 73,938
Weighted-average basic common shares	24,016	23,984	23,989	23,956
Basic earnings per common share	$ 1.17	$ 1.05	$ 3.21	$ 3.09
Diluted earnings per share:				
Net income	$ 28,095	$ 25,140	$ 77,105	$ 73,938
Weighted-average basic common shares	24,016	23,984	23,989	23,956
Effect of dilutive securities	262	301	240	279
Weighted-average dilutive shares	24,278	24,285	24,229	24,235
Diluted earnings per common share	$ 1.16	$ 1.04	$ 3.18	$ 3.05

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Number of shares	52,064	46,798	72,480	47,865

Range of exercise prices	$ 61.42 to $ 69.48	$ 61.42 to $ 66.32	$ 61.42 to $ 69.48	$ 61.42 to $ 66.32

Note 12 — Share-Based Compensation

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

Stock Options

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

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value (000's)
Outstanding at January 1	285,405	$ 38.85		
Granted	25,682	63.79		
Exercised	(43,991)	33.96		
Forfeited	(1,025)	35.20		
Outstanding at September 30	266,071	42.08	4.77	$ 8,771
Exercisable at September 30	205,294	36.34	3.70	$ 7,945
Weighted-average fair value of options granted during the year	$ 25.19			

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

	Nine months ended September 30, 2016		2015	
Dividend yield	1.60	%	1.40	%
Expected life	8.5	years	8.5	years
Expected volatility	40.6	%	40.9	%
Risk-free interest rate	1.90	%	1.79	%

As of September 30, 2016, there was $1.1 million of total unrecognized compensation cost related to nonvested stock option grants under the plans. The cost is expected to be recognized over a weighted-average period of 1.35 years as of September 30, 2016. The total fair value of shares vested during the nine months ended September 30, 2016 was $455,000.

Restricted Stock

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses, equal to the total value of such awards, ratably over the vesting period of the stock grants. Restricted stock grants to employees typically "cliff vest" after four years. Grants to non-employee directors typically vest within a 12-month period.

Nonvested restricted stock for the nine months ended September 30, 2016 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1 2016	218,282	$ 44.56
Granted	41,505	67.18
Vested	(70,547)	39.94
Forfeited	(2,075)	58.93
Nonvested at September 30, 2016	187,165	51.23

As of September 30, 2016, there was $5.5 million of total unrecognized compensation cost related to nonvested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.33

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years as of September 30, 2016. The total fair value of shares vested during the nine months ended September 30, 2016 was $2.9 million.

Restricted Stock Units

The Company from time-to-time also grants performance RSUs to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Some performance RSU grants contain a three-year performance period while others contain a one-year performance period and a time vested requirement (generally four years from grant date). The Company communicates threshold, target, and maximum performance RSU awards and performance targets to the applicable key employees at the beginning of a performance period. Dividends are not paid in respect to the awards during the performance period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over the performance and vesting periods based upon the probable performance target that will be met. For the nine months ended September 30, 2016, the Company accrued for 99% of the RSUs granted, based on Management's expectations of performance.

Nonvested RSUs for the nine months ended September 30, 2016 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	79,789	$ 64.66
Granted	68,842	65.23
Vested	(2,314)	54.00
Forfeited	(639)	63.93
Nonvested at September 30, 2016	145,678	65.11

As of September 30, 2016, there was $4.8 million of total unrecognized compensation cost related to nonvested RSUs granted under the plan. This cost is expected to be recognized over a weighted-average period of 1.46 years as of September 30, 2016. The total fair value of RSUs vested during the nine months ended September 30, 2016 was $1.9 million. On January 20, 2016, 35,903 vested restricted stock units were issued to the participants in the 2013 Long-Term Incentive Plan.

Note 13 — Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At September 30, 2016, commitments to extend credit and standby letters of credit totaled $1.6 billion. The Company does not anticipate any material losses as a result of these transactions.

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

Note 14 — Fair Value

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

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

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

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

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

Investment Securities

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

Mortgage Loans Held for Sale

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

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered impaired and an allowance for loan losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using estimated fair value methodologies. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At September 30, 2016, substantially all of the impaired loans were evaluated based on the fair value of the collateral because such loans were considered collateral dependent. Impaired loans, where an allowance is established based on the fair value of collateral; require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the impaired loan as nonrecurring Level 3.

Other Real Estate Owned (“OREO”)

Typically non-covered OREO, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs (Level 2). However, both non-

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covered and covered OREO are considered Level 3 in the fair value hierarchy because management has qualitatively applied a discount due to the size, supply of inventory, and the incremental discounts applied to the appraisals. Management also considers other factors, including changes in absorption rates, length of time the property has been on the market and anticipated sales values, which have resulted in adjustments to the collateral value estimates indicated in certain appraisals. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and generally any subsequent adjustments to the value are recorded as a component of OREO expense.

Derivative Financial Instruments

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

Mortgage servicing rights (“MSRs”)

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

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016:				
Assets				
Derivative financial instruments	$ 3,091	$ —	$ 3,091	$ —
Loans held for sale	57,052	—	57,052	—
Securities available for sale:				
Government-sponsored entities debt	62,980	—	62,980	—
State and municipal obligations	117,324	—	117,324	—
Mortgage-backed securities	741,277	—	741,277	—
Corporate stocks	3,793	2,568	1,225	—
Total securities available for sale	925,374	2,568	922,806	—
Mortgage servicing rights	23,064	—	—	23,064
	$ 1,008,581	$ 2,568	$ 982,949	$ 23,064
Liabilities				
Derivative financial instruments	$ 1,100	$ —	$ 1,100	$ —
December 31, 2015:				
Assets				
Derivative financial instruments	$ 1,415	$ —	$ 1,415	$ —
Loans held for sale	41,649	—	41,649	—
Securities available for sale:				
Government-sponsored entities debt	162,507	—	162,507	—
State and municipal obligations	131,364	—	131,364	—
Mortgage-backed securities	711,849	—	711,849	—
Corporate stocks	3,821	2,596	1,225	—
Total securities available for sale	1,009,541	2,596	1,006,945	—
Mortgage servicing rights	26,202	—	—	26,202
	$ 1,078,807	$ 2,596	$ 1,050,009	$ 26,202
Liabilities				
Derivative financial instruments	$ 838	$ —	$ 838	$ —
September 30, 2015:				
Assets				
Derivative financial instruments	$ 2,379	$ —	$ 2,379	$ —
Loans held for sale	48,985	—	48,985	—

Securities available for sale:				
Government-sponsored entities debt	$ 123,794	$ —	$ 123,794	$ —
State and municipal obligations	134,338	—	134,338	—
Mortgage-backed securities	625,073	—	625,073	—
Corporate stocks	2,593	2,368	225	—
Total securities available for sale	885,798	2,368	883,430	—
Mortgage servicing rights	24,665	—	—	24,665
	$ 961,827	$ 2,368	$ 934,794	$ 24,665
Liabilities				
Derivative financial instruments	$ 1,904	$ —	$ 1,904	$ —

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Changes in Level 1, 2 and 3 Fair Value Measurements

When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses below include changes in fair value due in part to observable factors that are part of the valuation methodology.

There were no changes in hierarchy classifications of Level 3 assets or liabilities for the nine months ended September 30, 2016. A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the nine months ended September 30, 2016 and 2015 is as follows:

(Dollars in thousands)	Assets	Liabilities
Fair value, January 1, 2016	$ 26,202	$ —
Servicing assets that resulted from transfers of financial assets	4,182	—
Changes in fair value due to valuation inputs or assumptions	(4,305)	—
Changes in fair value due to increased principal paydowns	(3,015)	—
Fair value , September 30, 2016	$ 23,064	$ —
Fair value, January 1, 2015	$ 21,601	$ —
Servicing assets that resulted from transfers of financial assets	5,770	—
Changes in fair value due to valuation inputs or assumptions	(92)	—
Changes in fair value due to increased principal paydowns	(2,614)	—
Fair value, September 30, 2015	$ 24,665	$ —

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at September 30, 2016 or 2015.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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

	Quoted Prices In Active Markets	Significant Other	Significant

(Dollars in thousands)	Fair Value	for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
September 30, 2016:				
OREO	$ 22,211	$ —	$ —	$ 22,211
Non-acquired impaired loans	4,360	—	—	4,360
December 31, 2015:				
OREO	$ 30,554	$ —	$ —	$ 30,554
Non-acquired impaired loans	13,355	—	—	13,355
September 30, 2015:				
OREO	$ 31,378	$ —	$ —	$ 31,378
Non-acquired impaired loans	12,123	—	—	12,123

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Quantitative Information about Level 3 Fair Value Measurement

			Weighted Average September 30, 2016		December 31, 2015		September 30, 2015	
	Valuation Technique	Unobservable Input						
nrecurring measurements:								
n-acquired impaired loans	Discounted appraisals	Collateral discounts	7	%	6	%	4	
REO	Discounted appraisals	Collateral discounts and estimated costs to sell	24	%	16	%	19	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2016, December 31, 2015 and September 30, 2015. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents — The carrying amount is a reasonable estimate of fair value.

Investment Securities — Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of FHLB stock approximates fair value based on the redemption provisions. The carrying value of the Company's investment in unconsolidated subsidiaries approximates fair value. See Note 5—Investment Securities for additional information, as well as page 37 regarding fair value.

Loans held for sale — The fair values disclosed for loans held for sale are based on commitments from investors for loans with similar characteristics.

Loans — For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are estimated using discounted cash flow analyses based on the Company's current rates offered for new loans of the same type, structure and credit quality. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered by the Company for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

FDIC Receivable for Loss Share Agreements — The fair value is estimated based on discounted future cash flows using current discount rates.

Deposit Liabilities — The fair values disclosed for demand deposits (e.g., interest and non-interest bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase — The carrying amount of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

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Other Borrowings — The fair value of other borrowings is estimated using discounted cash flow analysis on the Company's current incremental borrowing rates for similar types of instruments.

Accrued Interest — The carrying amounts of accrued interest approximate fair value.

Derivative Financial Instruments — The fair value of derivative financial instruments (including interest rate swaps) is estimated using pricing models of derivatives with similar characteristics.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees — The fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

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The estimated fair value, and related carrying amount, of the Company's financial instruments are as follows:

(Dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2016					
Financial assets:					
Cash and cash equivalents	$ 507,517	$ 507,517	$ 507,517	$ —	$ —
Investment securities	941,707	941,932	12,050	929,882	—
Loans held for sale	57,052	57,052	—	57,052	—
Loans, net of allowance for loan losses	6,489,068	6,667,622	—	—	6,667,622
FDIC receivable for loss share agreements	—	—	—	—	—
Accrued interest receivable	17,501	17,501	—	3,528	13,973
Mortgage servicing rights	23,064	23,064	—	—	23,064
Other derivative financial instruments (mortgage banking related)	3,091	3,091	—	3,091	—
Financial liabilities:					
Deposits	7,247,406	7,015,012	—	7,015,012	—
Federal funds purchased and securities sold under agreements to repurchase	305,268	305,268	—	305,268	—
Other borrowings	55,306	49,751	—	49,751	—
Accrued interest payable	1,384	1,384	—	1,384	—
Interest rate swap - cash flow hedge	655	655	—	655	—
Other derivative financial instruments (mortgage banking related)	444	444	—	444	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	45,285	—	45,285	—
December 31, 2015					
Financial assets:					
Cash and cash equivalents	$ 695,794	$ 695,794	$ 695,794	$ —	$ —
Investment securities	1,027,748	1,028,157	11,489	1,016,668	—
Loans held for sale	41,649	41,649	—	41,649	—
Loans, net of allowance for loan losses	5,970,044	6,068,252	—	—	6,068,252
FDIC receivable for loss share agreements	4,401	(2,452)	—	—	(2,452)
Accrued interest receivable	17,083	17,083	—	3,883	13,200
Mortgage servicing rights	26,202	26,202	—	—	26,202
Other derivative financial instruments (mortgage banking related)	1,415	1,415	—	1,415	—
Financial liabilities:					
Deposits	7,100,428	6,785,911	—	6,785,911	—
	288,231	288,231	—	288,231	—

Federal funds purchased and securities sold under agreements to repurchase					
Other borrowings	55,158	49,762	—	49,762	—
Accrued interest payable	2,190	2,190	—	2,190	—
Interest rate swap - cash flow hedge	718	718	—	718	—
Other derivative financial instruments (mortgage banking related)	120	120	—	120	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	23,927	—	23,927	—
September 30, 2015					
Financial assets:					
Cash and cash equivalents	$ 889,380	$ 889,380	$ 889,380	$ —	$ —
Investment securities	904,143	904,587	11,399	893,188	—
Loans held for sale	48,985	48,985	—	48,985	—
Loans, net of allowance for loan losses	5,835,646	5,939,570	—	—	5,939,570
FDIC receivable for loss share agreements	7,942	205	—	—	205
Accrued interest receivable	16,614	16,614	—	3,709	12,905
Mortgage servicing rights	24,665	24,665	—	—	24,665
Interest rate swap - non-designated hedge	170	170	—	170	—
Other derivative financial instruments (mortgage banking related)	2,209	2,209	—	2,209	—
Financial liabilities:					
Deposits	7,078,009	6,836,437	—	6,836,437	—
Federal funds purchased and securities sold under agreements to repurchase	260,521	260,521	—	260,521	—
Other borrowings	55,107	49,362	—	49,362	—
Accrued interest payable	2,302	2,302	—	2,302	—
Interest rate swap - cash flow hedge	871	871	—	871	—
Interest rate swap - non-designated hedge	170	170	—	170	—
Other derivative financial instruments (mortgage banking related)	863	863	—	863	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	24,676	—	24,676	—

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Note 15 — Accumulated Other Comprehensive Income (Loss)

The changes in each components of accumulated other comprehensive income (loss), net of tax, were as follows:

(Dollars in thousands)	Benefit Plans	Unrealized Gains and Losses on Securities Available for Sale	Gains and Losses on Cash Flow Hedges	Total
Three Months Ended September 30, 2016				
Balance at June 30, 2016	$ (5,762)	$ 12,752	$ (480)	$ 6,510
Other comprehensive income (loss) before reclassifications	—	(2,715)	32	(2,683)
Amounts reclassified from accumulated other comprehensive income (loss)	126	—	42	168
Net comprehensive income	126	(2,715)	74	(2,515)
Balance at September 30, 2016	$ (5,636)	$ 10,037	$ (406)	$ 3,995
Three Months Ended September 30, 2015				
Balance at June 30, 2016	$ (5,036)	$ 3,604	$ (499)	$ (1,931)
Other comprehensive income (loss) before reclassifications	—	3,707	(95)	3,612
Amounts reclassified from accumulated other comprehensive income (loss)	139	—	55	194
Net comprehensive income (loss)	139	3,707	(40)	3,806
Balance at September 30, 2015	$ (4,897)	$ 7,311	$ (539)	$ 1,875
Nine Months Ended September 30, 2016				
Balance at December 31, 2015	$ (6,015)	$ 2,588	$ (444)	$ (3,871)
Other comprehensive income (loss) before reclassifications	—	7,524	(91)	7,433
Amounts reclassified from accumulated other comprehensive income (loss)	379	(75)	129	433
Net comprehensive income (loss)	379	7,449	38	7,866
Balance at September 30, 2016	$ (5,636)	$ 10,037	$ (406)	$ 3,995
Nine Months Ended September 30, 2015				
Balance at December 31, 2014	$ (5,315)	$ 5,467	$ (529)	$ (377)
Other comprehensive income (loss) before reclassifications	—	1,844	(152)	1,692
Amounts reclassified from accumulated other comprehensive income (loss)	418	—	142	560
Net comprehensive income (loss)	418	1,844	(10)	2,252
Balance at September 30, 2015	$ (4,897)	$ 7,311	$ (539)	$ 1,875

The table below presents the reclassifications out of accumulated other comprehensive income (loss), net of tax:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				
(Dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
Accumulated Other Comprehensive Income (Loss) Component	2016	2015	2016	2015	Income Statement Line Item Affected
Losses on cash flow hedges:					
Interest rate contracts	$ 69	$ 89	$ 209	$ 230	Interest expense
	(27)	(34)	(80)	(88)	Provision for income taxes
	42	55	129	142	Net income
Gains on sales of available for sale securities:					
	$ —	$ —	$ (122)	$ —	Other noninterest income
	—	—	47	—	Provision for income taxes
	—	—	(75)	—	Net income
Amortization of defined benefit pension:					
Actuarial losses	$ 204	$ 225	$ 612	$ 674	Salaries and employee benefits
	(78)	(86)	(233)	(256)	Provision for income taxes
	126	139	379	418	Net income
Total reclassifications for the period	$ 168	$ 194	$ 433	$ 560	

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Note 16 — Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

The Company utilizes an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). During 2009, the Company entered into a forward starting interest rate swap agreement with a notional amount of $8.0 million to manage interest rate risk due to periodic rate resets on its junior subordinated debt issued by SCBT Capital Trust II, an unconsolidated subsidiary of the Company established for the purpose of issuing trust preferred securities. The Company hedges the variable rate cash flows of subordinated debt against future interest rate increases by using an interest rate swap that effectively fixed the rate on the debt beginning on June 15, 2010, at which time the debt contractually converted from a fixed interest rate to a variable interest rate. This hedge expires on June 15, 2019. The notional amount on which the interest payments are based will not be exchanged. This derivatives contract calls for the Company to pay a fixed rate of 4.06% on $8.0 million notional amount and receive a variable rate of three-month LIBOR on the $8.0 million notional amount.

The Company recognized an after-tax unrealized gain on its cash flow hedge in other comprehensive income of $74,000 and $38,000 for the three and nine months ended September 30, 2016, respectively. This compares to an unrealized loss of $40,000 and $10,000 for the three and nine months ended September 30, 2015, respectively. The Company recognized a $655,000 cash flow hedge liability in other liabilities on the balance sheet at September 30, 2016, compared to $718,000 and $870,000 liability at December 31, 2015 and September 30, 2015, respectively. There was no ineffectiveness in the cash flow hedge during the three and nine months ended September 30, 2016 and 2015.

Credit risk related to the derivative arises when amounts receivable from the counterparty (derivatives dealer) exceed those payable. The Company controls the risk of loss by only transacting with derivatives dealers that are national market makers whose credit ratings are strong. Each party to the interest rate swap is required to provide collateral in the form of cash or securities to the counterparty when the counterparty's exposure to a mark-to-market replacement value exceeds certain negotiated limits. These limits are typically based on current credit ratings and vary with ratings changes. As of September 30, 2016 and December 31, 2015, the Company provided $750,000 of collateral and at September 30, 2015, $950,000 of collateral, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks. Also, the Company has a netting agreement with the counterparty.

Mortgage Banking

The Company also has derivatives contracts that are classified as non-designated hedges. These derivatives contracts are a part of the Company's risk management strategy for its mortgage banking activities. These instruments may include financial forwards, futures contracts, and options written and purchased, which are used to hedge mortgage servicing rights; while forward sales commitments are typically used to hedge the mortgage pipeline. Such instruments derive their cash flows, and therefore their values, by reference to an underlying instrument, index or referenced interest rate. The Company does not elect hedge accounting treatment for any of these derivative instruments and as a result, changes in fair value of the instruments (both gains and losses) are recorded in the Company's consolidated statements of income in mortgage banking income.

Mortgage Servicing Rights

Derivatives contracts related to mortgage servicing rights are used to help offset changes in fair value and are written in amounts referred to as notional amounts. Notional amounts provide a basis for calculating payments between counterparties but do not represent amounts to be exchanged between the parties, and are not a measure of financial risk. On September 30, 2016, the Company had derivative financial instruments outstanding with notional amounts totaling $128.5 million related to mortgage servicing rights, compared to $92.0 million and $90.0 million on December 31, 2015 and September 30, 2015, respectively. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as a gain of $42,000 at September 30, 2016, compared to a loss of $98,000 at December 31, 2015 and a gain of $863,000 at September 30, 2015.

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Mortgage Pipeline

The following table presents the Company’s notional value of forward sale commitments and the fair value of those obligations along with the fair value of the mortgage pipeline.

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Mortgage loan pipeline	$ 155,747	$ 87,486	$ 106,460
Expected closures	116,810	65,615	79,845
Fair Value of mortgage loan pipeline commitments	3,049	1,415	2,003
Forward sales commitments	146,000	73,000	86,000
Fair value of forward commitments	(445)	(21)	(658)

Note 17 — Capital Ratios

The Company is subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

In July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision (“Basel III”), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

As applied to the Company and the Bank, the new rules include a new minimum ratio of common equity Tier 1 capital ("CET1") to risk-weighted assets of 4.5%. The new rules also raised the minimum required ratio of Tier 1 capital to risk-weighted assets from 4% to 6%. The minimum required leverage ratio under the new rules is 4%. The minimum required total capital to risk-weighted assets ratio remains at 8% under the new rules.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization is also required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of common equity Tier 1, and the buffer applies to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

The Bank is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

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The following table presents actual and required capital ratios as of September 30, 2016, December 31, 2015 and September 30, 2015 for the Company and the Bank under the Basel III capital rules. The minimum required capital amounts presented include the minimum required capital levels as of September 30, 2016 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum Capital Required - Basel III Phase-In Schedule		Minimum Capital Required - Basel III Fully Phased In		Required to be Considered Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
September 30, 2016								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 765,032	11.48 %	$ 338,086	5.125 %	$ 461,776	7.00 %	$ 428,792	6.50 %
South State Bank (the Bank)	790,497	11.86 %	337,972	5.125 %	461,620	7.00 %	428,647	6.50 %
Tier 1 capital to risk-weighted assets:								
Consolidated	817,746	12.27 %	395,808	6.00 %	560,728	8.50 %	527,744	8.00 %
South State Bank (the Bank)	790,497	11.86 %	395,674	6.00 %	560,539	8.50 %	527,566	8.00 %
Total capital to risk-weighted assets:								
Consolidated	858,813	12.89 %	527,744	8.00 %	692,665	10.50 %	659,681	10.00 %
South State Bank (the Bank)	831,429	12.48 %	527,566	8.00 %	692,430	10.50 %	659,457	10.00 %
Tier 1 capital to average assets (leverage ratio):								
Consolidated	817,746	9.74 %	333,587	4.00 %	333,587	4.00 %	416,984	5.00 %
South State Bank (the Bank)	790,497	9.42 %	333,433	4.00 %	333,433	4.00 %	416,791	5.00 %
December 31, 2015:								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 711,577	11.84 %	$ 270,432	4.50 %	$ 420,762	7.00 %	$ 390,624	6.50 %
South State Bank (the Bank)	740,532	12.33 %	270,354	4.50 %	420,550	7.00 %	390,511	6.50 %
Tier 1 capital to risk-weighted assets:								
Consolidated	763,590	12.71 %	360,576	6.00 %	510,817	8.50 %	480,768	8.00 %
	740,532	12.33 %	360,471	6.00 %	510,668	8.50 %	480,629	8.00 %

South State Bank (the Bank)														
Total capital to risk-weighted assets:														
Consolidated		801,745	13.34	%		480,768	8.00	%		631,009	10.50	%		600,961	10.00	%
South State Bank (the Bank)		778,538	12.96	%		480,629	8.00	%		630,825	10.50	%		600,786	10.00	%
Tier 1 capital to average assets (leverage ratio):														
Consolidated		763,590	9.31	%		328,085	4.00	%		328,085	4.00	%		410,107	5.00	%
South State Bank (the Bank)		740,532	9.03	%		327,854	4.00	%		327,854	4.00	%		409,818	5.00	%
September 30, 2015:														
Common equity Tier 1 to risk-weighted assets:														
Consolidated	$	693,121	11.82	%	$	263,907	4.50	%	$	410,523	7.00	%	$	381,200	6.50	%
South State Bank (the Bank)		720,522	12.29	%		263,769	4.50	%		410,307	7.00	%		380,999	6.50	%
Tier 1 capital to risk-weighted assets:														
Consolidated		743,805	12.68	%		351,877	6.00	%		498,492	8.50	%		469,169	8.00	%
South State Bank (the Bank)		720,522	12.29	%		351,692	6.00	%		498,230	8.50	%		468,922	8.00	%
Total capital to risk-weighted assets:														
Consolidated		783,605	13.36	%		469,169	8.00	%		615,784	10.50	%		586,461	10.00	%
South State Bank (the Bank)		760,322	12.97	%		468,922	8.00	%		615,460	10.50	%		586,153	10.00	%
Tier 1 capital to average assets (leverage ratio):														
Consolidated		743,805	9.32	%		319,149	4.00	%		319,149	4.00	%		398,937	5.00	%
South State Bank (the Bank)		720,522	9.04	%		318,835	4.00	%		318,835	4.00	%		398,544	5.00	%

As of September 30, 2016, December 31, 2015, and September 30, 2015, the capital ratios of the Company and the Bank were well in excess of the minimum regulatory requirements and exceeded the thresholds for the “well capitalized” regulatory classification.

Note 18—Goodwill and Other Intangible Assets

The carrying amount of goodwill was $338.3 million at September 30, 2016. The Company’s other intangible assets, consisting of core deposit intangibles, noncompete intangibles, and client list intangibles are included on the face of the balance sheet. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Gross carrying amount	$ 82,154	$ 82,154	$ 82,155
Accumulated amortization	(40,416)	(34,729)	(32,173)
	$ 41,738	$ 47,425	$ 49,982

Amortization expense totaled $1.9 million and $5.7 million for the three and nine months ended September 30, 2016, respectively, compared to $2.1 million and $6.1 million for the three and nine months ended September 30, 2015.

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Other intangibles are amortized using either the straight-line method or an accelerated basis over their estimated useful lives, with lives generally between two and 15 years. Estimated amortization expense for other intangibles for each of the next five quarters is as follows:

Quarter ending:	
December 31, 2016	$ 1,890
March 31, 2017	1,810
June 30, 2017	1,798
September 30, 2017	1,797
December 31, 2017	1,797
Thereafter	32,646
	$ 41,738

Note 19 — Loan Servicing, Mortgage Origination, and Loans Held for Sale

As of September 30, 2016, December 31, 2015, and September 30, 2015, the portfolio of residential mortgages serviced for others, which is not included in the accompanying balance sheets, was $2.7 billion, $2.6 billion, and $2.5 billion, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts and disbursing payments to investors. The amount of contractually specified servicing fees earned by the Company during the three and nine months ended September 30, 2016 and September 30, 2015 was $1.7 million and $5.1 million, and $1.6 million and $4.7 million, respectively. Servicing fees are recorded in mortgage banking income in the Company's consolidated statements of income.

At September 30, 2016, December 31, 2015, and September 30, 2015, mortgage servicing rights ("MSRs") were $23.1 million, $26.2 million, and $24.7 million on the Company's consolidated balance sheets, respectively. MSRs are recorded at fair value with changes in fair value recorded as a component of mortgage banking income in the consolidated statements of income. The market value adjustments related to MSRs recorded in mortgage banking income for the three and nine months ended September 30, 2016 were a gain of $171,000 and a loss of $4.3 million, respectively, compared with losses of $1.6 million and $92,000 for the three and nine months ended September 30, 2015, respectively. Since the merger with FFHI, the Company has used various free standing derivative instruments to mitigate the income statement effect of changes in fair value due to changes in market value adjustments and to changes in valuation inputs and assumptions related to MSRs.

See Note 14 — Fair Value page 40 for the changes in fair value of MSRs. The following table presents the changes in the fair value of the offsetting hedge.

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Increase (decrease) in fair value of MSRs	$ 171	$ (1,631)	$ (4,305)	$ (92)
Decay of MSRs	(1,245)	(878)	(3,015)	(2,614)
Gains (losses) related to derivatives	$ (492)	$ 1,720	$ 4,521	$ 2,150
Net effect on statements of income	$ (1,566)	$ (789)	$ (2,799)	$ (556)

The fair value of MSRs is highly sensitive to changes in assumptions and fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the use of independent third party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSR. Measurement of fair value is limited to the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time. See Note 14 — Fair Value for additional information regarding fair value.

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The characteristics and sensitivity analysis of the MSR are included in the following table.

(Dollars in thousands)	September 30, 2016		December 31, 2015		September 30, 2015	
Composition of residential loans serviced for others						
Fixed-rate mortgage loans	99.5	%	99.4	%	99.4	%
Adjustable-rate mortgage loans	0.5	%	0.6	%	0.6	%
Total	100.0	%	100.0	%	100.0	%
Weighted average life	5.80	years	7.05	years	6.79	years
Constant Prepayment rate (CPR)	12.3	%	9.6	%	10.2	%
Weighted average discount rate	9.8	%	9.8	%	9.8	%
Effect on fair value due to change in interest rates						
25 basis point increase	$ 2,093		$ 1,562		$ 1,555	
50 basis point increase	3,968		2,950		2,945	
25 basis point decrease	(2,398)		(1,866)		(1,883)	
50 basis point decrease	(4,845)		(4,021)		(3,964)	

The sensitivity calculations in the previous table are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the changes in assumptions to fair value may not be linear. Also, the effects of an adverse variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumptions, while in reality, changes in one factor may result in changing another, which may magnify or contract the effect of the change.

Custodial escrow balances maintained in connection with the loan servicing were $24.3 million and $21.4 million at September 30, 2016 and September 30, 2015, respectively.

Mandatory cash forwards and whole loan sales were $215.2 million and $530.6 million for the three and nine months ended September 30, 2016, respectively, compared to $230.8 million and $685.8 million for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2016, $175.2 million and $418.8 million, or 81.4% and 78.9%, respectively, were sold with the servicing rights retained by the company, compared to $166.7 million and $517.8 million, or 72.2% and 75.5%, for the three and nine months ended September 30, 2015, respectively.

Loans held for sale have historically been comprised of residential mortgage loans awaiting sale in the secondary market, which generally settle in 15 to 45 days. Loans held for sale, which consists primarily of residential mortgage loans to be sold in the secondary market, were $57.1 million, $41.6 million, and $49.0 million at September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

Note 20 – Investments in Qualified Affordable Housing Projects

The Company has investments in qualified affordable housing projects ("QAHPs") that provide low income housing tax credits and operating loss benefits over an extended period. The tax credits and the operating loss tax benefits that are generated by each of the properties are expected to exceed the total value of the investment made by the Company. For the nine months ended September 30, 2016, tax credits and other tax benefits of $1.8 million and amortization of $1.1 million were recorded. For the nine months ended September 30, 2015, the Company recorded tax credits and other tax benefits of $1.4 million and amortization of $1.0 million. At September 30, 2016 and 2015, the Company's carrying value of QAHPs was $27.2 million and $12.4 million, respectively, with an original investment of $35.8 million. The Company has $14.7 million and $932,000 in remaining funding obligations related to these QAHPs recorded in liabilities at September 30, 2016 and 2015, respectively. None of the original investment will be repaid. The investment in QAHPs is being accounted for using the equity method.

Note 21 – Repurchase Agreements

Securities sold under agreements to repurchase ("repurchase agreements") represent funds received from customers, generally on an overnight or continuous basis, which are collateralized by investment securities owned or, at times, borrowed and re-hypothecated by the Company. Repurchase agreements are subject to terms and conditions of the

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master repurchase agreements between the Company and the client and are accounted for as secured borrowings. Repurchase agreements are included in federal funds purchased and securities sold under agreements to repurchase on the condensed consolidated balance sheets.

At September 30, 2016, December 31, 2015 and September 30, 2015, the Company's repurchase agreement totaled $238.6 million, $219.9 million, and $213.5 million, respectively. All of the Company's repurchase agreements were overnight or continuous (until-further-notice) agreements at September 30, 2016, December 31, 2015 and September 30, 2015. These borrowings were collateralized with government, government-sponsored enterprise, or state and political subdivision-issued securities with a carrying value of $238.6 million, $219.9 million and $213.5 million at September 30, 2016, December 31, 2015 and September 30, 2015, respectively. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Note 22 – Subsequent Events

As previously announced, on June 16, 2016, SSB and SBFC entered into an agreement and plan of merger between the parent companies and the banks. As of October 17, 2016, the Company received all regulatory approvals for the parent merger and the bank merger and on October 18, 2016, SSB and SBFC held their special shareholder meetings where both company's shareholders approved the merger proposal. Completion of mergers remain subject to remaining customary closing conditions and is expected to be completed on or around January 3, 2017.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the financial statements contained in this Quarterly Report beginning on page 1. For further information, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the Annual Report on Form 10-K for the year ended December 31, 2015. Results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results for the year ending December 31, 2016 or any future period.

Overview

We are a bank holding company headquartered in Columbia, South Carolina, and were incorporated under the laws of South Carolina in 1985. We provide a wide range of banking services and products to our customers through our wholly-owned bank subsidiary, South State Bank (the "Bank"), a South Carolina-chartered commercial bank that opened for business in 1934. The Bank also operates Minis & Co., Inc. and First Southeast 401k Fiduciaries, both wholly owned registered investment advisors; and First Southeast Investor Services, a wholly owned limited service broker dealer. The Company does not engage in any significant operations other than the ownership of our banking subsidiary.

At September 30, 2016, we had approximately $8.8 billion in assets and 2,038 full-time equivalent employees. Through the Bank, we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, business loans, agriculture loans, real estate loans, personal use loans, home improvement loans, manufactured housing loans, automobile loans, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

We have pursued, and continue to pursue, a growth strategy that focuses on organic growth, supplemented by acquisition of select financial institutions, or branches in certain market areas.

The following discussion describes our results of operations for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 and also analyzes our financial condition as of September 30, 2016 as compared to December 31, 2015 and September 30, 2015. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we may pay interest. Consequently, one of the key measures of our success is the amount of our net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses (sometimes referred to as “ALLL”) to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other services we charge to our customers. We incur costs in addition to interest expense on deposits and other borrowings, the largest of which is salaries and employee benefits. We describe the various components of this noninterest income and noninterest expense in the following discussion.

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

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Recent Events

Southeastern Bank Financial Corporation Acquisition

On June 16, 2016, SSB entered into an Agreement and Plan of Merger with SBFC and a bank holding company headquartered in Augusta, Georgia. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, SBFC will merge with and into SSB, with the Company as the surviving corporation in the Merger. Immediately following the Merger, SBFC's wholly owned bank subsidiary, Georgia Bank & Trust Company, will merge with and into the Bank, with the Bank as the surviving entity in the bank merger. At September 30, 2016, SBFC reported $1.9 billion in total assets, $1.0 billion in loans and $1.6 billion in deposits. Georgia Bank & Trust has nine full service branches in Augusta, Georgia, three full service branches in Aiken, South Carolina that serve individuals and businesses and a limited service loan production office in Athens, Georgia.

Under the terms of the merger agreement, SBFC common shareholders will receive aggregate consideration of approximately 4,969,147 shares of SSB common stock. The common stock consideration is based upon a fixed exchange ratio of 0.7307 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

Special shareholder meetings were held by SBFC and SSB to ratify the merger proposal on October 18, 2016 and were approved. In addition, all regulatory approvals have been received from the Georgia Department of Banking and Finance, South Carolina State Board of Financials Institutions, the FDIC and the Federal Reserve of Richmond. The transaction is expected to close on or around January 3, 2017.

Branch Initiatives

During the fourth quarter of 2015, the Company announced the planned consolidation of 11 locations during the second, third and fourth quarters of 2016. Nine locations will be consolidated and two branches will be converted to drive-thru only locations. Cost savings are expected to total $3.0 million in 2017; however, these resources are expected to be deployed to support the continued growth of South State as we approach $10.0 billion in total assets. The costs of these consolidations are expected to total $3.0 million. One branch was consolidated during the third quarter of 2016, with one remaining branch to be consolidated in the fourth quarter of 2016, and one branch will be consolidated and closed in the first quarter of 2017.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States (“GAAP”) in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

Allowance for Loan Losses

The allowance for loan losses reflects the estimated losses that will result from the inability of our bank’s borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See “Note 6 — Loans and Allowance for Loan Losses” in this Form 10-Q, “Provision for Loan Losses and Nonperforming Assets” in this Management’s Discussion and Analysis of Financial Condition and Results of Operation (“MD&A”) and “Allowance for Loan Losses” in Note 1 to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

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Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed in a business combination. As of September 30, 2016, December 31, 2015 and September 30, 2015, the balance of goodwill was $338.3 million, $338.3 million, and $338.3 million, respectively. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. Management has determined that the Company has two reporting units.

Our stock price has historically traded above its book value. As of September 30, 2016, book value was $46.43 per common share. The lowest trading price during the first nine months of 2016, as reported by the NASDAQ Global Select Market, was $59.19 per share, and the stock price closed on September 30, 2016 at $75.04 per share, which is above book value. In the event our stock was to consistently trade below its book value during the reporting period, we would consider performing an evaluation of the carrying value of goodwill as of the reporting date. Such a circumstance would be one factor in our evaluation that could result in an eventual goodwill impairment charge. We evaluated the carrying value of goodwill as of April 30, 2016, our annual test date, and determined that no impairment charge was necessary. Additionally, should our future earnings and cash flows decline and/or discount rates increase, an impairment charge to goodwill and other intangible assets may be required.

Core deposit intangibles, client list intangibles, and noncompetition ("noncompete") intangibles consist of costs that resulted from the acquisition of other banks from other financial institutions. Core deposit intangibles represent the estimated value of long-term deposit relationships acquired in these transactions. Client list intangibles represent the value of long-term client relationships for the wealth and trust management business. Noncompete intangibles represent the value of key personnel relative to various competitive factors such as ability to compete, willingness or likelihood to compete, and feasibility based upon the competitive environment, and what the Bank could lose from competition. These costs are amortized over the estimated useful lives, such as deposit accounts in the case of core deposit intangible, on a method that we believe reasonably approximates the anticipated benefit stream from this intangible. The estimated useful lives are periodically reviewed for reasonableness.

Income Taxes and Deferred Tax Assets

Income taxes are provided for the tax effects of the transactions reported in our condensed consolidated financial statements and consist of taxes currently due plus deferred taxes related to differences between the tax basis and accounting basis of certain assets and liabilities, including available-for-sale securities, allowance for loan losses, write downs of OREO properties, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, mortgage servicing rights, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. A valuation allowance is recorded in situations where it is “more likely than not” that a deferred tax asset is not realizable. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return with its subsidiary.

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The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of September 30, 2016, there were no accruals for uncertain tax positions and no accruals for interest and penalties. The Company and its subsidiary file a consolidated United States federal income tax return, as well as income tax returns for its subsidiary in the states of South Carolina, Georgia, North Carolina, Florida, Virginia, Alabama, and Mississippi. Federal tax returns for 2014 and subsequent tax years remain subject to examination by taxing authorities as of September 30, 2016. State tax returns for 2013 and subsequent tax years remain subject to examination by taxing authorities as of September 30, 2016.

Other Real Estate Owned

Other real estate owned ("OREO"), consisting of properties obtained through foreclosure or through a deed in lieu of foreclosure in satisfaction of loans or through reclassification of former branch sites, is reported at the lower of cost or fair value, determined on the basis of current valuations obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Subsequent adjustments to this value are described below.

Subsequent declines in the fair value of OREO below the new cost basis are recorded through valuation adjustments. Significant judgments and complex estimates are required in estimating the fair value of OREO, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. In response to market conditions and other economic factors, management may utilize liquidation sales as part of its problem asset disposition strategy.   As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from sales transactions could differ significantly from the current valuations used to determine the fair value of OREO. Management reviews the value of OREO periodically and adjusts the values as appropriate. Revenue and expenses from OREO operations as well as gains or losses on sales and any subsequent adjustments to the value are recorded as OREO expense and loan related expense, a component of non-interest expense. Prior to the termination of our loss share agreements with the FDIC in the second quarter of 2016, revenues, expenses as well as gains or losses on sales of covered OREO were offset to the FDIC indemnification asset.

Business Combinations, Method of Accounting for Loans Acquired, and FDIC Indemnification Asset

We account for acquisitions under FASB ASC Topic 805, Business Combinations, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding credit risk.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB ASC Topic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, formerly American Institute of Certified Public Accountants ("AICPA") Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration are considered impaired. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC Topic 310-30, but for which a discount is attributable, at least in part to credit quality, are also accounted for under this guidance. Certain acquired loans, including performing loans and revolving lines of credit (consumer and commercial), are accounted for in accordance with FASB ASC Topic 310-20, where the discount is accreted through earnings based on estimated cash flows over the estimated life of the loan.

In accordance with FASB ASC Topic 805, the FDIC indemnification assets are initially recorded at fair value, and are measured separately from the loan assets and foreclosed assets because the loss sharing agreements are not contractually embedded in them or transferrable with them in the event of disposal. The FDIC indemnification asset is measured at carrying value subsequent to initial measurement. Improved cash flows of the underlying covered assets will result in impairment of the FDIC indemnification asset and amortization through non-interest income over the shorter of the lives of the FDIC indemnification asset or the underlying loans. Impairment of the underlying covered assets will result in improved cash flows of the FDIC indemnification asset and a credit to the provision for loan losses for acquired loans

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will result. As noted above, during the second quarter of 2016, the Bank entered into an agreement with the FDIC for the early termination of all of its outstanding loss share agreements. As a result, the Company no longer has any covered assets.

For further discussion of the Company's loan accounting and acquisitions, see "Business Combinations and Method of Accounting for Loans Acquired" in our Annual Report on Form 10-K for the year ended December 31, 2015, Note 4—Mergers and Acquisitions to the unaudited condensed consolidated financial statements and Note 6—Loans and Allowance for Loan Losses to the unaudited condensed consolidated financial statements.

As a result of the anticipated closing of the merger between SSB and SBFC and our potential organic growth, we expect to surpass $10.0 billion in total assets as of the closing date of the merger. Crossing over $10.0 billion in total assets and sustaining assets in excess of $10.0 billion for four quarters will result in a loss of interchange revenue and incur additional expenses associated with stress testing and FDIC insurance premiums.

Results of Operations

We reported consolidated net income of $28.1 million, or diluted earnings per share ("EPS") of $1.16, for the third quarter of 2016 as compared to consolidated net income of $25.1 million, or diluted EPS of $1.04, in the comparable period of 2015, an 11.8% increase. The $3.0 million increase in consolidated net income was the net result of the following items:

· A decrease in interest income of $2.3 million which resulted from $10.6 million in lower acquired loan interest income partially offset by $8.2 million in higher non-acquired loan interest income;
· Lower interest expense of $511,000 which resulted from both the repricing of $20.6 million of trust preferred debt from a fixed rate of 5.92% to a variable rate of three month LIBOR plus 159 basis points in the third quarter of 2015, and lower interest paid on deposits as rates have remained at historic lows;
· Lower provision for loan losses by $163,000 which mainly from a $434,000 decline in the provision for loan losses within the non-acquired loan portfolio due to the improvement in asset quality;
· Higher noninterest income of $5.6 million which resulted from $1.6 million improvement in fees of deposit accounts, a $1.3 million increase in recoveries on acquired loans, $1.8 million reduction in the amortization of FDIC indemnification asset and a $1.5 million increase in mortgage banking;
· Noninterest expense was flat in the third quarter of 2016 compared to the same period in 2015 at $73.2 million; and
· An increase in the provision for income taxes of $1.0 million due to higher pre-tax income partially offset by a lower effective tax rate.

Our asset quality related to non-acquired loans continues to improve from the end of 2015 and the end of the second quarter in 2016. Non-acquired nonperforming assets declined from $25.2 million at June 30, 2016 to $21.6 million at September 30, 2016, a decline of $3.6 million. Compared to the balance of non-acquired nonperforming assets at

September 30, 2015, non-acquired nonperforming assets decreased $8.2 million due to a reduction in non-acquired nonperforming loans of $8.9 million. This reduction was partially offset by an increase in non-acquired OREO of $629,000 during the period. Our non-acquired OREO decreased by $248,000 from June 30, 2016 to $6.6 million at September 30, 2016. Annualized net charge-offs for the third quarter of 2016 were 0.03%, or $394,000, down from net charge-offs in the third quarter of 2015 of 0.09%, or $875,000, and down from net charge offs in the second quarter of 2016 of 0.06%, or $676,000.

The allowance for loan losses decreased to 0.75% of total non-acquired loans at September 30, 2016, down from 0.77% at June 30, 2016 and 0.88% at September 30, 2015. The allowance provides 2.49 times coverage of non-acquired nonperforming loans at September 30, 2016, an increase from 2.01 times at June 30, 2016, and 1.47 times at September 30, 2015. The Company continues to show improvement in its asset quality numbers and ratios.

During the third quarter of 2016, the Company had net charge-offs related to "acquired non-credit impaired loans" which totaled $160,000, or 0.07% annualized, and accordingly, recorded a provision for loan losses equal to the net charge off for the same amount. Additionally, we have $4.6 million in nonperforming loans from this loan portfolio, up from $4.4 million at June 30, 2016.

The Company performs ongoing assessments of the estimated cash flows of its acquired credit impaired loan portfolios. In general, increases in cash flow expectations result in a favorable adjustment to interest income over the

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remaining life of the related loans, and decreases in cash flow expectations result in an immediate recognition of a provision for loans losses. When a provision for loan losses (impairments) has been recognized in earlier periods, subsequent improvement in cash flows will result in reversals of those impairments.

These ongoing assessments of the acquired loan portfolio resulted in reduced loan interest accretion due to continued decline in loan balances of both the acquired credit impaired and the acquired non-credit impaired portfolio. The overall credit mark for these loans continued to decline, partially from charge offs and partially from net improvement in expected cash flow. Below is a summary of the third quarter of 2016 assessment of the impact acquired loan portfolio:

- Removals from the loan pools due to repayments, charge offs, and transfers to OREO or other assets owned through foreclosures resulted in a decline in acquired loan interest income of $2.4 million from the second quarter of 2016, and a decline of $10.6 million compared to the third quarter of 2015. This resulted from both a decline in the average acquired loan balances ($85.3 million) compared to the second quarter of 2016 and a decline in the loan yield to 7.66% from 7.94% in the second quarter of 2016 and from 8.36% in the third quarter of 2015; and
- The amortization of the indemnification asset was lower this quarter due to the early termination with the FDIC of all loss share agreements during the second quarter of 2016. This resulted in no charge this quarter compared to $4.4 million, in the second quarter of 2016 and compared to $1.9 million in third quarter of 2015.

The table below provides an analysis of the total loan portfolio yield which includes both non-acquired and acquired loans (credit impaired and non-credit impaired loan portfolios). The acquired loan yield declined both from the second quarter of 2016 and the third quarter of 2015 due to acquired credit impaired loans being renewed and the cash flow from these assets being extended out, increasing the weighted average life of the loan pools within all acquired loan portfolios. This results in lower yields in the acquired loan portfolio.

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Average balances:				
Acquired loans, net of allowance for loan losses	$ 1,559,963	$ 1,925,218	$ 1,646,629	$ 2,056,531
Non-acquired loans	4,903,522	3,880,993	4,620,284	3,685,906
Total loans, excluding held for sale	$ 6,463,485	$ 5,806,211	$ 6,266,913	$ 5,742,437
Interest income:				
Noncash interest income on acquired performing loans	$ 1,125	$ 1,550	$ 3,856	$ 4,708
Acquired loan interest income	28,909	39,034	93,314	120,693
Total acquired loans	30,034	40,584	97,170	125,401
Non-acquired loans	46,960	38,713	133,593	111,114
Total loans, excluding held for sale	$ 76,994	$ 79,297	$ 230,763	$ 236,515

Non-taxable equivalent yield:				
Acquired loans	7.66 %	8.36 %	7.88 %	8.15 %
Non-acquired loans	3.81 %	3.96 %	3.86 %	4.03 %
Total loans, excluding held for sale	4.74 %	5.42 %	4.92 %	5.51 %

Compared to the balance at June 30, 2016, our non-acquired loan portfolio has increased $191.2 million, or 15.8% annualized, to $5.0 billion, driven by increases in most categories. Consumer real estate lending increased by $91.6 million, or 25.0% annualized; consumer non real estate lending by $32.7 million, or 47.7% annualized; commercial owner occupied loans by $70.4 million, or 25.9% annualized; commercial and industrial by $5.6 million, or 3.7% annualized; and commercial non-owner occupied increased $72.7 million, or 25.8% annualized. The acquired loan portfolio decreased by $82.8 million in the third quarter of 2016 due to continued payoffs, charge-offs, and transfers to OREO. Since September 30, 2015, the non-acquired loan portfolio has grown by $1.0 billion, or 25.4%, driven by increases in most loan categories. Consumer real estate loans and commercial non-owner occupied real estate loans have accounted for the largest increases by $250.8 million, or 19.3%, and $414.2 million, or 53.2%, respectively, since September 30, 2015.

Non-taxable equivalent net interest income decreased $1.8 million, or 2.1% and the non-taxable equivalent net interest margin declined to 4.13% from 4.47% during the third quarter of 2016 compared to the same period in 2015. These declines were mainly due to the decline in the yield on both the non-acquired loan portfolio and acquired loan portfolio and on the investment securities portfolio. The rate on interest-bearing liabilities declined 4 basis points during the same period which partially offset the decrease in yield on interesting-earning assets.

Compared to the second quarter of 2016, net interest margin (taxable equivalent) decreased by 9 basis points. The yield on interest-earning assets decreased by 9 basis points due to the decline in the yield on both the loan portfolio and on the investment securities portfolio. The yield on the non-acquired loan portfolio declined due to the continued effect of the low interest rate environment on the repricing of the loan portfolio. The yield on the acquired loan portfolio declined due to cash being received, in the second quarter of 2016, on a zero carrying value pool and due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out, therefore, increasing the weighted average life of the loan pools within all acquired loan portfolios. The yield on the investment securities portfolio declined due to the continued effect of the low interest rate environment as agency securities are either called or matured and the proceeds are partially reinvested into lower yielding securities. The rate on interest-bearing liabilities remained flat at 0.15% during the third quarter of 2016. The cost of certificates and other time deposits increased two basis point during the quarter, however the effect of the increase was offset by the decline in average balance of certificates and other time deposits of $61.8 million.

Our quarterly efficiency ratio improved to 62.3% compared to 64.5% in the second quarter of 2016 and from 64.4% in the third quarter of 2015. The improvement in the efficiency ratio compared to the second quarter of 2016 was the result of a 10.0% increase in noninterest income along with a 0.8% decrease in noninterest expense. The increase in noninterest income was mainly driven by a $4.4 million decline in the amortization from the FDIC indemnification asset with termination of the loss share agreements in the second quarter of 2016. The decline in noninterest expense was mainly driven by a $1.9 million decrease in other noninterest expense which was related to higher operational charge-offs, sales and use taxes, donations and secondary mortgage repurchase costs during the second quarter of 2016. The improvement in the efficiency ratio compared to the third quarter of 2015 was the result of an 18.7% increase in noninterest income, partially offset by a 2.1% decline in net interest income. Compared to the third quarter of 2015, noninterest income was up by $5.6 million which was driven mainly by an increase in fees on deposit accounts of $1.6 million, an increase in recoveries on acquired loans of $1.3 million, an increase in mortgage banking income of $1.5 million and a decline in the amortization of the FDIC indemnification asset of $1.9 million. Net interest income was down by $1.8 million which was mainly driven by a decline in loan interest income as yields have declined in the continued low interest rate environment.

Diluted EPS and basic EPS increased to $1.16 and $1.17, respectively for the third quarter of 2016, from the third quarter 2015 amounts of $1.04 and $1.05, respectively. This was the result of an 11.8% increase in net income.

Selected Figures and Ratios

(Dollars in thousands)	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Return on average assets (annualized)	1.28	%	1.20	%	1.19	%	1.22	%
Return on average equity (annualized)	10.00	%	9.61	%	9.41	%	9.71	%
Return on average tangible equity (annualized)*	15.86	%	15.72	%	15.18	%	15.97	%
Dividend payout ratio **	26.71	%	24.07	%	27.93	%	23.55	%
Equity to assets ratio	12.78	%	12.33	%	12.78	%	12.33	%
Average shareholders' equity	$ 1,117,307		$ 1,037,453		$ 1,094,787		$ 1,018,537	

* - Ratio is a non-GAAP financial measure. The section titled "Reconciliation of Non-GAAP to GAAP" below provides a table that reconciles non-GAAP measures to GAAP measures.

** - See explanation of the dividend payout ratio below.

· For the three months ended September 30, 2016, return on average tangible equity increased to 15.86% compared to 15.72% for the same period in 2015. This increase was driven by the 10.8% increase in net income excluding amortization of intangibles offset by the effects of a 10.1% increase in average tangible shareholders equity.

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Similarly, return on average assets increased to 1.28%, compared to 1.20% for the three months ended September 30, 2015, due to an 11.8% increase in net income offset by the effects of a 5.2% increase in average assets.

- Dividend payout ratio increased to 26.71% for the three months ended September 30, 2016 compared with 24.07% for the three months ended September 30, 2015. The increase from the comparable period in 2015 primarily reflects the higher percentage increase in the cash dividends declared per common share of 24.0% as compared to an 11.8% increase in net income. The dividend payout ratio is calculated by dividing total dividends paid during the quarter by the total net income reported for the same period.
- Equity to assets ratio increased to 12.78% for the three months ended September 30, 2016 compared with 12.33% for the three months ended September 30, 2015. The increase from the comparable period in 2015 primarily reflects the higher percentage increase in equity of 7.2% as compared to a 3.5% increase in assets.

Reconciliation of Non-GAAP to GAAP

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Return on average tangible equity (non-GAAP)	15.86 %	15.72 %	15.18 %	15.97 %
Effect to adjust for intangible assets	(5.86) %	(6.11) %	(5.77) %	(6.26) %
Return on average equity (GAAP)	10.00 %	9.61 %	9.41 %	9.71 %
Adjusted average shareholders' equity (non-GAAP)	$ 736,112	$ 668,768	$ 711,756	$ 652,362
Average intangible assets	381,195	368,685	383,031	366,175
Average shareholders' equity (GAAP)	$ 1,117,307	$ 1,037,453	$ 1,094,787	$ 1,018,537
Adjusted net income (non-GAAP)	$ 29,346	$ 26,496	$ 80,870	$ 77,921
Amortization of intangibles	(1,891)	(2,078)	(5,687)	(6,058)
Tax effect	640	722	1,922	2,075
Net income (GAAP)	$ 28,095	$ 25,140	$ 77,105	$ 73,938

The return on average tangible equity is a non-GAAP financial measure. It excludes the effect of the average balance of intangible assets and adds back the after-tax amortization of intangibles to GAAP basis net income. Management believes that this non-GAAP measure provides additional useful information, particularly since this measure is widely used by industry analysts following companies with prior merger and acquisition activities. Non-GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the company. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of our results of financial condition as reported under GAAP.

Net Interest Income and Margin

Summary

Our taxable equivalent (“TE”) net interest margin decreased by 34 basis points from the third quarter of 2015, due to the following: (1) a decrease of 37 basis points in the yield on interest-earning assets from the decline in the yield on both the non-acquired loan portfolio by 15 basis points and the acquired loan portfolio by 70 basis points, (2) partially offset by a 4 basis point decline in the rate on interest-bearing liabilities related to 3 basis point decline in funding cost from interest-bearing deposits and a 111 basis point decline in funding cost from other borrowings. The taxable equivalent net interest margin decreased by 9 basis points from the second quarter of 2016 to 4.18% in the third quarter of 2016, which was mainly the result of the yield on interest-earning assets decreasing by 9 basis points during this period. This decrease in yield on interest-earning assets was mainly due to the decline in yield on both the non-acquired and acquired loan portfolios. The yield on the non-acquired loan portfolio declined due to the continued effect of the low interest rate environment on the repricing of the loan portfolio. The yield on the acquired loan portfolio declined due cash being received in the second quarter of 2016 on a zero carrying value pool and due to the acquired credit impaired loans being renewed and the cash flow from these assets are being extended out, therefore increasing the weighted average life of the loan pools within all acquired loan portfolios.

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Net interest income decreased from the third quarter of 2015 by $1.8 million. This decrease was driven by the following:

1. Lower loan interest income of $2.3 million with acquired loan interest income decreasing by $10.6 million, offset by non-acquired loan interest income increasing by $8.2 million; offset partially by
2. Lower interest expense of $511,000, due to lower average balance of time deposit balances and a lower interest rate by $409,000 and lower interest expense in other borrowings of $154,000 from paying a fixed rate of interest on $20.6 million in trust preferred debt of 5.92% to paying a variable rate of three month LIBOR plus 159 basis points which began in the third quarter of 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Non-TE net interest income	$ 81,245	$ 83,015	$ 244,246	$ 246,341
Non-TE yield on interest-earning assets	4.24 %	4.61 %	4.33 %	4.78 %
Non-TE rate on interest-bearing liabilities	0.15 %	0.19 %	0.15 %	0.20 %
Non-TE net interest margin	4.13 %	4.47 %	4.22 %	4.63 %
TE net interest margin	4.18 %	4.52 %	4.27 %	4.68 %

Non-TE net interest income decreased $1.8 million, or 2.1%, in the third quarter of 2016 compared to the same period in 2015. Some key highlights are outlined below:

- Average interest-earning assets increased 6.2% to $7.8 billion in the third quarter of 2016 compared to the same period last year due to the increase in non-acquired loans and investment securities.
- Non-TE yield on interest-earning assets for the third quarter of 2016 decreased 37 basis points from the comparable period in 2015. The decrease since the third quarter of 2015 was driven by a 15 basis point decline in the yield on the non-acquired loan portfolio, a 70 basis point decline in the yield on the acquired loan portfolio and a 23 basis point decline in the yield on investment securities. These decreases were partially offset by a 45 basis point increase in the yield on federal funds sold and reverse repurchase agreements. The loan portfolio continues to remix with 77% of the portfolio being comprised of non-acquired loans and 23% being acquired loans. This compares to 68% and 32%, respectively, one year ago.
- The average cost of interest-bearing liabilities for the third quarter of 2016 decreased 4 basis points from the same period in 2015. The decrease since the third quarter of 2015 was primarily the result of a decline in the cost of certificates and other time deposits due to the effect of the continued low rate environment on the repricing of these deposits. The average cost of certificates and other time deposits decreased from 0.35% to 0.26%. The overall decrease was also driven by the decline in the cost of other borrowings due to the repricing of $20.6 million in trust preferred debt from a fixed rate of 5.92% to a variable rate of three month LIBOR plus 159 basis points during the third quarter of 2015. The average cost decreased from 4.62% in the third quarter of 2015 to 3.51% in the third quarter of 2016. The expected cost of funds on our other borrowings (trust preferred debt) will continue to adjust with short term interest rates in that our other borrowings are variable rate and are tied to three month LIBOR.
- TE net interest margin decreased by 34 basis points in the third quarter of 2016 compared to the third quarter of 2015.

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Loans

The following table presents a summary of the loan portfolio by category:

LOAN PORTFOLIO (ENDING balance)	September 30, 2016	% of Total	December 31, 2015	% of Total	September 30, 2015	% of Total
Acquired loans:						
Acquired non-credit impaired loans:						
Commercial non-owner occupied real estate:						
Construction and land development	$ 10,683	0.2 %	$ 13,849	0.2 %	$ 16,482	0.3 %
Commercial non-owner occupied	35,775	0.5 %	40,103	0.7 %	42,172	0.7 %
Total commercial non-owner occupied real estate	46,458	0.7 %	53,952	0.9 %	58,654	1.0 %
Consumer real estate:						
Consumer owner occupied	435,132	6.7 %	518,107	8.6 %	542,278	9.2 %
Home equity loans	168,758	2.6 %	190,968	3.2 %	203,025	3.5 %
Total consumer real estate	603,890	9.3 %	709,075	11.8 %	745,303	12.7 %
Commercial owner occupied real estate	29,444	0.4 %	39,220	0.7 %	42,524	0.7 %
Commercial and industrial	14,201	0.2 %	25,475	0.4 %	27,459	0.5 %
Other income producing property	43,152	0.7 %	51,169	0.8 %	56,092	0.9 %
Consumer non real estate	148,512	2.3 %	170,647	2.8 %	177,408	3.0 %
Other	-	- %	-	- %	-	- %
Total acquired non-credit impaired loans	885,657	13.6 %	1,049,538	17.4 %	1,107,440	18.8 %
Acquired credit impaired loans:						
Commercial non-owner occupied real estate:						
Construction and land development	42,201	0.6 %	49,409	0.8 %	50,837	0.9 %
Commercial non-owner occupied	116,423	1.8 %	130,858	2.2 %	136,019	2.3 %
Total commercial non-owner occupied real estate	158,624	2.4 %	180,267	3.0 %	186,856	3.2 %
Consumer real estate:						
Consumer owner occupied	156,628	2.4 %	183,548	3.0 %	195,308	3.3 %
Home equity loans	74,807	1.1 %	82,674	1.4 %	85,974	1.5 %
Total consumer real estate	231,435	3.5 %	266,222	4.4 %	281,282	4.8 %
Commercial owner occupied real estate	99,098	1.5 %	116,879	1.9 %	124,311	2.1 %
Commercial and industrial	20,720	0.3 %	27,517	0.5 %	27,898	0.5 %
Other income producing property	64,826	1.0 %	76,936	1.3 %	80,074	1.4 %

Consumer non real estate	61,317	0.9 %	69,755	1.2 %	72,659	1.2 %
Other	-	- %	-	- %	-	- %
Total acquired credit impaired loans	636,020	9.6 %	737,576	12.3 %	773,080	13.2 %
Total acquired loans	1,521,677	23.2 %	1,787,114	29.7 %	1,880,520	32.0 %
Non-acquired loans:						
Commercial non-owner occupied real estate:						
Construction and land development	562,336	8.6 %	401,979	6.7 %	372,077	6.3 %
Commercial non-owner occupied	630,437	9.7 %	487,777	8.1 %	406,489	6.9 %
Total commercial non-owner occupied real estate	1,192,773	18.3 %	889,756	14.8 %	778,566	13.2 %
Consumer real estate:						
Consumer owner occupied	1,183,441	18.1 %	1,018,984	17.0 %	987,863	16.8 %
Home equity loans	363,825	5.6 %	319,255	5.3 %	308,563	5.3 %
Total consumer real estate	1,547,266	23.7 %	1,338,239	22.3 %	1,296,426	22.1 %
Commercial owner occupied real estate	1,153,480	17.7 %	1,033,398	17.2 %	1,012,428	17.2 %
Commercial and industrial	617,525	9.4 %	503,808	8.4 %	462,588	7.9 %
Other income producing property	179,595	2.8 %	175,848	2.9 %	169,997	2.9 %
Consumer non real estate	305,687	4.7 %	233,104	3.9 %	223,210	3.8 %
Other	11,787	0.2 %	46,573	0.8 %	51,501	0.9 %
Total non-acquired loans	5,008,113	76.8 %	4,220,726	70.3 %	3,994,716	68.0 %
Total loans (net of unearned income)	$ 6,529,790	100.0 %	$ 6,007,840	100.0 %	$ 5,875,236	100.0 %

Note: Loan data excludes loans held for sale.

Total loans, net of deferred loan costs and fees (excluding mortgage loans held for sale), increased by $654.6 million, or 11.1%, at September 30, 2016 as compared to the same period in 2015. Acquired non-credit impaired loans decreased by $221.8 million and acquired credit impaired loans decreased by $137.1 million as compared to the same period in 2015. Acquired loans continue to decline due to principal payments, charge offs, and foreclosures. Non-acquired loans or legacy loans increased by $1.0 billion, or 25.4%, from September 30, 2015 to September 30, 2016. Non-acquired loans have grown to 76.8% of the total loan portfolio at September 30, 2016, compared to 68.0% at September 30, 2015. This increase was driven by loan growth in all categories of non-acquired loans.

The following table presents a summary of the loan portfolio by category and breaks out the acquired loan portfolio by covered and non-covered loans:

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(Dollars in thousands)	September 30, 2016	% of Total	December 31, 2015	% of Total	September 30, 2015	% of Total
Acquired loans:						
Acquired covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	$ —	— %	$ 13,121	0.2 %	$ 13,181	0.2 %
Commercial non-owner occupied	—	— %	10,981	0.2 %	12,544	0.2 %
Total commercial non-owner occupied real estate	—	— %	24,102	0.4 %	25,725	0.4 %
Consumer real estate:						
Consumer owner occupied	—	— %	23,486	0.4 %	24,627	0.4 %
Home equity loans	—	— %	29,733	0.5 %	31,058	0.5 %
Total consumer real estate	—	— %	53,219	0.9 %	55,685	0.9 %
Commercial owner occupied real estate	—	— %	16,236	0.3 %	18,895	0.3 %
Commercial and industrial	—	— %	4,792	0.1 %	3,005	0.1 %
Other income producing property	—	— %	9,814	0.1 %	10,189	0.2 %
Consumer non real estate	—	— %	57	0.0 %	61	0.0 %
Total acquired covered loans	—	— %	108,220	1.8 %	113,560	1.9 %
Acquired non-covered loans:						
Commercial non-owner occupied real estate:						
Construction and land development	52,884	0.8 %	50,137	0.8 %	54,138	1.0 %
Commercial non-owner occupied	152,198	2.3 %	159,980	2.7 %	165,647	2.8 %
Total commercial non-owner occupied real estate	205,082	3.1 %	210,117	3.5 %	219,785	3.8 %
Consumer real estate:						
Consumer owner occupied	591,760	9.1 %	678,169	11.2 %	712,959	12.1 %
Home equity loans	243,565	3.7 %	243,909	4.1 %	257,941	4.4 %
Total consumer real estate	835,325	12.8 %	922,078	15.3 %	970,900	16.5 %
Commercial owner occupied real estate	128,542	1.9 %	139,863	2.3 %	147,940	2.5 %
Commercial and industrial	34,921	0.5 %	48,201	0.8 %	52,352	0.9 %
Other income producing property	107,978	1.7 %	118,291	2.0 %	125,977	2.1 %
Consumer non real estate	209,829	3.2 %	240,344	4.0 %	250,006	4.3 %
Total acquired non-covered loans	1,521,677	23.2 %	1,678,894	27.9 %	1,766,960	30.1 %

Total acquired loans	1,521,677	23.2 %	1,787,114	29.7 %	1,880,520	32.0 %
Non-acquired loans:						
Commercial non-owner occupied real estate:						
Construction and land development	562,336	8.6 %	401,979	6.7 %	372,077	6.3 %
Commercial non-owner occupied	630,437	9.7 %	487,777	8.1 %	406,489	6.9 %
Total commercial non-owner occupied real estate	1,192,773	18.3 %	889,756	14.8 %	778,566	13.2 %
Consumer real estate:						
Consumer owner occupied	1,183,441	18.1 %	1,018,984	17.0 %	987,863	16.8 %
Home equity loans	363,825	5.6 %	319,255	5.3 %	308,563	5.3 %
Total consumer real estate	1,547,266	23.7 %	1,338,239	22.3 %	1,296,426	22.1 %
Commercial owner occupied real estate	1,153,480	17.7 %	1,033,398	17.2 %	1,012,428	17.2 %
Commercial and industrial	617,525	9.4 %	503,808	8.4 %	462,588	7.9 %
Other income producing property	179,595	2.8 %	175,848	2.9 %	169,997	2.9 %
Consumer non real estate	305,687	4.7 %	233,104	3.9 %	223,210	3.8 %
Other	11,787	0.2 %	46,573	0.8 %	51,501	0.9 %
Total non-acquired loans	5,008,113	76.8 %	4,220,726	70.3 %	3,994,716	68.0 %
Total loans (net of unearned income)	$ 6,529,790	100.0 %	$ 6,007,840	100.0 %	$ 5,875,236	100.0 %

Note: Loan data excludes loans held for sale.

As noted above, on June 23, 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its outstanding loss share agreements. At June 23, 2016, the Bank had $87.4 million in acquired covered loans that were transferred to the acquired non-covered loan portfolio. As reflected in the table above, the Company no longer has any covered loans after the settlement with the FDIC.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Average total loans	$ 6,463,485	$ 5,806,211	$ 6,266,913	$ 5,742,437
Interest income on total loans	76,994	79,297	230,763	236,515
Non-TE yield	4.74 %	5.42 %	4.92 %	5.51 %

Interest earned on loans decreased in the third quarter of 2016 compared to the third quarter of 2015. Some key highlights for the quarter ended September 30, 2016 are outlined below:

· Our non-TE yield on total loans decreased 68 basis points in the third quarter of 2016 compared to the same period in 2015. Average total loans increased 11.3%, as compared to the third quarter of 2015. The increase in average total loans was the result of 25.4% growth in the non-acquired loan portfolio during 2016, partially offset by a 19.1% decline in acquired loan portfolio. The yields on both the non-acquired and acquired loan portfolios declined in the third quarter of 2016. The growth in the non-acquired loan portfolio has been at lower rates and, as a result, the average yield declined to 3.81% in the third quarter of 2016 compared to 3.96% in the third quarter of 2015. The acquired loan portfolio effective yield also declined to 7.66% in the third quarter of 2016 compared to 8.36% in the same period in 2015. This decline was due to the acquired credit impaired loans being renewed and the cash flow from these assets being extended out, increasing the weighted average life of the loan pools within all acquired loan portfolios. The decline in the overall loan portfolio yield has also been affected by the change in the mix of the loan portfolio as the lower yielding non-acquired loan portfolio has grown while the higher yielding acquired loan portfolio has declined.

The balance of mortgage loans held for sale increased $15.5 million from December 31, 2015 to $57.1 million at September 30, 2016, and increased $8.1 million from a balance of $49.0 million at September 30, 2015.

Investment Securities

We use investment securities, our second largest category of earning assets, to generate interest income through the deployment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. At September 30, 2016, investment securities totaled $941.7 million, compared to $1.0 billion at December 31, 2015 and $904.1 million at September 30, 2015. Our investment portfolio decreased $86.0 million from December 31, 2015 primarily as a result of having $194.2 million in U.S. agency securities called during the first nine months of 2016 due to interest rates remaining low. Otherwise, we generally have continued to try and slowly increase our investment securities portfolio as we identify securities that meet our strategy and objectives. Our portfolio increased $37.6 million from September 30, 2015 to September 30, 2016, primarily as a result of purchases of mortgage-backed securities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Average investment securities	$ 964,451	$ 862,866	$ 986,786	$ 835,372
Interest income on investment securities	5,271	5,218	16,549	14,852
Non-TE yield	2.17 %	2.40 %	2.24 %	2.38 %

Interest earned on investment securities was slightly higher in the third quarter of 2016 compared to the third quarter of 2015, as result of a higher average balance offset by a lower yield.

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The following table provides a summary of the credit ratings for our investment portfolio (including held-to-maturity and available-for-sale securities) at September 30, 2016:

(Dollars in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	AAA - A	BBB	BB or Lower	Not Rated
September 30, 2016							
Government-sponsored entities debt	$ 62,996	$ 62,980	$ (16)	$ 62,996	$ —	$ —	$ —
State and municipal obligations	119,648	124,400	4,752	119,020	—	—	628
Mortgage-backed securities *	729,699	741,277	11,578	—	—	—	729,699
Corporate stocks	3,658	3,793	135	—	—	—	3,658
	$ 916,001	$ 932,450	$ 16,449	$ 182,016	$ —	$ —	$ 733,985

* - Agency mortgage-backed securities (“MBS”) are guaranteed by the issuing GSE as to the timely payments of principal and interest. Except for Government National Mortgage Association (“GNMA”) securities, which have the full faith and credit backing of the United States Government, the GSE alone is responsible for making payments on this guaranty. While the rating agencies have not rated any of the MBS issued, senior debt securities issued by GSEs are rated consistently as “Triple-A.” Most market participants consider agency MBS as carrying an implied Aaa rating (S&P rating of AA+) because of the guarantees of timely payments and selection criteria of mortgages backing the securities. We do not own any private label mortgage-backed securities.

At September 30, 2016, we had 17 securities available for sale in an unrealized loss position, which totaled $439,000. At December 31, 2015, we had 90 securities available for sale in an unrealized loss position, which totaled $4.5 million. At September 30, 2015, we had 42 securities available for sale in an unrealized loss position, which totaled $1.9 million.

During the third quarter of 2016 as compared to the third quarter of 2015, the total number of available for sale securities with an unrealized loss position decreased by 25 securities, while the total dollar amount of the unrealized loss decreased by $1.5 million. This decline was due to the lower interest rate environment at September 30, 2016 compared to at September 30, 2015.

All securities available for sale in an unrealized loss position as of September 30, 2016 continue to perform as scheduled. We have evaluated the cash flows and determined that all contractual cash flows should be received; therefore impairment is temporary because we have the ability to hold these securities within the portfolio until the maturity or until the value recovers, and we believe that it is not likely that we will be required to sell these securities prior to recovery. We continue to monitor all of these securities with a high degree of scrutiny. There can be no assurance that we will not conclude in future periods that conditions existing at that time indicate some or all of these securities are other than temporarily impaired, which would require a charge to earnings in such periods. Any charges for OTTI related to securities available-for-sale would not impact cash flow, tangible capital or liquidity.

As securities are purchased, they are designated as held to maturity or available for sale based upon our intent, which incorporates liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements. We do not currently hold, nor have we ever held, any securities that are designated as trading securities. Although securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While management generally holds these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

Other Investments

Other investment securities include primarily our investments in Federal Home Loan Bank of Atlanta ("FHLB") stock with no readily determinable market value. The amortized cost and fair value of all these securities are equal at September 30, 2016.   As of September 30, 2016, the investment in FHLB stock represented approximately $7.9 million, or 0.09% as a percentage of total assets.

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Interest-Bearing Liabilities

Interest-bearing liabilities include interest-bearing transaction accounts, savings deposits, CDs, other time deposits, federal funds purchased, and other borrowings. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Average interest-bearing liabilities	$ 5,430,625	$ 5,323,327	$ 5,455,931	$ 5,221,734
Interest expense	2,035	2,547	6,229	7,984
Average rate	0.15 %	0.19 %	0.15 %	0.20 %

The average balance of interest-bearing liabilities increased in the third quarter of 2016 compared to the third quarter of 2015 due primarily to the increase in transaction and money market accounts and saving deposits. This increase was mostly related to the deposits received in the acquisition of the branches from BOA on August 21, 2015. The decrease in interest expense in the third quarter of 2016 compared to the same period in 2015 was driven by the continued impact of the low interest rate environment on all deposit type accounts. Overall, this resulted in a 4 basis point decrease in the average rate on all interest-bearing liabilities from the three months ended September 30, 2015. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended September 30, 2016 increased 1.7% from the same period in 2015.
- Interest-bearing deposits increased to $5.1 billion at September 30, 2016 from the period end balance at September 30, 2015 of $5.0 billion. This was mainly the result of the increase in transaction and money market accounts and savings deposits of a $290.7 million partially offset by decline in certificate of deposits of $205.2 million. The company continues to monitor and adjust rates paid on deposit products as part of its strategy to manage its net interest margin.
- The average rate on transaction and money market account deposits for the three months ended September 30, 2016 decreased one basis point to 8 basis points from the comparable period in 2015.
- Average certificates of deposit and other time deposits decreased 17.9%, down $205.2 million from the average balance in the third quarter of 2015. Interest expense on certificates of deposit and other time deposits decreased $409,000 as a result of the decline in average balances and a nine basis point decrease in the average rate to 26 basis points for the three months ended September 30, 2016 as compared to the same period in 2015.
- The average rate on other borrowings experienced a 111 basis point decline to 3.51% for the three months ended September 30, 2016 as compared to the same period in 2015. This was the result of the rate on $20.6 million in trust preferred debt resetting during the third quarter of 2015 from a fixed rate of 5.92% to a variable rate of three month LIBOR plus a spread of 159 basis points (2.44%).

Noninterest-Bearing Deposits

Noninterest-bearing deposits are transaction accounts that provide our Bank with “interest-free” sources of funds. Average noninterest-bearing deposits increased $238.0 million, or 12.5%, to $2.2 billion in the third quarter of 2016 compared to $1.9 billion during the same period in 2015. At September 30, 2016, the period end balance of noninterest-bearing deposits was $2.2 billion, exceeding the September 30, 2015 balance by $248.8 million.

Provision for Loan Losses and Nonperforming Assets

The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The allowance for loan losses on non-acquired loans consists of general and specific reserves. The general reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience for each class of loans and management's evaluation and "risk grading" of the loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are included in this evaluation. Currently, these adjustments are applied to the non-acquired loan portfolio when estimating the level of reserve required. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of our exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. These are loans classified by management as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Generally, the need for a specific reserve is evaluated on impaired loans, and once a specific reserve is established for a loan, a charge off of that amount occurs in the quarter subsequent to the establishment of the specific reserve. Loans that are determined to be impaired are provided a specific reserve, if necessary, and are excluded from the calculation of the general reserves.

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

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

In previous periods, we offset the impact of the provision established for acquired covered loans by adjusting the receivable from the FDIC to reflect the indemnified portion of the post-acquisition exposure with a corresponding credit to the provision for loan losses. However, as noted above, on June 23, 2016, the Bank entered into an early agreement with the FDIC with respect to all of its outstanding loss share agreements. All assets previously classified as covered became uncovered, and the Bank will now recognize the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts (For further discussion of the Company’s allowance for loan losses on acquired loans, see Note 6—Loans and Allowance for Loan Losses).

During the third quarter of 2016, we decreased the valuation allowance on acquired credit impaired loans by $349,000, which resulted in a $23,000 negative net provision for loan losses on acquired credit impaired loans.

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The following table presents a summary of the changes in the ALLL for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016				2015			
(Dollars in thousands)	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 36,939	$ —	$ 3,752	$ 40,691	$ 34,782	$ —	$ 4,688	$ 39,470
Loans charged-off	(1,108)	(280)	—	(1,388)	(1,530)	(141)	—	(1,671)
Recoveries of loans previously charged off	713	120	—	833	655	273	—	928
Net recoveries (charge-offs)	(395)	(160)	—	(555)	(875)	132	—	(743)
(Benefit) provision for loan losses	775	160	(23)	912	1,209	(132)	(2)	1,075
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision for loan losses charged to operations	775	160	(23)	912	1,209	(132)	(2)	1,075
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reductions due to loan removals	—	—	(326)	(326)	—	—	(212)	(212)
Balance at end of period	$ 37,319	$ —	$ 3,403	$ 40,722	$ 35,116	$ —	$ 4,474	$ 39,590
Total non-acquired loans:								
At period end	$ 5,008,113				$ 3,994,716			
Average	4,903,522				3,880,993			
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.03 %				0.09 %			
Allowance for loan losses as a percentage of period end non-acquired loans	0.75 %				0.88 %			
	248.63 %				147.11 %			

Allowance for loan losses as a percentage of period end non-performing non-acquired loans ("NPLs")

	Nine Months Ended September 30, 2016				2015			
	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total	Non-acquired Loans	Acquired Non-credit Impaired Loans	Acquired Credit Impaired Loans	Total
Balance at beginning of period	$ 34,090	$ —	$ 3,706	$ 37,796	$ 34,539	$ —	$ 7,365	$ 41,904
Loans charged-off	(4,384)	(810)	—	(5,194)	(4,206)	(2,510)	—	(6,716)
Recoveries of loans previously charged off	2,358	262	—	2,620	2,253	323	—	2,576
Net charge-offs	(2,026)	(548)	—	(2,574)	(1,953)	(2,187)	—	(4,140)
Provision for loan losses on non-acquired loans	5,255	548	372	6,175	2,530	2,187	300	5,017
Benefit attributable to FDIC loss share agreements	—	—	23	23	—	—	21	21
Total provision for loan losses charged to operations	5,255	548	395	6,198	2,530	2,187	321	5,038
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(23)	—	—	(21)	(21)
Reductions due to loan removals	—	—	(675)	(675)	—	—	(3,191)	(3,191)
Balance at end of period	$ 37,319	$ —	$ 3,403	$ 40,722	$ 35,116	$ —	$ 4,474	$ 39,590
Total non-acquired loans:								
At period end	$ 5,008,113				$ 3,994,716			

Average	4,620,284	3,685,906
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.06 %	0.07 %
Allowance for loan losses as a percentage of period end non-acquired loans	0.75 %	0.88 %
Allowance for loan losses as a percentage of period end non-performing non-acquired loans ("NPLs")	248.63 %	147.11 %

The allowance for loan losses as a percent of non-acquired loans reflects the continued improvement in credit quality, as well as the continued decline in our three-year historical charge off rate. Additionally, our classified loans, nonaccrual loans, and non-performing loans declined during the third quarter of 2016 compared to the same quarter in 2015. Continued improvement was also seen in all three categories when compared to the second quarter of 2016. Our overall net charge offs for the quarter on non-acquired loans was 3 basis points annualized, or $395,000, compared to 9 basis points annualized, or $875,000, a year ago, and 6 basis points, or $676,000 in the second quarter of 2016. Excluding acquired assets, nonperforming assets decreased by $8.2 million during the third quarter of 2016 compared to the third quarter of 2015 and decreased by $3.6 million from the second quarter of 2016. The ratio of the ALLL to cover total nonperforming non-acquired loans increased from 147.11% at September 30, 2015 and 201.06% at June 30, 2016 to 248.63% at September 30, 2016.

We increased the ALLL compared to the third quarter of 2015, as well as compared to the second quarter of 2016, due primarily to larger loan growth and increases in certain loan types during the third quarter that require higher reserves. From a general perspective, we generally consider a three-year historical loss rate on all loan portfolios, unless circumstances within a portfolio loan type requires the use of an alternate historical loss rate to better capture the risk within the portfolio. We also consider economic risk, model risk and operational risk when determining the ALLL. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within

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the loan portfolio. Overall, the general reserve increased by $2.3 million compared to the balance at September 30, 2015, and $508,000 compared to the balance at June 30, 2016.

We have adjusted our qualitative factors to account for uncertainty and certain risk inherent in the portfolio that cannot be measured with historical loss rates. We currently view that the low level of net charge offs and historical loss rates may not be indicative of the losses inherent in the overall loan portfolio. Therefore, we have adjusted our qualitative factors to account for the uncertainty which exists in the economy as a whole and within the markets in which we operate.

On a specific reserve basis, the allowance for loan losses decreased $128,000 from June 30, 2016, with loan balances being evaluated for specific reserves decreasing from $24.3 million at June 30, 2016 to $21.2 million at September 30, 2016. Specific reserves decreased $77,000, to $1.4 million at September 30, 2016, from $1.5 million at September 30, 2015 with the loan balances being evaluated for specific reserves decreasing $13.3 million from $34.5 million at September 30, 2015. Our practice, generally, is that once a specific reserve is established for a loan, a charge off occurs in the quarter subsequent to the establishment of the specific reserve.

During the three months ended September 30, 2016, the decline in our total nonperforming assets ("NPAs") was reflective of improvement in the unemployment rates and economy as a whole within the markets that we serve. We continue to work these loans out through collections and transfers to OREO.

The following table summarizes our NPAs for the past five quarters:

(Dollars in thousands)	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Non-acquired:					
Nonaccrual loans	$ 12,386	$ 15,071	$ 15,989	$ 15,785	$ 18,099
Accruing loans past due 90 days or more	125	450	188	300	156
Restructured loans - nonaccrual	2,499	2,851	3,058	2,662	5,616
Total nonperforming loans	15,010	18,372	19,235	18,747	23,871
Other real estate owned ("OREO") (2)	6,585	6,833	7,701	8,705	5,956
Other nonperforming assets (3)	29	29	78	78	24
Total non-acquired nonperforming assets	21,624	25,234	27,014	27,530	29,851
Acquired non-credit impaired:					
Nonaccrual loans	4,633	4,438	3,951	3,764	4,130
Accruing loans past due 90 days or more	—	—	—	53	—
Total acquired nonperforming loans (1)	4,633	4,438	3,951	3,817	4,130

Acquired OREO and other nonperforming assets:					
Covered OREO (2)	—	—	4,222	5,751	5,465
Acquired OREO not covered under loss share (2)	15,626	15,594	14,030	16,098	19,957
Other acquired nonperforming assets (3)	653	664	694	546	557
Total acquired OREO and other nonperforming assets	16,279	16,258	18,946	22,395	25,979
Total nonperforming assets	$ 42,536	$ 45,930	$ 49,911	$ 53,742	$ 59,960
Excluding Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	0.43 %	0.52 %	0.60 %	0.65 %	0.75 %
Total NPAs as a percentage of total assets (5)	0.25 %	0.29 %	0.31 %	0.32 %	0.35 %
Total NPLs as a percentage of total loans (4)	0.30 %	0.38 %	0.43 %	0.44 %	0.60 %
Including Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	0.65 %	0.71 %	0.81 %	0.89 %	1.02 %
Total NPAs as a percentage of total assets	0.48 %	0.53 %	0.58 %	0.63 %	0.71 %
Total NPLs as a percentage of total loans (4)	0.30 %	0.36 %	0.38 %	0.38 %	0.48 %

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(1) Excludes the acquired credit impaired loans that are contractually past due 90 days or more totaling $11.5 million, $14.5 million, $15.9 million, $18.8 million, and $21.7 million, as of September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015, and September 30, 2015, respectively, including the valuation discount. Acquired credit impaired loans are considered to be performing due to the application of the accretion method under FASB ASC Topic 310-30. (For further discussion of the Company's application of the accretion method, see Business Combinations and Method of Accounting for Loans Acquired" in our Annual Report on Form 10-K for the year ended December 31, 2015.
(2) Includes certain real estate acquired as a result of foreclosure and property not intended for bank use.
(3) Consists of non-real estate foreclosed assets, such as repossessed vehicles. Prior to our termination agreement with the FDIC in the second quarter of 2016, these assets were covered through loss share agreements.
(4) Loan data excludes mortgage loans held for sale.
(5) For purposes of this calculation, total assets include all assets (both acquired and non-acquired).

Excluding the acquired non-credit impaired loans, total nonperforming loans, including restructured loans, were $15.0 million, or 0.30% of non-acquired loans, a decrease of $8.9 million, or 37.1%, from September 30, 2015. The decrease in nonperforming loans was driven primarily by a decrease in commercial nonaccrual loans of $3.4 million, consumer nonaccrual loans of $2.4 million and restructured nonaccrual loans of $3.1 million.

Nonperforming non-acquired loans overall, including restructured loans, decreased by $3.4 million during the third quarter of 2016 from the level at June 30, 2016. This decrease was primarily driven by a decrease in consumer nonaccrual loans of $2.1 million, commercial nonaccrual loans of $536,000, restructured nonaccrual loans of $352,000, and loans greater than ninety days past due but still accruing of $325,000.

At September 30, 2016, non-acquired OREO decreased by $248,000 from June 30, 2016. At September 30, 2016, non-acquired OREO consisted of 28 properties with an average value of $235,000. This compared to 33 properties with an average value of $207,000 at June 30, 2016. In the third quarter of 2016, we added 4 properties with an aggregate value of $1.3 million into non-acquired OREO, and we sold 9 properties with a basis of $1.5 million. Our non-acquired OREO balance of $6.6 million at September 30, 2016 is comprised of 47% in the Low Country/Orangeburg region, 8% in the Coastal region (Beaufort to Myrtle Beach), 27% in the Central region (Columbia), 8% in the Charlotte region, 10% in the Upstate region (Greenville).

Potential Problem Loans

Potential problem loans (excluding all acquired loans), totaled $14.0 million, or 0.28% of total non-acquired loans outstanding, at September 30, 2016, compared to $6.3 million, or 0.15% of total non-acquired loans outstanding, at December 31, 2015, and compared to $8.1 million, or 0.20% of total non-acquired loans outstanding, at September 30, 2015. Potential problem loans related to acquired non-credit impaired loans totaled $2.0 million, or 0.23% of total acquired non-credit impaired loans, at September 30, 2016, compared to $8.4 million, or 0.80% of total acquired non-credit impaired loans outstanding, at December 31, 2015, and compared to $7.7 million, or 0.69% of total acquired non-credit impaired loans outstanding, at September 30, 2015. All potential problem loans represent those loans where information about possible credit problems of the borrowers has caused management to have serious concern about the borrower's ability to comply with present repayment terms.

Noninterest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Fees on deposit accounts	$ 20,776	$ 19,212	$ 62,439	$ 53,403
Mortgage banking income	6,286	4,817	16,104	18,532
Trust and investment services income	4,877	5,489	14,573	15,474
Securities losses, net	—	—	122	—
Amortization of FDIC indemnification asset	—	(1,871)	(5,901)	(7,120)
Recoveries on Acquired Loans	2,207	879	5,130	2,099
Other	1,194	1,245	5,032	3,970
Total noninterest income	$ 35,340	$ 29,771	$ 97,499	$ 86,358

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Noninterest income increased by $5.6 million, or 18.7%, during the third quarter of 2016 compared to the same period in 2015. The quarterly increase in total noninterest income primarily resulted from the following:

- Fees on deposit accounts increased $1.6 million, or 8.1%, which resulted from an increase in total deposits of $169.4 million both from organic growth and from the purchase of 13 branches from BOA during the third quarter of 2015;
- Recoveries on acquired loans increased $1.3 million, or 151.0%, as a result of no longer sharing any recoveries with the FDIC under loss share agreements which were terminated in the second quarter of 2016;
- Amortization of the FDIC indemnification asset declined by $1.9 million. This decrease was driven by the early termination of the FDIC loss share agreements during the second quarter of 2016 which resulted in no amortization being recorded in the third quarter of 2016;
- Mortgage banking income declined by $1.5 million, or 30.5%, driven primarily from higher gains on the sale of mortgage loans sold in the secondary market; and
- Trust and investment services income decreased by $612,000.

Noninterest income increased by $11.1 million, or 12.9%, during the first nine months of 2016 compared to the same period in 2015. This increase resulted primarily from a $9.0 million or 16.9% increase in fees on deposit accounts and a $3.0 million or 144.4% increase in recoveries on acquired loans. This increase was partially offset by a $2.4 million or 13.1% decline in mortgage banking income. The increase in fees on deposit accounts was the result of an increase in deposits mainly driven by the branches acquired from BOA in the third quarter of 2015. The increase in recoveries on acquired loans was driven by the early termination of the FDIC loss share agreements in the second quarter of 2016. The decline in mortgage banking income was driven primarily by lower gains on the sale of mortgage loans sold in the secondary market in 2016 compared to 2015.

Note that "Fees on deposit accounts" include service charges on deposit accounts and bankcard income.

Noninterest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Salaries and employee benefits	$ 41,972	$ 40,013	$ 123,941	$ 120,754
Net occupancy expense	5,464	5,395	16,364	15,678
Information services expense	5,237	4,736	15,353	13,076
Furniture and equipment expense	3,234	2,554	9,157	8,461
OREO expense and loan related	2,085	2,717	4,733	7,750
Bankcard expense	2,940	2,448	8,859	6,713
Amortization of intangibles	1,891	2,078	5,687	6,058
Branch consolidation and merger-related expense	709	3,091	3,240	5,328
Supplies, printing and postage expense	1,345	1,377	4,910	4,391

Professional fees	1,758	1,383	4,663	4,377
FDIC assessment and other regulatory charges	1,001	1,248	3,162	3,685
Advertising and marketing	790	1,054	2,293	2,918
Other	4,765	5,100	16,712	16,019
Total noninterest expense	$ 73,191	$ 73,194	$ 219,074	$ 215,208

Noninterest expense was flat in the third quarter of 2016 as compared to the same period in 2015 at $73.2 million. The offsetting increases and decreases in all categories of noninterest expense resulted from the following:

- Salaries and employee benefits expense increased by $2.0 million in 2016 compared to the same period in 2015. This increase was mainly attributable to higher cost related to our self-funded medical plan, merit increases and the hiring of staff to support $10.0 billion in asset threshold;
- Bankcard expense increased by $492,000 in 2016 compared to the expenses in 2015. This increase is mainly attributable to our growth in deposit transactions accounts both organically and through the branch acquisition from BOA in the third quarter of 2015;
- Information services expense increased by $501,000 in 2016 compared to expenses in 2015 due primarily to additional costs related to branch acquisition from BOA;

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- Furniture and Equipment expense increased by $680,000 in 2016 compared to expenses in 2015 due primarily to the branch acquisition from BOA and the replacement of furniture and equipment in certain locations; offset by:
- A decrease in branch consolidation and merger-related expense of $2.4 million compared to the third quarter of 2015. The 2016 expense was related to our branch consolidation project and to the pending merger with Southeastern, and the 2015 expense primarily related to the 13 branches acquired from BOA;
- Lower OREO expense and troubled loan related cost of $632,000 mainly related to lower OREO balances and the costs to these assets. Total nonperforming assets declined by 29.1% from September 30, 2015 to $42.5 million at September 30, 2016; and
- Decreases in FDIC assessment and other regulatory charges of $247,000 and advertising and marketing expense of $264,000.

Noninterest expense increased by $3.9 million or 1.8%, during the nine months ended September 30, 2016 compared to the same period in 2015. The increase resulted primarily from a $3.2 million, or 2.6%, increase in salaries and employee benefits, a $2.3 million, or 17.4%, increase in information and technology expense, a $2.1 million, or 32.0%, increase in bankcard expense and a $693,000, or 4.3%, increase in other noninterest expense. This was partially offset by a $3.0 million, or 38.9%, decline in OREO expense and loan related. The increase in salaries and employee benefits was mainly related to our self-funded medical plan, merit increases, and the hiring of staff to support $10.0 billion in assets. The increase in information and technology expense was due to our expansion with the purchase of 13 BOA and costs related to growing to $10.0 billion in assets. The increase in bankcard expense was mainly attributable to our growth in deposit transaction accounts both organically and through the BOA branch acquisitions during the third quarter of 2015. The increase in other noninterest expense was mainly related to an increase in operational charge-offs and in sales and use taxes. The decline in OREO expense and troubled loan related expense was driven the overall decline in nonperforming assets from September 30, 2015 to September 30, 2016.

Income Tax Expense

Our effective income tax rate was 33.87% and 33.80% for the three months and nine months ended September 30, 2016, respectively. This compares to 34.73% and 34.25% for the three months and nine months ended September 30, 2015, respectively. The decrease in the rate for both periods was mainly attributable to the purchase of additional tax credits in late 2015.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of September 30, 2016, shareholders' equity was $1.1 billion, an increase of $64.7 million, or 6.1%, from December 31, 2015, and an increase of $75.8 million, or 7.2%, from $1.0 billion at September 30, 2015. The driving factor for the increase from year-end was net income of $77.1 million, which was offset by the common dividend paid of $21.5 million. At December 31, 2015 we had accumulated other comprehensive loss of $3.8 million compared to an accumulated other comprehensive gain of $4.0 million at September 30, 2016. This change was mainly attributable to the increase in the unrealized gain in its AFS securities portfolio of $7.4 million, net of tax during the first nine months of 2016 due to the low interest rate environment. The increase in shareholder's equity from September 30, 2015 was primarily the result of net income of $102.6 million and partially offset by dividends paid to common shareholders of $27.8 million. Our common equity-to-assets ratio was 12.78% at September 30, 2016, up from 12.38% at December 31, 2015 and 12.33% at September 30, 2015.

We are subject to regulations with respect to certain risk-based capital ratios. These risk-based capital ratios measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The values of both balance sheet and off-balance sheet items are adjusted based on the rules to reflect categorical credit risk. In addition to the risk-based capital ratios, the regulatory agencies have also established a leverage ratio for assessing capital adequacy. The leverage ratio is equal to Tier 1 capital divided by total consolidated on-balance sheet assets (minus amounts deducted from Tier 1 capital). The leverage ratio does not involve assigning risk weights to assets.

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, in July 2013, the Federal Reserve announced its approval of a final rule to implement the regulatory capital reforms developed by the Basel Committee on Banking Supervision ("Basel III"), among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules became effective January 1, 2015, subject to a phase-in period for certain aspects of the new rules.

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The new capital rules framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. As applied to the Company and the Bank, the new rules include a new minimum ratio of common equity Tier 1 capital (“CET1”) to risk-weighted assets of 4.5%. The new rules also raise our minimum required ratio of Tier 1 capital to risk-weighted assets from 4% to 6%. Our minimum required leverage ratio under the new rules is 4% (the new rules eliminated an exemption that permitted a minimum leverage ratio of 3% for certain institutions). Our minimum required total capital to risk-weighted assets ratio remains at 8% under the new rules.

In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization will also be required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of common equity Tier 1, and the buffer will apply to all three risk-based measurements (CET1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets.

In terms of quality of capital, the final rule emphasizes common equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. It also changes the methodology for calculating risk-weighted assets to enhance risk sensitivity.

Under the Basel III rules, accumulated other comprehensive income (“AOCI”) is presumptively included in common equity Tier 1 capital and can operate to reduce this category of capital. The final rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI, which election the Bank and the Company have made. As a result, the Company and the Bank will retain the pre-existing treatment for AOCI.

The Bank is also subject to the regulatory framework for prompt corrective action, which identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and is based on specified thresholds for each of the three risk-based regulatory capital ratios (CET1, Tier 1 capital and total capital) and for the leverage ratio.

The Company’s and the Bank’s regulatory capital ratios for the following periods are reflected below:

	September 30,	December 31,	September 30,

	2016	2015	2015
South State Corporation:			
Common equity Tier 1 risk-based capital	11.48 %	11.84 %	11.82 %
Tier 1 risk-based capital	12.27 %	12.71 %	12.68 %
Total risk-based capital	12.89 %	13.34 %	13.36 %
Tier 1 leverage	9.74 %	9.31 %	9.32 %
South State Bank:			
Common equity Tier 1 risk-based capital	11.86 %	12.33 %	12.29 %
Tier 1 risk-based capital	11.86 %	12.33 %	12.29 %
Total risk-based capital	12.48 %	12.96 %	12.97 %
Tier 1 leverage	9.42 %	9.03 %	9.04 %

The Tier 1 leverage ratio increased compared to December 31, 2015 due to the increase in our capital outpacing the increase in our average asset size. The Common equity Tier 1 risk-based capital, Tier 1 risk-based capital and the Total risk-based capital ratios declined compared to December 31, 2015 due to the increase in our risk based assets outpacing the increase in our capital. The increase in our risk-based assets was mainly attributable to our growth in loans which usually carry higher risk weightings. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

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Liquidity

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. Our Asset/Liability Management Committee ("ALCO") is charged with monitoring liquidity management policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

- Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our Bank;
- Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our Bank's asset/liability management and net interest margin requirements; and
- Continually working to identify and introduce new products that will attract customers or enhance our Bank's appeal as a primary provider of financial services.

Our non-acquired loan portfolio increased by approximately $1.0 billion, or approximately 25.4%, compared to the balance at September 30, 2015, and by $787.4 million, or 18.7% annualized, compared to the balance at December 31, 2015.

Our investment securities portfolio increased $37.6 million, or 4.2%, compared to the balance at September 30, 2015, and decreased by $86.0 million compared to the balance at December 31, 2015. The Company's recent strategy has been to increase the investment portfolio as a percentage to total assets, however, during the first nine months of 2016, we had $194.2 million in U.S. Government Agencies called with the continuing low interest rate environment which led to the decrease in the investment portfolio. Total cash and cash equivalents were $507.5 million at September 30, 2016 as compared to $695.8 million at December 31, 2015 and $889.4 million at September 30, 2015.

At September 30, 2016, December 31, 2015 and September 30, 2015, the Company had $2.9 million, $18.9 million and $19.1 million, respectively, in traditional, out-of-market brokered deposits and $57.7 million, $53.3 million, and $69.1 million, respectively, of reciprocal brokered deposits. Total deposits were $7.2 billion at September 30, 2016, up $169.4 million or 2.4%, from September 30, 2015. The increase was from organic deposit growth in interest-bearing transaction accounts of $98.2 million, savings account of $69.4 million and noninterest-bearing transaction account of $248.8 million, partially offset by a decline in certificates of deposit of $247.8 million. Other borrowings, comprised mainly of our trust preferred debt, has remained flat from September 30, 2015. To the extent that we employ other types of non-deposit funding sources, typically to accommodate retail and correspondent customers, we continue to take in some shorter maturities of such funds. Our current approach may provide an opportunity to sustain a low funding rate or possibly lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position taking into account our current composition of earning assets, asset quality, capital position, and operating results. Our liquid earning assets include federal funds sold, balances at the Federal Reserve Bank, reverse repurchase agreements, and/or other short-term investments. Cyclical and other economic trends and conditions can disrupt our Bank's desired liquidity position at any time. We expect that these conditions would generally be of a short-term nature. Under such circumstances, our Bank's federal funds sold position and any balances at the Federal Reserve Bank serve as the primary sources of immediate liquidity. At September 30, 2016, our Bank had total federal funds credit lines of $446.0 million with no balance outstanding. If additional liquidity were needed, the Bank would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment

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portfolio. At September 30, 2016, our Bank had $166.6 million of credit available at the Federal Reserve Bank's Discount Window, but had no outstanding advances as of the end of the quarter. In addition, we could draw on additional alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the FHLB. At September 30, 2016, our Bank had a total FHLB credit facility of $1.3 billion with total outstanding letters of credit consuming $5.7 million, $125,000 in outstanding advances and $134,000 in credit enhancements from participation in the FHLB's Mortgage Partnership Finance Program. The Company has a $20.0 million unsecured line of credit with U.S. Bank National Association with no outstanding advances. We believe that our liquidity position continues to be adequate and readily available.

Our contingency funding plans incorporate several potential stages based on liquidity levels. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. The Company maintains various wholesale sources of funding. If our deposit retention efforts were to be unsuccessful, our Company would utilize these alternative sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our Company. This could increase our Company's cost of funds, impacting net interest margins and net interest spreads.

Loss Share

The following table presents the expected losses on acquired assets covered under all loss share agreements from inception through the end of the loss share agreements with the FDIC:

(Dollars in thousands)	FDIC Threshold or ILE	Original Estimated Gross Losses	Original Estimated Covered Losses	Losses Incurred* By FFHI Through July 26, 2013	Losses Incurred** By South State Through the End of Loss Share
CBT	$ 233,000	$ 340,039	$ 334,082	$ —	$ 312,158
Habersham	94,000	124,363	119,978	—	91,553
BankMeridian	70,827	70,190	67,780	—	31,682
Cape Fear****	110,000	12,921	8,213	76,122	3,556
Plantation****	70,178	24,273	16,176	35,190	12,758
Total	$ 578,005	$ 571,786	$ 546,229	$ 111,312	$ 451,707

* For Cape Fear and Plantation, which were acquired through the merger with First Financial Holdings, Inc. ("FFHI"), this column represents claimed loan and OREO losses excluding expenses, net of revenues, from bank failure date through July 26, 2013.

** Claimed loan and OREO losses excluding expenses, net of revenues, since bank failure date under South State ownership.

*** For Cape Fear and Plantation, the original estimated gross losses and the original estimated covered losses represent estimated losses subsequent to July 26, 2013.

During the second quarter of 2016, the Bank entered into an early termination agreement with the FDIC with respect to all of its loss share agreements. As a result, all assets previously classified as covered became uncovered effective June 23, 2016. At the time of the agreement, SSB had $87.4 million in acquired covered loans and $3.0 million in covered OREO that became uncovered at the date of the agreement. The Bank will now recognize the full amount of future charge-offs, recoveries, gains, losses, and expenses related to these previously covered assets, as the FDIC will no longer share in these amounts.

Deposit and Loan Concentrations

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10% of total loans to a multiple number of borrowers engaged in similar business activities. As of September 30, 2016, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

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Concentration of Credit Risk

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk-based capital, or $214.7 million at September 30, 2016. Based on this criteria, the Company had four such credit concentrations for non-acquired loans and acquired non-credit impaired loans at September 30, 2016, including $316.8 million of loans to lessors of residential buildings, $631.8 million of loans to lessors of nonresidential buildings (except mini-warehouses), $241.4 million of loans to religious organizations, and $227.1 million of loans to offices of physicians, dentists and other health practitioners.

Cautionary Note Regarding Any Forward-Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "es "continue," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. We caution readers that forward-looking statements are estimates reflecting our judgment based on current information, and are subject to certain risks and uncertainties that could cause actual results to differ materially from anticipated results. Such risks and uncertainties include, among others, the matters described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2015, and the following:

- Credit risk associated with an obligor's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed;
- Interest rate risk involving the effect of a change in interest rates on both the Bank's earnings and the market value of the portfolio equity;
- Liquidity risk affecting our Bank's ability to meet its obligations when they come due;
- Price risk focusing on changes in market factors that may affect the value of financial instruments which are "marked-to-market" periodically;
- Merger and merger integration risk including potential deposit attrition, higher than expected costs, customer loss and business disruption, including, without limitation, potential difficulties in maintaining relationships with key personnel and other integration related-matters, and the potential inability to identify and successfully negotiate and complete additional successful combinations with potential merger or acquisition partners;
- Transaction risk arising from problems with service or product delivery;
- Compliance risk involving risk to earnings or capital resulting from violations of or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards;
- Controls and procedures risk, including the potential failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures;
- Regulatory change risk resulting from new laws, rules, regulations, proscribed practices or ethical standards, including the possibility that regulatory agencies may require higher levels of capital above the current

regulatory-mandated minimums, including the impact of the new capital rules under Basel III and the possibility of changes in accounting standards, policies, principles and practices, including changes in accounting principles relating to loan loss recognition;

- Strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- Reputation risk that adversely affects earnings or capital arising from negative public opinion;
- Terrorist activities risk that result in loss of consumer confidence and economic disruptions;
- Cybersecurity risk related to our dependence on internal computer systems and the technology of outside service providers, as well as the potential impacts of third-party security breaches, subjects us to potential business disruptions or financial losses resulting from deliberate attacks or unintentional events;
- Noninterest income risk resulting from the effect of final rules amending Regulation E that prohibit financial institutions from charging consumer fees for paying overdrafts on ATM and one-time debit card transactions, unless the consumer consents or opts-in to the overdraft service for those types of transactions;
- Economic downturn risk resulting in changes in the credit markets, greater than expected non-interest expenses, excessive loan losses and other factors, which risks could be exacerbated by potential negative economic

developments resulting from the expiration of the federal tax reductions, and the implementation of federal spending cuts currently scheduled to go into effect; and

· $10.0 billion asset size threshold risk resulting in increased expenses, loss of revenues, and increased regulatory scrutiny associated with our total assets exceeding $10.0 billion.

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

For any forward-looking statements made in this Form 10-Q or in any documents incorporated by reference into this Form 10-Q, we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements speak only as of the date of this Form 10-Q or the date of any document incorporated by reference in Form 10-Q. We do not undertake to update forward looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward looking statements by the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes in our quantitative and qualitative disclosures about market risk as of September 30, 2016 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the six months ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In connection with the proposed merger of South State and Southeastern, on August 25, 2016, John Solak, a purported stockholder of South State, brought a class action lawsuit in the Court of Common Pleas for the Fifth Judicial Circuit in the State of South Carolina, County of Richland (which we refer to as the "Court"), captioned Solak v. South State Corporation, et al., No. 2016-CP-40-05162 (the "Action"). The Action named as defendants South State and the South State board and alleged that the South State board breached its fiduciary duties by filing a joint proxy statement/prospectus with the SEC on August 19, 2016 (which we refer to as the "initial joint proxy statement/prospectus"), which initial joint proxy statement/prospectus allegedly failed to disclose material facts concerning certain financial projections of Southeastern prepared by South State and certain inputs used by Keefe, Bruyette & Woods, Inc., South State's financial advisor in connection with the merger. The Action sought, among other things, to preliminarily enjoin South State from consummating the merger or any vote thereon. Also on August 25, 2016, the plaintiff filed a motion for a preliminary injunction with the Court. On October 6, 2016, the plaintiff advised the Court that he is withdrawing his motion for a preliminary injunction and his complaint, but asked the Court to retain jurisdiction to consider an application for attorney's fees. To date, no such application has been made.

Item 1A. RISK FACTORS

Investing in shares of our common stock involves certain risks, including those identified and described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as well as cautionary statements contained in this Form 10-Q, including those under the caption "Cautionary Note Regarding Any Forward-Looking Statements" set forth in Part I, Item 2 of this Form 10-Q, risks and matters described elsewhere in this Form 10-Q and in our other filings with the SEC.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) Issuer Purchases of Registered Equity Securities:

In February 2004, we announced a stock repurchase program with no formal expiration date to repurchase up to 250,000 shares of our common stock. There are 54,972 shares that may yet be purchased under that program. The following table reflects share repurchase activity during the third quarter of 2016:

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	10,461	*	$ 74.39	—	54,972
August 1 - August 31	—		—	—	54,972
September 1 - September 30	—		—	—	54,972
Total	10,461			—	54,972

*These shares were repurchased under arrangements, authorized by our stock-based compensation plans and Board of Directors, whereby officers or directors may sell previously owned shares to the Company in order to pay for the exercises of stock options or for income taxes owed on vesting shares of restricted stock. These shares are not purchased under the plan to repurchase 250,000 shares announced in February 2004.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

The exhibits required to be filed as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index attached hereto and are incorporated by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SOUTH STATE CORPORATION (Registrant)
Date: November 4, 2016	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2016	/s/ John C. Pollok John C. Pollok

	Senior Executive Vice President, Chief Financial Officer, and Chief Operating Officer (Principal Financial Officer)
Date: November 4, 2016	/s/ Keith S. Rainwater Keith S. Rainwater Executive Vice President and Principal Accounting Officer

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Exhibit Index

Exhibit No.	Description
Exhibit 31.1	Rule 13a-14(a) Certification of Principal Executive Officer
Exhibit 31.2	Rule 13a-14(a) Certification of Principal Financial Officer
Exhibit 32	Section 1350 Certifications of Principal Executive Officer and Principal Financial Officer
Exhibit 101	The following financial statements from the Quarterly Report on Form 10-Q of South State Corporation for the quarter ended September 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statement of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.