SOUTH STATE Corp
Form 10-Q
August 04, 2017
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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 June 30, 2017

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
	Emerging Growth Company

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

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

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

Class	Outstanding as of July 31, 2017
Common Stock, $2.50 par value	29,263,537

South State Corporation and Subsidiary

June 30 2017 Form 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

South State Corporation and Subsidiary

Condensed Consolidated Balance Sheets

(Dollars in thousands, except par value)

	June 30, 2017 (Unaudited)	December 31, 2016 (Note 1)	June 30, 2016 (Unaudited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$ 225,259	$ 201,966	$ 182,875
Interest-bearing deposits with banks	185,472	36,241	8,055
Federal funds sold and securities purchased under agreements to resell	21,159	136,241	290,982
Total cash and cash equivalents	431,890	374,448	481,912
Investment securities:			
Securities held to maturity (fair value of $4,248, $6,250 and $8,231, respectively)	4,166	6,094	7,921
Securities available for sale, at fair value	1,341,652	999,405	989,610
Other investments	13,076	9,482	9,529
Total investment securities	1,358,894	1,014,981	1,007,060
Loans held for sale	65,995	50,572	48,926
Loans:			
Acquired credit impaired, net of allowance for loan losses	602,481	602,546	658,835
Acquired non-credit impaired	1,585,981	836,699	941,886
Non-acquired	5,992,393	5,241,041	4,816,875
Less allowance for non-acquired loan losses	(40,149)	(36,960)	(36,939)
Loans, net	8,140,706	6,643,326	6,380,657
Other real estate owned	14,430	18,316	22,427
Premises and equipment, net	201,539	183,510	177,950
Bank owned life insurance	150,476	104,148	102,815
Deferred tax assets	39,921	31,123	25,915
Mortgage servicing rights	29,930	29,037	22,350
Core deposit and other intangibles	52,966	39,848	43,629
Goodwill	595,817	338,340	338,340
Other assets	71,877	72,943	72,012
Total assets	$ 11,154,441	$ 8,900,592	$ 8,723,993
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			

Noninterest-bearing	$ 2,635,147	$ 2,199,046	$ 2,117,246
Interest-bearing	6,396,507	5,135,377	5,046,680
Total deposits	9,031,654	7,334,423	7,163,926
Federal funds purchased and securities sold under agreements to repurchase	334,018	313,773	341,064
Other borrowings	98,147	55,358	55,254
Other liabilities	85,137	62,450	59,406
Total liabilities	9,548,956	7,766,004	7,619,650
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; 29,259,264, 24,230,392 and 24,195,226 shares issued and outstanding, respectively	73,148	60,576	60,488
Surplus	1,134,328	711,307	703,445
Retained earnings	401,706	370,916	333,900
Accumulated other comprehensive income (loss)	(3,697)	(8,211)	6,510
Total shareholders' equity	1,605,485	1,134,588	1,104,343
Total liabilities and shareholders' equity	$ 11,154,441	$ 8,900,592	$ 8,723,993

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

South State Corporation and Subsidiary

Condensed Consolidated Statements of Income (unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest income:				
Loans, including fees	$ 93,600	$ 77,154	$ 185,352	$ 154,408
Investment securities:				
Taxable	7,020	4,477	14,251	9,270
Tax-exempt	1,397	992	2,827	2,008
Federal funds sold and securities purchased under agreements to resell	762	756	1,335	1,508
Total interest income	102,779	83,379	203,765	167,194
Interest expense:				
Deposits	2,661	1,368	5,158	2,969
Federal funds purchased and securities sold under agreements to repurchase	240	137	480	281
Other borrowings	847	475	1,734	944
Total interest expense	3,748	1,980	7,372	4,194
Net interest income	99,031	81,399	196,393	163,000
Provision for loan losses	2,313	2,727	6,020	5,286
Net interest income after provision for loan losses	96,718	78,672	190,373	157,714
Noninterest income:				
Fees on deposit accounts	22,155	21,539	43,874	41,663
Mortgage banking income	5,195	5,620	10,764	9,818
Trust and investment services income	6,452	4,911	12,393	9,697
Securities gains, net	110	—	110	122
Recoveries on acquired loans	2,171	2,002	3,703	2,923
Amortization of FDIC indemnification asset, net	—	(4,427)	—	(5,901)
Other	1,491	2,473	3,165	3,838
Total noninterest income	37,574	32,118	74,009	62,160
Noninterest expense:				
Salaries and employee benefits	47,580	40,537	96,466	81,969
Net occupancy expense	6,048	5,541	12,436	10,900
Information services expense	6,413	5,083	12,773	10,117
Furniture and equipment expense	3,877	3,072	7,671	5,923
OREO expense and loan related	1,753	874	3,895	2,648
Bankcard expense	2,886	3,040	5,656	5,919
Amortization of intangibles	2,495	1,892	5,002	3,795
Supplies, printing and postage expense	1,570	1,757	3,224	3,565
Professional fees	1,599	1,576	3,372	2,906
FDIC assessment and other regulatory charges	989	1,017	2,111	2,161

Advertising and marketing	989	858	1,548	1,502
Merger and branch consolidation related expense	4,307	1,573	25,331	2,531
Other	6,033	7,034	11,777	11,947
Total noninterest expense	86,539	73,854	191,262	145,883
Earnings:				
Income before provision for income taxes	47,753	36,936	73,120	73,991
Provision for income taxes	15,930	12,420	23,033	24,981
Net income	$ 31,823	$ 24,516	$ 50,087	$ 49,010
Earnings per common share:				
Basic	$ 1.09	$ 1.02	$ 1.73	$ 2.04
Diluted	$ 1.08	$ 1.01	$ 1.71	$ 2.02
Dividends per common share	$ 0.33	$ 0.30	$ 0.66	$ 0.58
Weighted average common shares outstanding:				
Basic	29,095	23,995	28,985	23,977
Diluted	29,365	24,237	29,252	24,205

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 31,823	$ 24,516	$ 50,087	$ 49,010
Other comprehensive income:				
Unrealized gains on securities:				
Unrealized holding gains arising during period	1,803	4,631	6,920	16,551
Tax effect	(688)	(1,766)	(2,638)	(6,311)
Reclassification adjustment for gains included in net income	(110)	—	(110)	(122)
Tax effect	43	—	42	46
Net of tax amount	1,048	2,865	4,214	10,164
Unrealized losses on derivative financial instruments qualifying as cash flow hedges:				
Unrealized holding gains (losses) arising during period	18	(46)	(60)	(198)
Tax effect	(7)	18	23	75
Reclassification adjustment for losses included in interest expense	19	68	168	142
Tax effect	(7)	(26)	(64)	(54)
Net of tax amount	23	14	67	(35)
Change in pension plan obligation:				
Reclassification adjustment for changes included in net income	187	204	376	408
Tax effect	(71)	(78)	(143)	(156)
Net of tax amount	116	126	233	252
Other comprehensive income, net of tax	1,187	3,005	4,514	10,381
Comprehensive income	$ 33,010	$ 27,521	$ 54,601	$ 59,391

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)

Six months ended June 30, 2017 and 2016

(Dollars in thousands, except for share data)

	Preferred Stock		Common Stock			Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Shares	Amount	Surplus	Earnings	(Loss)	Total
Balance, December 31, 2015	—	$ —	24,162,657	$ 60,407	$ 703,929	$ 298,919	$ (3,871)	$ 1,059,384
Comprehensive income	—	—	—	—	—	49,010	10,381	59,391
Cash dividends declared on common stock at $0.58 per share	—	—	—	—	—	(14,029)	—	(14,029)
Employee stock purchases	—	—	3,729	9	218	—	—	227
Stock options exercised	—	—	24,073	60	748	—	—	808
Restricted stock awards	—	—	39,556	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	—	—	(37,792)	(95)	(2,377)	—	—	(2,472)
	—	—	—	—	3,164	—	—	3,164

Share-based compensation expense								
Balance, June 30, 2016	—	$ —	24,195,226	$ 60,488	$ 703,445	$ 333,900	$ 6,510	$ 1,104,343
Balance, December 31, 2016	—	$ —	24,230,392	$ 60,576	$ 711,307	$ 370,916	$ (8,211)	$ 1,134,588
Comprehensive income	—	—	—	—	—	50,087	4,514	54,601
Cash dividends declared on common stock at $0.66 per share	—	—	—	—	—	(19,297)	—	(19,297)
Employee stock purchases	—	—	3,226	8	259	—	—	267
Stock options exercised	—	—	33,896	84	1,050	—	—	1,134
Common stock issued for Southeastern Bank Financial Corp. acquisition	—	—	4,978,338	12,446	422,163	—	—	434,609
Restricted stock awards	—	—	15,851	39	(39)	—	—	—
Common stock repurchased	—	—	(40,241)	(100)	(3,505)	—	—	(3,605)
Stock issued pursuant to restricted stock units	—	—	37,802	95	(95)	—	—	—
Share-based compensation expense	—	—	—	—	3,188	—	—	3,188
Balance, June 30, 2017	—	$ —	29,259,264	$ 73,148	$ 1,134,328	$ 401,706	$ (3,697)	$ 1,605,485

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

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South State Corporation and Subsidiary

Condensed Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 50,087	$ 49,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,064	10,565
Provision for loan losses	6,020	5,286
Deferred income taxes	4,040	5,515
Gain on sale of securities, net	(110)	(122)
Share-based compensation expense	3,188	3,164
Amortization of FDIC indemnification asset	—	3,566
Accretion of discount related to performing acquired loans	(7,543)	(2,795)
Gain on disposals of premises and equipment	(15)	(33)
Gain on sale of OREO	(188)	(1,483)
Net amortization of premiums on investment securities	3,338	2,707
OREO write downs	1,729	2,943
Fair value adjustment for loans held for sale	1,332	(665)
Originations and purchases of mortgage loans for sale	(367,673)	(328,899)
Proceeds from mortgage loans sales	364,570	322,286
Net change in:		
Accrued interest receivable	558	(1,108)
Prepaid assets	387	(1,248)
FDIC indemnification asset	—	3,177
Miscellaneous other assets	(914)	(7,797)
Accrued interest payable	(469)	(541)
Accrued income taxes	5,798	3,187
Miscellaneous other liabilities	(3,004)	6,138
Net cash provided by operating activities	75,195	72,853
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	215,987	137
Proceeds from maturities and calls of investment securities held to maturity	1,930	1,395
Proceeds from maturities and calls of investment securities available for sale	131,250	234,765
Proceeds from sales of other investment securities	2,807	24
Purchases of investment securities available for sale	(101,925)	(201,130)
Purchases of other investment securities	(303)	(660)
Net increase in loans	(449,052)	(421,134)
Payment to terminate FDIC Loss Share Agreements	—	(2,342)
Recoveries of loans previously charged off	1,340	1,646
Net cash received from acquisitions	71,607	—

Purchases of premises and equipment	(6,095)	(12,381)
Proceeds from sale of OREO	7,677	14,209
Proceeds from sale of premises and equipment	15	—
Net cash used in investing activities	(124,762)	(385,471)
Cash flows from financing activities:		
Net increase in deposits	176,311	63,510
Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings	19,231	52,833
Repayment of other borrowings	(67,032)	(11)
Common stock issuance	267	227
Common stock repurchase	(3,605)	(4,602)
Dividends paid on common stock	(19,297)	(14,029)
Stock options exercised	1,134	808
Net cash provided by financing activities	107,009	98,736
Net increase (decrease) in cash and cash equivalents	57,442	(213,882)
Cash and cash equivalents at beginning of period	374,448	695,794
Cash and cash equivalents at end of period	$ 431,890	$ 481,912
Supplemental Disclosures:		
Cash Flow Information:		
Cash paid for:		
Interest	$ 7,841	$ 4,735
Income taxes	$ 11,850	$ 16,676
Schedule of Noncash Investing Transactions:		
Real estate acquired in full or in partial settlement of loans	$ 4,947	$ 7,542

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 six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The condensed consolidated balance sheet at December 31, 2016 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, 2016, as filed with the Securities and Exchange Commission (the "SEC") on February 24, 2017, 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 May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting; ("ASU 2017-09"). ASU 2017-09 provides clarity by offering guidance on the scope of modification accounting for share-based payment awards and gives direction on which changes to the terms or conditions of these awards require an entity to apply modification accounting. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for all companies for annual periods beginning on or after December 15, 2017. Early adoption is permitted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

In March 2017, FASB issued ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Cost (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities; ("ASU 2017-08"). ASU 2017-08 shortens the amortization period of the premium for certain callable debt securities, from the contractual maturity date to the earliest call date. The amendments do not require an accounting change for securities held at a discount; an entity will continue to amortize to the contractual maturity date the discount related to callable debt securities. The amendments apply to the amortization of premiums on callable debt securities with explicit, noncontingent call features that are callable at fixed prices on preset dates. For public business entities, ASU 2017-08 is effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For entities other than public business entities, the amendments are effective in fiscal years beginning after December 15, 2019 and in interim periods in fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including in an interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the amendments are adopted. 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 March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost; ("ASU 2017-07"). ASU 2017-07 applies to any employer that sponsors a defined benefit pension plan, other postretirement benefit plan, or other types of benefits accounted for under Topic 715. The amendments require that an employer disaggregate the service cost component from the other components of net benefit cost, as follows (1) service cost must be presented in the same line item(s) as other employee compensation costs. These costs are generally included within income from continuing operations, but in some cases may be eligible for capitalization, (2) all other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented, (3) the amendments permit capitalizing only the service cost component of net benefit cost, assuming such costs meet the criteria required for capitalization by other U.S. GAAP , rather than total net benefit cost which has been permitted under prior GAAP. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. The amendments should be adopted prospectively and allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior periods to apply the retrospective presentation requirements. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangible-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment; ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under Accounting Standards Codification (ASC) 350 and eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those years. The amendments should be adopted prospectively and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. At this point in time, the Company does not expect that this guidance will have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323); ("ASU 2017-03"). ASU 2017-03 amends the Codification for SEC staff announcements made at two Emerging Issues Task Force (EITF) meetings. At the September 2016 meeting, the SEC staff expressed its expectations about the extent of disclosures registrants should make about the effects of the new FASB guidance (including any amendments issued prior to adoption) on revenue (ASU 2014-09), leases (ASU 2016-02) and credit losses on financial instruments (ASU 2016-13) in accordance with SAB Topic 11.M. That Topic requires registrants to disclose the effect that recently issued accounting standards will have on their financial statements when adopted in a future period. ASU 2017-03 incorporates these SEC staff views into ASC 250 and adds references to that guidance in the transition paragraphs of each of the three new standards. The ASU also conforms ASC 323-740-S99-2, which describes the SEC staff's views on accounting for investments in qualified affordable housing projects, to the guidance issued in ASU 2014-01. The Company adopted this standard in the fourth quarter of 2016 and will continue to refine its disclosures around the standard. The Company determined that this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business; ("ASU 2017-01"). ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company has determined that this guidance will not have a material impact on the Company's consolidated financial statements.

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

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contracts, 5) Scope of topic 606, 6) Disclosure of remaining performance obligations, 7) Disclosure of prior-period performance obligations, 8) Contract modifications, 9) Contract asset vs. receivable, 10) Refund liability, 11) Advertising costs, 12) Fixed-odds wagering contracts in the casino industry, 13) Cost capitalization for advisors to private funds and public funds. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2016-20 and 2014-09 could require us to change how we recognize certain revenue streams within non-interest income, however, we do not expect these changes to have a significant impact on our financial statements. We continue to evaluate the impact of ASU 2016-20 and 2014-09 on our Company and expect to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

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. We have dedicated staff and resources in place evaluating the Company’s options including evaluating the appropriate model options and collecting and reviewing loan data for use in these models. The Company is currently still assessing the impact that this new guidance will have on its consolidated financial statements.

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 became effective for interim and annual periods beginning after December 15, 2016 which made this ASU effective for the Company starting On January 1, 2017. For the three and six months ended June 30, 2017, excess tax benefits of $104,000 and $839,000, respectively, were recorded against income tax expense in the income statement which previously would have been recorded against surplus on the balance sheet.

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In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent considerations (Reporting Revenue Gross versus Net); (“ASU 2016-08”). ASU 2016-08 updates the new revenue standard by clarifying the principal versus agent implementation guidance, but does not change the core principle of the new standard. The updates to the principal versus agent guidance: (i) require an entity to determine whether it is a principal or an agent for each distinct good or service (or a distinct bundle of goods or services) to be provided to the customer; (ii) illustrate how an entity that is a principal might apply the control principle to goods, services, or rights to services, when another party is involved in providing goods or services to a customer and (iii) Clarify that the purpose of certain specific control indicators is to support or assist in the assessment of whether an entity controls a good or service before it is transferred to the customer, provide more specific guidance on how the indicators should be considered, and clarify that their relevance will vary depending on the facts and circumstances. For public business entities, the effective date and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2014-09 which is effective for interim and annual periods beginning after December 15, 2017. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2016-08 and 2014-09 could require us to change how we recognize certain revenue streams within non-interest income, however, we do not expect these changes to have a significant impact on our financial statements. We continue to evaluate the impact of ASU 2016-08 and 2014-09 on our Company and expect to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

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. ASU 2016-07 became effective for the Company on January 1, 2017 and did not have a significant impact on 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. ASU 2016-05 became effective for the Company on January 1, 2017 and did not have a significant impact on the Company’s consolidated financial statements.

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 has reviewed its outstanding lease agreements and has centrally documented the terms of its leases. The Company is currently evaluating the

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provisions of ASU 2016-02 in relation to its outstanding leases 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, 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 August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The new standard applies to all companies and is effective for the annual period ending after December 15, 2016, and all annual and interim periods thereafter. ASU 2014-15 became effective for the Company on December 31, 2016 and did not have an impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, Topic 606 ("ASU 2014-09"). The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, Topic 606: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this new guidance recognized at the date of initial application. Our revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2014-09 could require us to change how we recognize certain revenue streams within non-interest income, however, we do not expect these changes to have a significant impact on our financial statements. We continue to evaluate the impact of ASU 2014-09 on our Company and expect to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

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Note 4 — Mergers and Acquisitions

The following are business combinations which have occurred over the past two years:

- 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
- Southeastern Bank Financial Corporation (“SBFC”) – January 3, 2017

Park Sterling Corporation Proposed Acquisition

On April 26, 2017, South State Corporation, (“SSB”) entered into an Agreement and Plan of Merger with Park Sterling Corporation, a North Carolina corporation ("PSTB), and a bank holding company headquartered in Charlotte, North Carolina. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, PSTB will merge with and into SSB, with SSB as the surviving corporation in the Merger. Immediately following the Merger, PSTB's wholly owned bank subsidiary, Park Sterling Bank ("PSB"), will merge with and into the Bank, with the Bank as the surviving entity in the bank merger. At June 30, 2017, PSTB reported $3.3 billion in total assets, $2.5 billion in loans and $2.5 billion in deposits. PSTB has over 50 full service branches in North Carolina, South Carolina, Georgia and Virginia that serve individuals and businesses.

Under the terms of the merger agreement, PSTB common shareholders will receive aggregate consideration of approximately 7,459,199 shares of SSB common stock, plus cash for the value of “in the money” outstanding stock options. The common stock consideration is based upon a fixed exchange ratio of 0.14 shares of SSB common stock for each outstanding share of SBFC common stock.

The proposed merger is subject to regulatory approvals, the affirmative vote of both SSB’s and PSTB’s shareholders, and other customary closing conditions. The transaction is expected to close during the fourth quarter of 2017.

Southeastern Bank Financial Corporation Acquisition

On January 3, 2017, SSB acquired all of the outstanding common stock of SBFC, of Augusta, Georgia, the bank holding company for Georgia Bank & Trust Company of Augusta (“GB&T”), in a stock transaction. SBFC common shareholders received 0.7307 shares of the Company’s common stock in exchange for each share of SBFC stock resulting in the Company issuing 4,978,338 shares of its common stock. In total, the purchase price for SBFC was $435.1 million including the value of “in the money” outstanding stock options totaling $490,000.

The SBFC transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date.

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The following table presents the assets acquired and liabilities assumed as of January 3, 2017 and their initial and subsequent fair value estimates, as recorded by the Company. The Company has up to one year after the acquisition date to make subsequent fair value adjustments.

(Dollars in thousands)	As Recorded by SBFC	Intial Fair Value Adjustments		Subsequent Fair Value Adjustments		As Recorded by the Company
Assets						
Cash and cash equivalents	$ 72,043	$ —		$ —		$ 72,043
Investment securities	591,824	(1,770)	(a)	—		590,054
Loans held for sale	13,652	—		—		13,652
Loans, net of allowance and mark	1,060,618	(10,668)	(b)	—		1,049,950
Premises and equipment	25,419	(2,212)	(c)	—		23,207
Intangible assets	140	17,980	(d)	—		18,120
Other real estate owned and repossessed assets	580	(30)	(e)	(165)	(e)	385
Bank owned life insurance	44,513	—		—		44,513
Deferred tax asset	16,247	(687)	(f)	59	(f)	15,619
Other assets	7,545	(482)	(g)	—		7,063
Total assets	$ 1,832,581	$ 2,131		$ (106)		$ 1,834,606
Liabilities						
Deposits:						
Noninterest-bearing	$ 262,967	$ —		$ —		$ 262,967
Interest-bearing	1,257,953	—		—		1,257,953
Total deposits	1,520,920	—		—		1,520,920
Federal funds purchased and securities sold under agreements to repurchase	1,014	—		—		1,014
Other borrowings	110,620	(1,120)	(h)	—		109,500
Other liabilities	19,980	5,553	(i)	—		25,533
Total liabilities	1,652,534	4,433		—		1,656,967
Net identifiable assets acquired over (under) liabilities assumed	180,047	(2,302)		(106)		177,639
Goodwill	—	257,370		106		257,476
Net assets acquired over liabilities assumed	$ 180,047	$ 255,068		$ —		$ 435,115
Consideration:						
South State Corporation common shares issued						4,978,338
Purchase price per share of the Company's common stock						$ 87.30
Company common stock issued ($434,609) and cash exchanged for fractional shares ($16)						$ 434,625
Cash paid for stock option redemptions						490

Fair value of total consideration transferred	$ 435,115

Explanation of fair value adjustments

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

(b)—Adjustment reflects the fair value adjustments of $30,749 based on the Company's evaluation of the acquired loan portfolio and excludes the allowance for loan losses of $20,081 recorded by SBFC.

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

(d)—Adjustment reflects the recording of the core deposit intangible on the acquired deposit accounts that totaled $18,120.

(e)—Adjustment reflects the fair value adjustments to OREO and repossessed assets based on the Company's evaluation of the acquired OREO and repossessed assets portfolio.

(f)—Adjustment to record deferred tax asset related to the fair value adjustments.

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(g)—Adjustment reflects uncollectible portion of accrued interest receivable and loan fees receivable along with the write-off of certain prepaid expenses.

(h)—Adjustment reflects the fair value adjustments based on the Company's evaluation of other borrowings of Trust Preferred Securities with a discount of $2,149, netted with premium on certain Federal Home Loan Bank ("FHLB ") advances of $1,029.

(i)—Adjustment reflects the fair value adjustments to employee benefit plans of $6,049 netted against an adjustment of other miscellaneous liabilities of $496.

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
June 30, 2017:				
State and municipal obligations	$ 4,166	$ 82	$ —	$ 4,248
December 31, 2016:				
State and municipal obligations	$ 6,094	$ 156	$ —	$ 6,250
June 30, 2016:				
State and municipal obligations	$ 7,921	$ 310	$ —	$ 8,231

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
Government-sponsored entities debt*	$ 76,508	$ 52	$ (608)	$ 75,952
State and municipal obligations	188,720	4,680	(106)	193,294
Mortgage-backed securities**	1,068,718	5,195	(5,316)	1,068,597
Corporate stocks	3,658	550	(399)	3,809
	$ 1,337,604	$ 10,477	$ (6,429)	$ 1,341,652
December 31, 2016:				

Government-sponsored entities debt*	$ 85,488	$ —	$ (846)	$ 84,642
State and municipal obligations	105,303	2,289	(190)	107,402
Mortgage-backed securities**	807,717	3,085	(7,225)	803,577
Corporate stocks	3,658	473	(347)	3,784
	$ 1,002,166	$ 5,847	$ (8,608)	$ 999,405
June 30, 2016:				
Government-sponsored entities debt*	$ 102,985	$ 107	$ —	$ 103,092
State and municipal obligations	118,400	5,498	(4)	123,894
Mortgage-backed securities**	743,956	14,956	(31)	758,881
Corporate stocks	3,658	356	(271)	3,743
	$ 968,999	$ 20,917	$ (306)	$ 989,610

* - 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.

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
Federal Home Loan Bank stock	$ 10,814	$ —	$ —	$ 10,814
Investment in unconsolidated subsidiaries	2,262	—	—	2,262
	$ 13,076	$ —	$ —	$ 13,076
December 31, 2016:				
Federal Home Loan Bank stock	$ 7,840	$ —	$ —	$ 7,840
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 9,482	$ —	$ —	$ 9,482
June 30, 2016:				
Federal Home Loan Bank stock	$ 7,887	$ —	$ —	$ 7,887
Investment in unconsolidated subsidiaries	1,642	—	—	1,642
	$ 9,529	$ —	$ —	$ 9,529

The amortized cost and fair value of debt securities at June 30, 2017 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	$ 2,226	$ 2,269	$ 13,005	$ 13,107
Due after one year through five years	1,152	1,186	110,358	110,976
Due after five years through ten years	788	793	272,409	274,466
Due after ten years	—	—	941,832	943,103
	$ 4,166	$ 4,248	$ 1,337,604	$ 1,341,652

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Information pertaining to the Company's securities with gross unrealized losses at June 30, 2017, December 31, 2016 and June 30, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

(Dollars in thousands)	Less Than Twelve Months Gross Unrealized Losses	Less Than Twelve Months Fair Value	Twelve Months or More Gross Unrealized Losses	Twelve Months or More Fair Value
June 30, 2017:				
Securities Available for Sale				
Government-sponsored entities debt	$ 608	$ 70,226	$ —	$ —
State and municipal obligations	106	9,171	—	—
Mortgage-backed securities	5,207	570,625	109	13,854
Corporate stocks	—	—	399	1,333
	$ 5,921	$ 650,022	$ 508	$ 15,187
December 31, 2016:				
Securities Available for Sale				
Government-sponsored entities debt	$ 846	$ 84,642	$ —	$ —
State and municipal obligations	190	11,506	—	—
Mortgage-backed securities	7,148	592,228	77	2,058
Corporate stocks	—	—	347	1,395
	$ 8,184	$ 688,376	$ 424	$ 3,453
June 30, 2016:				
Securities Available for Sale				
Government-sponsored entities debt	$ —	$ —	$ —	$ —
State and municipal obligations	4	1,356	—	—
Mortgage-backed securities	3	15,786	28	2,447
Corporate stocks	—	—	271	1,471
	$ 7	$ 17,142	$ 299	$ 3,918

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 June 30, 2017 continue to perform as scheduled. All equity securities available for sale in an unrealized loss position as of June 30, 2017 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 needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that the Company will be required to sell the debt securities; therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2017. 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.

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Note 6 — Loans and Allowance for Loan Losses

The following is a summary of non-acquired loans:

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Non-acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 712,242	$ 580,464	$ 533,219
Commercial non-owner occupied	952,911	714,715	586,828
Total commercial non-owner occupied real estate	1,665,153	1,295,179	1,120,047
Consumer real estate:			
Consumer owner occupied	1,382,922	1,197,621	1,109,667
Home equity loans	411,532	383,218	345,957
Total consumer real estate	1,794,454	1,580,839	1,455,624
Commercial owner occupied real estate	1,204,953	1,177,745	1,083,051
Commercial and industrial	762,583	671,398	611,901
Other income producing property	189,326	178,238	181,703
Consumer	357,761	324,238	272,957
Other loans	18,163	13,404	91,592
Total non-acquired loans	5,992,393	5,241,041	4,816,875
Less allowance for loan losses	(40,149)	(36,960)	(36,939)
Non-acquired loans, net	$ 5,952,244	$ 5,204,081	$ 4,779,936

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

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
FASB ASC Topic 310-20 acquired loans:			
Commercial non-owner occupied real estate:			
Construction and land development	$ 112,855	$ 10,090	$ 12,516
Commercial non-owner occupied	209,560	34,628	36,904
Total commercial non-owner occupied real estate	322,415	44,718	49,420
Consumer real estate:			
Consumer owner occupied	520,106	408,270	466,479
Home equity loans	177,129	160,879	177,946
Total consumer real estate	697,235	569,149	644,425
Commercial owner occupied real estate	221,566	27,195	32,267
Commercial and industrial	117,884	13,641	15,598

Other income producing property	83,403	39,342	44,873
Consumer	143,478	142,654	155,303
Total FASB ASC Topic 310-20 acquired loans	$ 1,585,981	$ 836,699	$ 941,886

The unamortized discount related to the acquired non-credit impaired loans totaled $22.9 million, $11.6 million, and $14.0 million at June 30, 2017, December 31, 2016, and June 30, 2016, 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)	June 30, 2017	December 31, 2016	June 30, 2016
FASB ASC Topic 310-30 acquired loans:			
Commercial loans greater than or equal to $1 million-Community Bank & Trust ("CBT")	$ 8,524	$ 8,617	$ 11,260
Commercial real estate	206,271	210,204	225,460
Commercial real estate—construction and development	52,977	44,373	48,274
Residential real estate	256,602	258,100	285,518
Consumer	56,362	59,300	64,114
Commercial and industrial	25,486	25,347	27,961
Total FASB ASC Topic 310-30 acquired loans	606,222	605,941	662,587
Less allowance for loan losses	(3,741)	(3,395)	(3,752)
FASB ASC Topic 310-30 acquired loans, net	$ 602,481	$ 602,546	$ 658,835

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting fair values of FASB ASC Topic 310-30 acquired loans impaired and non-impaired at the acquisition date for SBFC (January 3, 2017) are as follows:

	January 3, 2017
(Dollars in thousands)	Loans Impaired at Acquisition
Contractual principal and interest	$ 73,365
Non-accretable difference	(12,912)
Cash flows expected to be collected	60,453
Accretable difference	(4,603)
Carrying value	$ 55,850

The table above excludes $991.5 million ($1.01 billion in contractual principal less a $18.8 million fair value adjustment) in acquired loans at fair value that were identified as either performing with no discount related to the credit or as revolving lines of credit (commercial or consumer) as of the acquisition date and will be accounted for under FASB ASC Topic 310-20.

Contractual loan payments receivable, estimates of amounts not expected to be collected, other fair value adjustments and the resulting carrying values of acquired credit impaired loans as of June 30, 2017, December 31, 2016 and June 30, 2016 are as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Contractual principal and interest	$ 774,471	$ 778,822	$ 861,401
Non-accretable difference	(28,966)	(17,502)	(23,294)
Cash flows expected to be collected	745,505	761,320	838,107
Accretable yield	(139,283)	(155,379)	(175,520)
Carrying value	$ 606,222	$ 605,941	$ 662,587
Allowance for acquired loan losses	$ (3,741)	$ (3,395)	$ (3,752)

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.

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

	Six Months Ended June 30,	
(Dollars in thousands)	2017	2016
Balance at beginning of period	$ 602,546	$ 733,870
Fair value of acquired loans	55,850	—
Net reductions for payments, foreclosures, and accretion	(55,569)	(74,989)
Change in the allowance for loan losses on acquired loans	(346)	(46)
Balance at end of period, net of allowance for loan losses on acquired loans	$ 602,481	$ 658,835

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

	Six Months Ended June 30,	
(Dollars in thousands)	2017	2016
Balance at beginning of period	$ 155,379	$ 201,538
Addition from the SBFC acquisition	4,603	—
Accretion	(29,511)	(39,522)
Reclass of nonaccretable difference due to improvement in expected cash flows	9,016	13,146
Other changes, net	(204)	358
Balance at end of period	$ 139,283	$ 175,520

In the second quarter of 2017, the accretable yield balance declined by $14.3 million as loan accretion (income) was recognized. This was partially offset by improved expected cash flows of $4.0 million during the second quarter of 2017.

Our loan loss policy adheres to GAAP in the United States as well as interagency guidance. The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on, among other factors, changes in economic conditions in our markets. In addition, as noted above, 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.

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Beginning with the First Financial Holdings, Inc. ("FFHI") acquisition in 2013, the Company segregates the acquired loan portfolio into performing loans ("non credit impaired) and purchased credit impaired loans. The performing loans and revolving type loans are accounted for under FASB ASC 310 20, with each loan being accounted for individually. The allowance for loan losses on these loans will be measured and recorded consistent with non acquired loans. The acquired credit impaired loans will follow the description in the next paragraph.

In determining the acquisition date fair value of purchased 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 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 Special Asset Management are reviewed quarterly and assigned a loss given default. Acquired loans not managed by Special Asset Management 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. Prior to the termination of our loss share agreements in June 2016, as discussed below, which offset the impact of the provision established for acquired loans covered under FDIC loss share agreements, the receivable from the FDIC was 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, which was 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.

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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 June 30, 2017:				
Balance at beginning of period	$ 38,449	$ —	$ 4,556	$ 43,005
Loans charged-off	(1,292)	(501)	—	(1,793)
Recoveries of loans previously charged off (1)	536	72	—	608
Net charge-offs	(756)	(429)	—	(1,185)
Provision for loan losses charged to operations	2,456	429	(572)	2,313
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(243)	(243)
Balance at end of period	$ 40,149	$ —	$ 3,741	$ 43,890
Three Months Ended June 30, 2016:				
Balance at beginning of period	$ 35,115	$ —	$ 3,877	$ 38,992
Loans charged-off	(1,557)	(232)	—	(1,789)
Recoveries of loans previously charged off (1)	881	51	—	932
Net charge-offs	(676)	(181)	—	(857)
Provision	2,500	181	47	2,728
Benefit attributable to FDIC loss share agreements	—	—	—	—
Provision for loan losses charged to operations	2,500	181	47	2,728
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(172)	(172)
Balance at end of period	$ 36,939	$ —	$ 3,752	$ 40,691

(Dollars in thousands)	Non-acquired Loans	Acquired Non-Credit Impaired Loans	Acquired Credit Impaired Loans	Total
Six Months Ended June 30, 2017:				
Balance at beginning of period	$ 36,960	$ —	$ 3,395	$ 40,355
Loans charged-off	(2,589)	(890)	—	(3,479)
Recoveries of loans previously charged off (1)	1,205	135	—	1,340
Net charge-offs	(1,384)	(755)	—	(2,139)
Provision	4,573	755	692	6,020
Benefit attributable to FDIC loss share agreements	—	—	—	—
Total provision for loan losses charged to operations	4,573	755	692	6,020
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—
Reduction due to loan removals	—	—	(346)	(346)
Balance at end of period	$ 40,149	$ —	$ 3,741	$ 43,890

Six Months Ended June 30, 2016:				
Balance at beginning of period	$ 34,090	$ —	$ 3,706	$ 37,796
Loans charged-off	(3,276)	(529)	—	(3,805)
Recoveries of loans previously charged off (1)	1,645	141	—	1,786
Net charge-offs	(1,631)	(388)	—	(2,019)
Provision	4,480	388	395	5,263
Benefit attributable to FDIC loss share agreements	—	—	23	23
Total provision for loan losses charged to operations	4,480	388	418	5,286
Provision for loan losses recorded through the FDIC loss share receivable	—	—	(23)	(23)
Reduction due to loan removals	—	—	(349)	(349)
Balance at end of period	$ 36,939	$ —	$ 3,752	$ 40,691

(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.

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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
ded									
an									
1,									
	$ 4,649	$ 5,464	$ 7,894	$ 8,108	$ 3,456	$ 5,124	$ 1,345	$ 2,443	$ (34)
	(69)	—	—	(62)	(190)	(167)	(7)	(797)	—
	68	7	98	27	21	143	5	167	—
t)	1,098	693	(453)	496	(40)	43	36	719	(136)
2017	$ 5,746	$ 6,164	$ 7,539	$ 8,569	$ 3,247	$ 5,143	$ 1,379	$ 2,532	$ (170)
y									
	$ 1,310	$ 146	$ 62	$ 57	$ 119	$ 362	$ 238	$ 6	$ —
y									
	$ 4,436	$ 6,018	$ 7,477	$ 8,512	$ 3,128	$ 4,781	$ 1,141	$ 2,526	$ (170)
y									
	$ 30,037	$ 754	$ 6,054	$ 4,575	$ 2,626	$ 1,198	$ 3,641	$ 235	$ —
y									
	682,205	952,157	1,198,899	1,378,347	408,906	761,385	185,685	357,526	18,163
ed									
	$ 712,242	$ 952,911	$ 1,204,953	$ 1,382,922	$ 411,532	$ 762,583	$ 189,326	$ 357,761	$ 18,163
ded									
an									
31,									
	$ 4,482	$ 3,923	$ 8,179	$ 7,345	$ 3,097	$ 3,951	$ 1,802	$ 1,785	$ 551
	(159)	—	(59)	(129)	(324)	(20)	(7)	(859)	—
	442	15	14	17	87	55	35	216	—
t)	(100)	718	(131)	297	288	283	(18)	872	291
2016	$ 4,665	$ 4,656	$ 8,003	$ 7,530	$ 3,148	$ 4,269	$ 1,812	$ 2,014	$ 842
y									
	$ 751	$ 202	$ 67	$ 55	$ 38	$ 14	$ 376	$ 4	$ —
y	$ 3,914	$ 4,454	$ 7,936	$ 7,475	$ 3,110	$ 4,255	$ 1,436	$ 2,010	$ 842

y	$ 4,093	$ 1,219	$ 6,972	$ 3,967	$ 2,177	$ 767	$ 5,000	$ 128	$ —
y	529,126	585,609	1,076,079	1,105,700	343,780	611,134	176,703	272,829	91,592
ed	$ 533,219	$ 586,828	$ 1,083,051	$ 1,109,667	$ 345,957	$ 611,901	$ 181,703	$ 272,957	$ 91,592

s in thousands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	Other Loans	To
nths Ended , 2017 nce for loan										
e, ber 31, 2016	$ 4,091	$ 4,980	$ 8,022	$ 7,820	$ 3,211	$ 4,842	$ 1,542	$ 2,350	$ 102	$ 3
-offs	(474)	—	—	(185)	(224)	(189)	(7)	(1,510)	—	(
ries	222	48	105	76	95	233	48	378	—	1
on (benefit)	1,907	1,136	(588)	858	165	257	(204)	1,314	(272)	4
e, June 30, 2017	$ 5,746	$ 6,164	$ 7,539	$ 8,569	$ 3,247	$ 5,143	$ 1,379	$ 2,532	$ (170)	$ 4
nths Ended , 2016 nce for loan										
e, ber 31, 2015	$ 4,116	$ 3,568	$ 8,341	$ 7,212	$ 2,929	$ 3,974	$ 1,963	$ 1,694	$ 293	$ 3
-offs	(159)	—	(101)	(129)	(767)	(327)	(7)	(1,786)	—	(
ries	607	31	21	98	175	103	39	571	—	1
on (benefit)	101	1,057	(258)	349	811	519	(183)	1,535	549	4
e, June 30, 2016	$ 4,665	$ 4,656	$ 8,003	$ 7,530	$ 3,148	$ 4,269	$ 1,812	$ 2,014	$ 842	$ 3

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

housands)	Construction & Land Development	Commercial Non-owner Occupied	Commercial Owner Occupied	Consumer Owner Occupied	Home Equity	Commercial & Industrial	Other Income Producing Property	Consumer	To
hs Ended 17									
for loan									
beginning	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
	—	—	—	303	(664)	—	—	(140)	(
	1	—	—	2	60	1	1	7	7
enefit)	(1)	—	—	(305)	604	(1)	(1)	133	4
ne 30, 2017	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
idually r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
ctively r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
idually r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
ctively r	112,855	209,560	221,566	520,106	177,129	117,884	83,403	143,478	1
red mpaired	$ 112,855	$ 209,560	$ 221,566	$ 520,106	$ 177,129	$ 117,884	$ 83,403	$ 143,478	$ 1
hs Ended 16									
for loan									
beginning	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
	—	—	—	—	(42)	(4)	—	(186)	(
	1	—	—	3	24	—	—	23	5
enefit)	(1)	—	—	(3)	18	4	—	163	1
ne 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$

idually r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
ctively r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
idually r	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
ctively r	12,516	36,904	32,267	466,479	177,946	15,598	44,873	155,303	9
red mpaired	$ 12,516	$ 36,904	$ 32,267	$ 466,479	$ 177,946	$ 15,598	$ 44,873	$ 155,303	$ 9

(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
Six Months Ended June 30, 2017									
Allowance for loan losses:									
Balance, December 31, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	(10)	(664)	(2)	—	(214)	(890)
Recoveries	2	—	—	42	69	2	1	19	135
Provision (benefit)	(2)	—	—	(32)	595	—	(1)	195	755
Balance, June 30, 2017	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Six Months Ended June 30, 2016									
Allowance for loan losses:									
Balance, December 31, 2015	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	—	(186)	(7)	—	(336)	(529)
Recoveries	2	—	—	6	108	2	1	22	141
Provision (benefit)	(2)	—	—	(6)	78	5	(1)	314	388
Balance, June 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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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 June 30, 2017								
Allowance for loan losses:								
Balance, March 31, 2017	$ —	$ 335	$ 130	$ 3,108	$ 589	$ 394	$ —	$ 4,556
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	—	(292)	—	(192)	(37)	(51)	—	(572)
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision (benefit) for loan losses charged to operations	—	(292)	—	(192)	(37)	(51)	—	(572)
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	—	(3)	(38)	(175)	(4)	(23)	—	(243)
Balance, June 30, 2017	$ —	$ 40	$ 92	$ 2,741	$ 548	$ 320	$ —	$ 3,741
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ —	$ 40	$ 92	$ 2,741	$ 548	$ 320	$ —	$ 3,741
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	8,524	206,271	52,977	256,602	56,362	25,486	—	606,222
	$ 8,524	$ 206,271	$ 52,977	$ 256,602	$ 56,362	$ 25,486	$ —	$ 606,222

Total acquired credit impaired loans								
Three Months Ended June 30, 2016								
Allowance for loan losses:								
Balance , March 31, 2016	$ —	$ 46	$ 154	$ 2,863	$ 606	$ 208	$ —	$ 3,877
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	—	—	—	(165)	217	(5)	—	47
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision (benefit) for loan losses charged to operations	—	—	—	(165)	217	(5)	—	47
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	—	(11)	(3)	(106)	(45)	(7)	—	(172)
Balance, June 30, 2016	$ —	$ 35	$ 151	$ 2,592	$ 778	$ 196	$ —	$ 3,752
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	$ —	$ 35	$ 151	$ 2,592	$ 778	$ 196	$ —	$ 3,752
Loans:*								
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	11,260	225,460	48,274	285,518	64,114	27,961	—	662,587
Total acquired credit impaired loans	$ 11,260	$ 225,460	$ 48,274	$ 285,518	$ 64,114	$ 27,961	$ —	$ 662,587

(Dollars in thousands)	Commercial Loans Greater Than or Equal to $1 Million-CBT	Commercial Real Estate	Commercial Real Estate-Construction and Development	Residential Real Estate	Consumer	Commercial and Industrial	Single Pay	Total
Six Months Ended June 30, 2017								

Allowance for loan losses:								
Balance, December 31, 2016	$ —	$ 41	$ 139	$ 2,419	$ 558	$ 238	$ —	$ 3,395
Provision (benefit) for loan losses before benefit attributable to FDIC loss share agreements	—	—	(3)	559	—	136	—	692
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision (benefit) for loan losses charged to operations	—	—	(3)	559	—	136	—	692
Provision (benefit) for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reduction due to loan removals	—	(1)	(44)	(237)	(10)	(54)	—	(346)
Balance, June 30, 2017	$ —	$ 40	$ 92	$ 2,741	$ 548	$ 320	$ —	$ 3,741
Six Months Ended June 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	—	(180)	534	40	—	395
Benefit attributable to FDIC loss share agreements	—	—	—	23	—	—	—	23
Total provision (benefit) for loan losses charged to operations	—	1	—	(157)	534	40	—	418
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	(23)	—	—	—	(23)
Reduction due to loan removals	—	(22)	(26)	(214)	(69)	(18)	—	(349)
Balance, June 30, 2016	$ —	$ 35	$ 151	$ 2,592	$ 778	$ 196	$ —	$ 3,752

*— 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.

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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	
	June 30,	December 31,	June 30,	June 30,	December 31,	June 30,	June 30,	December 31,
usands)	2017	2016	2016	2017	2016	2016	2017	2016
	$ 700,200	$ 567,398	$ 518,537	$ 939,254	$ 701,150	$ 569,815	$ 1,177,687	$ 1,149,417
on	8,133	8,421	9,230	11,437	11,434	14,859	15,004	22,133
	3,909	4,645	5,452	2,220	2,131	2,154	12,262	6,195
	—	—	—	—	—	—	—	—
	$ 712,242	$ 580,464	$ 533,219	$ 952,911	$ 714,715	$ 586,828	$ 1,204,953	$ 1,177,745

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	June 30,	December 31,	June 30,	June 30,	December 31,	June 30,	June 30,	December 31,	June
	2017	2016	2016	2017	2016	2016	2017	2016	2016
	$ 741,605	$ 655,157	$ 596,879	$ 180,830	$ 167,025	$ 167,122	$ 3,739,576	$ 3,240,147	$ 2,8
	15,916	14,325	13,441	6,636	9,280	12,039	57,126	65,593	81,
ard	5,062	1,916	1,581	1,860	1,933	2,542	25,313	16,820	21,
	—	—	—	—	—	—	—	—	—
	$ 762,583	$ 671,398	$ 611,901	$ 189,326	$ 178,238	$ 181,703	$ 3,822,015	$ 3,322,560	$ 2,9

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

	Consumer Owner Occupied			Home Equity			Consumer	
	June 30,	December 31,	June 30,	June 30,	December 31,	June 30,	June 30,	December 31
usands)	2017	2016	2016	2017	2016	2016	2017	2016
	$ 1,356,469	$ 1,167,768	$ 1,078,749	$ 397,857	$ 368,655	$ 330,270	$ 356,244	$ 322,654
on	13,653	15,283	17,814	7,207	8,145	8,341	348	468
	12,800	14,570	13,104	6,468	6,418	7,346	1,169	1,116
	—	—	—	—	—	—	—	—
	$ 1,382,922	$ 1,197,621	$ 1,109,667	$ 411,532	$ 383,218	$ 345,957	$ 357,761	$ 324,238

	Other			Consumer Total		
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
Pass	$ 18,163	$ 13,404	$ 91,592	$ 2,128,733	$ 1,872,481	$ 1,771,864
Special mention	—	—	—	21,208	23,896	26,907
Substandard	—	—	—	20,437	22,104	21,402
Doubtful	—	—	—	—	—	—
	$ 18,163	$ 13,404	$ 91,592	$ 2,170,378	$ 1,918,481	$ 1,820,173

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

	Total Non-acquired Loans		
(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Pass	$ 5,868,309	$ 5,112,628	$ 4,665,729
Special mention	78,334	89,489	108,107
Substandard	45,750	38,924	43,039
Doubtful	—	—	—
	$ 5,992,393	$ 5,241,041	$ 4,816,875

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

	Construction & Development			Commercial Non-owner Occupied			Commercial Owner Occupied		
ollars in usands)	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
ss	$ 110,776	$ 8,997	$ 11,432	$ 205,623	$ 28,368	$ 30,621	$ 217,392	$ 26,920	$ 31,739
ecial ntion	1,290	253	230	3,856	6,171	371	4,130	—	222
bstandard	789	840	854	81	89	5,912	44	275	306
ubtful	—	—	—	—	—	—	—	—	—
	$ 112,855	$ 10,090	$ 12,516	$ 209,560	$ 34,628	$ 36,904	$ 221,566	$ 27,195	$ 32,267

	Commercial & Industrial			Other Income Producing Property			Commercial Total		
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
s	$ 112,046	$ 13,475	$ 14,645	$ 81,161	$ 38,361	$ 43,869	$ 726,998	$ 116,121	$ 132,30
cial ntion	4,642	117	129	1,542	273	279	15,460	6,814	1,231
standard	1,196	49	824	700	708	725	2,810	1,961	8,621
btful	—	—	—	—	—	—	—	—	—
	$ 117,884	$ 13,641	$ 15,598	$ 83,403	$ 39,342	$ 44,873	$ 745,268	$ 124,896	$ 142,15

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		
	June 30,	December 31,	June 30,	June 30,	December 31,	June 30,	June 30,	December 31,	June 3
s in thousands)	2017	2016	2016	2017	2016	2016	2017	2016	2016
	$ 514,294	$ 404,761	$ 463,107	$ 167,786	$ 151,752	$ 168,079	$ 140,426	$ 139,686	$ 152
mention	2,697	1,326	744	4,906	4,113	5,330	1,172	1,102	600
ndard	3,115	2,183	2,628	4,437	5,014	4,537	1,880	1,866	2,30
ul	—	—	—	—	—	—	—	—	—
	$ 520,106	$ 408,270	$ 466,479	$ 177,129	$ 160,879	$ 177,946	$ 143,478	$ 142,654	$ 155

	Consumer Total		
	June 30, 2017	December 31, 2016	June 30, 2016
Pass	$ 822,506	$ 696,199	$ 783,585
Special mention	8,775	6,541	6,674
Substandard	9,432	9,063	9,469
Doubtful	—	—	—
	$ 840,713	$ 711,803	$ 799,728

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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)	June 30, 2017	December 31, 2016	June 30, 2016
Pass	$ 1,549,504	$ 812,320	$ 915,891
Special mention	24,235	13,355	7,905
Substandard	12,242	11,024	18,090
Doubtful	—	—	—
	$ 1,585,981	$ 836,699	$ 941,886

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 25):

	Commercial Loans Greater Than or Equal to $1 million-CBT			Commercial Real Estate			Commercial Real Estate—Construction and Development		
rs in thousands)	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 2016
	$ 8,206	$ 8,297	$ 9,891	$ 158,755	$ 162,870	$ 168,431	$ 31,656	$ 21,150	$ 21
l mention	—	—	1,014	23,162	26,238	32,446	7,851	12,643	14
ndard	318	320	355	24,354	21,096	24,583	13,470	10,580	12
ful	—	—	—	—	—	—	—	—	—
	$ 8,524	$ 8,617	$ 11,260	$ 206,271	$ 210,204	$ 225,460	$ 52,977	$ 44,373	$ 48

	Residential Real Estate			Consumer			Commercial & Industrial		
	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016	June 30, 2017	December 31, 2016	June 30, 2016
ss	$ 137,735	$ 138,343	$ 152,575	$ 9,178	$ 8,513	$ 9,379	$ 16,534	$ 17,371	$ 19,296
ecial ntion	52,250	52,546	56,845	18,536	19,685	21,401	4,188	4,614	4,598
bstandard	66,617	67,211	76,098	28,648	31,102	33,334	4,764	3,362	4,067
ubtful	—	—	—	—	—	—	—	—	—
	$ 256,602	$ 258,100	$ 285,518	$ 56,362	$ 59,300	$ 64,114	$ 25,486	$ 25,347	$ 27,961

	Total Acquired Credit Impaired Loans		
	June 30, 2017	December 31, 2016	June 30, 2016
Pass	$ 362,064	$ 356,544	$ 381,301
Special mention	105,987	115,726	130,498
Substandard	138,171	133,671	150,788
Doubtful	—	—	—
	$ 606,222	$ 605,941	$ 662,587

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.

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

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
June 30, 2017						
Commercial real estate:						
Construction and land development	$ 102	$ —	$ 505	$ 607	$ 711,635	$ 712,242
Commercial non-owner occupied	123	150	255	528	952,383	952,911
Commercial owner occupied	1,041	799	1,562	3,402	1,201,551	1,204,953
Consumer real estate:						
Consumer owner occupied	1,168	1,112	766	3,046	1,379,876	1,382,922
Home equity loans	779	311	1,370	2,460	409,072	411,532
Commercial and industrial	608	156	97	861	761,722	762,583
Other income producing property	480	104	257	841	188,485	189,326
Consumer	359	188	347	894	356,867	357,761
Other loans	—	—	—	—	18,163	18,163
	$ 4,660	$ 2,820	$ 5,159	$ 12,639	$ 5,979,754	$ 5,992,393
December 31, 2016						
Commercial real estate:						
Construction and land development	$ 256	$ 313	$ 1,026	$ 1,595	$ 578,869	$ 580,464
Commercial non-owner occupied	647	232	137	1,016	713,699	714,715
Commercial owner occupied	1,272	957	1,478	3,707	1,174,038	1,177,745
Consumer real estate:						
Consumer owner occupied	1,473	246	1,454	3,173	1,194,448	1,197,621
Home equity loans	566	889	838	2,293	380,925	383,218
Commercial and industrial	1,033	216	345	1,594	669,804	671,398
Other income producing property	310	94	147	551	177,687	178,238
Consumer	666	355	395	1,416	322,822	324,238
Other loans	—	—	—	—	13,404	13,404
	$ 6,223	$ 3,302	$ 5,820	$ 15,345	$ 5,225,696	$ 5,241,041
June 30, 2016						
Commercial real estate:						
Construction and land development	$ 332	$ 192	$ 1,063	$ 1,587	$ 531,632	$ 533,219
Commercial non-owner occupied	2,511	—	137	2,648	584,180	586,828
Commercial owner occupied	1,897	164	1,563	3,624	1,079,427	1,083,051

Consumer real estate:						
Consumer owner occupied	1,338	968	2,584	4,890	1,104,777	1,109,667
Home equity loans	1,113	443	1,154	2,710	343,247	345,957
Commercial and industrial	473	48	544	1,065	610,836	611,901
Other income producing property	517	614	176	1,307	180,396	181,703
Consumer	527	57	240	824	272,133	272,957
Other loans	—	—	—	—	91,592	91,592
	$ 8,708	$ 2,486	$ 7,461	$ 18,655	$ 4,798,220	$ 4,816,875

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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
June 30, 2017						
Commercial real estate:						
Construction and land development	$ 3,784	$ 2	$ 192	$ 3,978	$ 108,877	$ 112,855
Commercial non-owner occupied	519	—	—	519	209,041	209,560
Commercial owner occupied	1,844	143	236	2,223	219,343	221,566
Consumer real estate:						
Consumer owner occupied	499	801	1,282	2,582	517,524	520,106
Home equity loans	1,109	321	722	2,152	174,977	177,129
Commercial and industrial	710	1,508	98	2,316	115,568	117,884
Other income producing property	336	138	56	530	82,873	83,403
Consumer	540	67	570	1,177	142,301	143,478
	$ 9,341	$ 2,980	$ 3,156	$ 15,477	$ 1,570,504	$ 1,585,981
December 31, 2016						
Commercial real estate:						
Construction and land development	$ 4	$ —	$ 160	$ 164	$ 9,926	$ 10,090
Commercial non-owner occupied	—	—	—	—	34,628	34,628
Commercial owner occupied	—	—	106	106	27,089	27,195
Consumer real estate:						
Consumer owner occupied	330	113	256	699	407,571	408,270
Home equity loans	476	941	741	2,158	158,721	160,879
Commercial and industrial	2	—	—	2	13,639	13,641
Other income producing property	131	1	—	132	39,210	39,342
Consumer	437	210	576	1,223	141,431	142,654
	$ 1,380	$ 1,265	$ 1,839	$ 4,484	$ 832,215	$ 836,699
June 30, 2016						
Commercial real estate:						
Construction and land development	$ —	$ 181	$ 21	$ 202	$ 12,314	$ 12,516
Commercial non-owner occupied	—	—	—	—	36,904	36,904
Commercial owner occupied		—	306	306	31,961	32,267
Consumer real estate:						
Consumer owner occupied	487	210	200	897	465,582	466,479
Home equity loans	234	98	1,132	1,464	176,482	177,946
Commercial and industrial	8	9	—	17	15,581	15,598

Other income producing property	—	—	—	—	44,873	44,873
Consumer	508	116	552	1,176	154,127	155,303
	$ 1,237	$ 614	$ 2,211	$ 4,062	$ 937,824	$ 941,886

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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
June 30, 2017						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 8,524	$ 8,524
Commercial real estate	961	91	2,717	3,769	202,502	206,271
Commercial real estate—construction and development	262	252	4,255	4,769	48,208	52,977
Residential real estate	4,581	1,593	8,138	14,312	242,290	256,602
Consumer	518	178	1,203	1,899	54,463	56,362
Commercial and industrial	426	—	2,693	3,119	22,367	25,486
	$ 6,748	$ 2,114	$ 19,006	$ 27,868	$ 578,354	$ 606,222
December 31, 2016						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 8,617	$ 8,617
Commercial real estate	573	357	2,667	3,597	206,607	210,204
Commercial real estate—construction and development	168	489	3,612	4,269	40,104	44,373
Residential real estate	4,688	1,105	6,777	12,570	245,530	258,100
Consumer	1,412	381	1,231	3,024	56,276	59,300
Commercial and industrial	46	24	536	606	24,741	25,347
	$ 6,887	$ 2,356	$ 14,823	$ 24,066	$ 581,875	$ 605,941
June 30, 2016						
Commercial loans greater than or equal to $1 million-CBT	$ —	$ —	$ —	$ —	$ 11,260	$ 11,260
Commercial real estate	357	279	4,018	4,654	220,806	225,460
Commercial real estate—construction and development	507	43	1,976	2,526	45,748	48,274
Residential real estate	4,585	1,695	6,199	12,479	273,039	285,518
Consumer	926	222	1,676	2,824	61,290	64,114
Commercial and industrial	26	90	648	764	27,197	27,961
	$ 6,401	$ 2,329	$ 14,517	$ 23,247	$ 639,340	$ 662,587

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The following is a summary of certain 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
June 30, 2017					
Commercial real estate:					
Construction and land development	$ 34,757	$ 1,289	$ 28,748	$ 30,037	$ 1,310
Commercial non-owner occupied	2,376	212	542	754	146
Commercial owner occupied	9,882	4,075	1,979	6,054	62
Consumer real estate:					
Consumer owner occupied	6,093	1,451	3,124	4,575	57
Home equity loans	3,311	688	1,938	2,626	119
Commercial and industrial	2,244	—	1,198	1,198	362
Other income producing property	4,382	95	3,546	3,641	238
Consumer	556	—	235	235	6
Other loans	—	—	—	—	—
Total	$ 63,601	$ 7,810	$ 41,310	$ 49,120	$ 2,300
December 31, 2016					
Commercial real estate:					
Construction and land development	$ 7,394	$ 1,074	$ 1,959	$ 3,033	$ 348
Commercial non-owner occupied	2,417	223	583	806	170
Commercial owner occupied	10,118	3,976	2,269	6,245	67
Consumer real estate:					
Consumer owner occupied	7,090	2,120	3,553	5,673	80
Home equity loans	2,165	244	1,430	1,674	40
Commercial and industrial	2,335	—	1,263	1,263	386
Other income producing property	3,166	99	2,273	2,372	242
Consumer	394	—	145	145	4
Other loans	—	—	—	—	—
Total	$ 35,079	$ 7,736	$ 13,475	$ 21,211	$ 1,337
June 30, 2016					
Commercial real estate:					
Construction and land development	$ 8,286	$ 798	$ 3,295	$ 4,093	$ 752
Commercial non-owner occupied	1,669	337	882	1,219	202
Commercial owner occupied	10,784	4,988	1,984	6,972	67
Consumer real estate:					
Consumer owner occupied	5,420	2,333	1,634	3,967	55
Home equity loans	3,024	812	1,365	2,177	38
Commercial and industrial	1,891	259	508	767	14
Other income producing property	5,838	492	4,508	5,000	375
Consumer	334	—	128	128	4

Other	—	—	—	—	—
Total	$ 37,246	$ 10,019	$ 14,304	$ 24,323	$ 1,507

Acquired credit impaired loans are accounted for in pools as shown on page 19 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 June 30,							
	2017				2016			
(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	$	19,662	$	267	$	5,182	$	8
Commercial non-owner occupied		764		6		1,177		11
Commercial owner occupied		6,153		69		7,337		6
Consumer real estate:								
Consumer owner occupied		4,644		35		5,805		—
Home equity loans		2,529		26		2,680		4
Commercial and industrial		1,234		4		822		6
Other income producing property		3,024		68		5,197		23
Consumer		211		3		135		—
Other loans		—		—		423		—
Total Impaired Loans	$	38,221	$	478	$	28,758	$	58

	Six Months Ended June 30,							
	2017				2016			
(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	$	16,535	$	314	$	5,187	$	57
Commercial non-owner occupied		780		12		1,335		26
Commercial owner occupied		6,150		145		7,348		80
Consumer real estate:								
Consumer owner occupied		5,124		74		5,758		46
Home equity loans		2,150		46		1,243		12
Commercial and industrial		1,230		22		1,127		85
Other income producing property		3,007		103		4,946		30
Consumer		189		3		115		1
Other loans		—		—		211		2
Total Impaired Loans	$	35,165	$	719	$	27,270	$	339

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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)	June 30, 2017	December 31, 2016	June 30, 2016
Commercial non-owner occupied real estate:			
Construction and land development	$ 62	$ 672	$ 1,080
Commercial non-owner occupied	2,575	578	528
Total commercial non-owner occupied real estate	2,637	1,250	1,608
Consumer real estate:			
Consumer owner occupied	4,156	5,711	6,705
Home equity loans	10	1,629	2,386
Total consumer real estate	4,166	7,340	9,091
Commercial owner occupied real estate	2,641	2,189	2,242
Commercial and industrial	596	420	360
Other income producing property	1,162	356	1,007
Consumer	898	930	763
Restructured loans	967	1,979	2,851
Total loans on nonaccrual status	$ 13,067	$ 14,464	$ 17,922

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

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Commercial non-owner occupied real estate:			
Construction and land development	$ 226	$ 232	$ 99
Commercial non-owner occupied	—	—	—
Total commercial non-owner occupied real estate	226	232	99
Consumer real estate:			
Consumer owner occupied	1,927	1,405	1,056
Home equity loans	1,515	1,643	1,607
Total consumer real estate	3,442	3,048	2,663
Commercial owner occupied real estate	44	61	306
Commercial and industrial	57	1	1
Other income producing property	159	145	153
Consumer	1,206	1,241	1,216
Total loans on nonaccrual status	$ 5,134	$ 4,728	$ 4,438

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 experiencing 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 six months ended June 30, 2017 and 2016, the Company's TDRs were not material.

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Note 7—FDIC Indemnification Asset

The following table provides changes in FDIC indemnification asset:

	Six Months Ended June 30,	
(Dollars in thousands)	2017	2016
Balance at beginning of period	$ —	$ 4,401
Decrease in expected losses on loans	—	(23)
Additional recoveries on OREO	—	(1,736)
Reimbursable expenses	—	71
Amortization of discounts and premiums, net	—	(1,475)
Payments to (from) FDIC	—	853
Termination of Loss Share Agreements	—	(2,091)
Balance at end of period	$ —	$ —

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:

	Six Months Ended June 30,					
	2017			2016		
(Dollars in thousands)	OREO	Covered OREO	Total	OREO	Covered OREO	Total
Beginning balance	$ 18,316	$ —	$ 18,316	$ 24,803	$ 5,751	$ 30,554
Acquired in SBFC acquisition	385	—	385	—	—	—
Additions	4,947	—	4,947	5,391	2,151	7,542
Transfers	—	—	—	4,222	(4,222)	—
Writedowns	(1,729)	—	(1,729)	(812)	(2,131)	(2,943)
Sold	(7,489)	—	(7,489)	(11,177)	(1,549)	(12,726)
Ending Balance	$ 14,430	$ —	$ 14,430	$ 22,427	$ —	$ 22,427

OREO previously classified as covered, which consisted of 17 properties with a carrying value of $4.2 million as of March 31, 2016, became uncovered during the second quarter of 2016 in connection with the Bank's early termination agreement with the FDIC with respect to all of its outstanding loss share agreements

At June 30, 2017, there were a total of 75 uncovered properties included in OREO. This compares to 103 uncovered properties included in OREO, at June 30, 2016. At June 30, 2017, the Company had $1.7 million in residential real estate included in OREO and $7.4 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)	June 30, 2017	December 31, 2016	June 30, 2016
Certificates of deposit	$ 1,026,753	$ 872,773	$ 962,759
Interest-bearing demand deposits	3,984,163	3,461,004	3,307,292
Non-interest bearing demand deposits	2,635,147	2,199,046	2,117,246
Savings deposits	1,380,231	799,615	772,463
Other time deposits	5,360	1,985	4,166
Total deposits	$ 9,031,654	$ 7,334,423	$ 7,163,926

At June 30, 2017, December 31, 2016, and June 30, 2016, the Company had $183.1 million, $83.7 million, and $95.5 million in certificates of deposits of $250,000 and greater, respectively. At June 30, 2017, December 31, 2016, and June 30, 2016, the Company had $42.5 million, $2.9 million and $5.5 million, in traditional, out-of-market brokered deposits, respectively. The increase in certificates of deposits of $250,000 and greater and in out-of-market brokered deposits was primarily the result of deposits acquired through the merger with SBFC.

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 June 30, 2017.

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

(Dollars in thousands)	Three Months Ended 2017	2016	Six Months Ended 2017	2016
Interest cost	$ (281)	$ (283)	$ (562)	$ (566)
Expected return on plan assets	553	534	1,107	1,068
Recognized net actuarial loss	(188)	(204)	(376)	(408)
Net periodic pension benefit	$ 84	$ 47	$ 169	$ 94

The Company did not contribute to the pension plan for the three and six months ended June 30, 2017, and does not expect to make any additional contributions during the remainder of 2017. 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. Employees are eligible for an additional 1% discretionary matching contribution contingent upon achievement of the Company's annual financial goals and paid in the first quarter of the following year. The Company is offering the additional 1% discretionary matching contribution again in 2017 upon achievement of the Company's 2017 financial goals. The Company expensed $1.8 million and $3.4 million for the 401(k) plan during the three and six months ended June 30, 2017, respectively, compared to $1.4 million and $2.8 million for the three and six months ended June 30, 2016, 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 June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except for per share amounts)	2017	2016	2017	2016
Basic earnings per common share:				
Net income	$ 31,823	$ 24,516	$ 50,087	$ 49,010
Weighted-average basic common shares	29,095	23,995	28,985	23,977
Basic earnings per common share	$ 1.09	$ 1.02	$ 1.73	$ 2.04
Diluted earnings per share:				
Net income	$ 31,823	$ 24,516	$ 50,087	$ 49,010
Weighted-average basic common shares	29,095	23,995	28,985	23,977
Effect of dilutive securities	270	242	267	228
Weighted-average dilutive shares	29,365	24,237	29,252	24,205
Diluted earnings per common share	$ 1.08	$ 1.01	$ 1.71	$ 2.02

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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016

Number of shares	34,712	72,480	34,712	72,480
Range of exercise prices	$ 69.48 to $ 91.35	$ 61.42 to $ 69.48	$ 69.48 to $ 91.35	$ 61.42 to $ 69.48

Note 12 — Share-Based Compensation

The Company's 2004 and 2012 share-based compensation plans are long-term retention plans 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.

	Shares	Weighted Average Price	Weighted Average Remaining (Yrs.)	Aggregate Intrinsic (000's)
Outstanding at January 1	246,535	$ 42.53		
Granted	33,634	91.23		
Exercised	(29,030)	34.09		
Outstanding at June 30	251,139	50.02	5.40	$ 9,298
Exercisable at June 30	181,152	39.84	4.12	$ 8,436
Weighted-average fair value of options granted during the year	$ 35.42			

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

	Six months ended June 30,	
	2017	2016
Dividend yield	1.40 %	1.60 %
Expected life	8.5 years	8.5 years
Expected volatility	37.2 %	40.6 %
Risk-free interest rate	2.43 %	1.90 %

As of June 30, 2017, there was $1.7 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 1.63 years as of June 30, 2017. The total fair value of shares vested during the six months ended June 30, 2017 was $578,000.

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.

All restricted stock agreements are conditioned upon continued employment. Termination of employment prior to a vesting date, as described below, would terminate any interest in non-vested shares. Prior to vesting of the shares, as long as employed by the Company, the key employees and non-employee directors will have the right to vote such shares and to receive dividends paid with respect to such shares. All restricted shares will fully vest in the event of change in control of the Company or upon the death of the recipient.

Nonvested restricted stock for the six months ended June 30, 2017 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, 2017	183,014	$ 51.88
Granted	16,351	90.20
Vested	(47,663)	45.36
Forfeited	(500)	91.35
Nonvested at June 30, 2017	151,202	57.95

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As of June 30, 2017, there was $5.1 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 2.40 years as of June 30, 2017. The total fair value of shares vested during the six months ended June 30, 2017 was $2.3 million.

Restricted Stock Units

The Company from time-to-time also grants performance and discretionary 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. Discretionary RSUs are based upon prior performance and typically cliff-vest over four years from the grant date. Dividends are not paid in respect to the awards during the performance or the vesting 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 six months ended June 30, 2017, the Company accrued for 86% of the RSUs granted, based on Management's expectations of performance.

Nonvested RSUs for the six months ended June 30, 2017 is summarized in the following table.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2017	107,876	$ 66.37
Granted	61,657	89.39
LTIP Adjustment	(3,951)	63.93
Nonvested at June 30, 2017	165,582	75.00

As of June 30, 2017, there was $5.5 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 two years as of June 30, 2017. The total fair value of RSUs vested during the six months ended June 30, 2017 was $2.3 million. During the six months ended June 30, 2017, 57,455 vested restricted stock units were issued to the participants in the 2014 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 June 30, 2017, commitments to extend credit and standby letters of credit totaled $2.0 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

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would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities, derivative contracts, and mortgage servicing rights are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as 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 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 June 30, 2017, 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.

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Other Real Estate Owned ("OREO")

Typically 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, OREO is 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)
June 30, 2017:				
Assets				
Derivative financial instruments	$ 1,956	$ —	$ 1,956	$ —
Loans held for sale	65,995	—	65,995	—
Securities available for sale:				
Government-sponsored entities debt	75,952	—	75,952	—
State and municipal obligations	193,294	—	193,294	—
Mortgage-backed securities	1,068,597	—	1,068,597	—
Corporate stocks	3,809	2,584	1,225	—
Total securities available for sale	1,341,652	2,584	1,339,068	—
Mortgage servicing rights	29,930	—	—	29,930
	$ 1,439,533	$ 2,584	$ 1,407,019	$ 29,930
Liabilities				
Derivative financial instruments	$ 592	$ —	$ 592	$ —
December 31, 2016:				
Assets				
Derivative financial instruments	$ 2,606	$ —	$ 2,606	$ —
Loans held for sale	50,572	—	50,572	—
Securities available for sale:				
Government-sponsored entities debt	84,642	—	84,642	—
State and municipal obligations	107,402	—	107,402	—
Mortgage-backed securities	803,577	—	803,577	—
Corporate stocks	3,784	2,559	1,225	—
Total securities available for sale	999,405	2,559	996,846	—
Mortgage servicing rights	29,037	—	—	29,037
	$ 1,081,620	$ 2,559	$ 1,050,024	$ 29,037
Liabilities				
Derivative financial instruments	$ 730	$ —	$ 730	$ —
June 30, 2016:				
Assets				
Derivative financial instruments	$ 3,257	$ —	$ 3,257	$ —
Loans held for sale	48,926	—	48,926	—

Securities available for sale:				
Government-sponsored entities debt	$ 103,092	$ —	$ 103,092	$ —
State and municipal obligations	123,894	—	123,894	—
Mortgage-backed securities	758,881	—	758,881	—
Corporate stocks	3,743	2,518	1,225	—
Total securities available for sale	989,610	2,518	987,092	—
Mortgage servicing rights	22,350	—	—	22,350
	$ 1,064,143	$ 2,518	$ 1,039,275	$ 22,350
Liabilities				
Derivative financial instruments	$ 2,213	$ —	$ 2,213	$ —

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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 six months ended June 30, 2017. A reconciliation of the beginning and ending balances of Level 3 assets and liabilities recorded at fair value on a recurring basis for the three months ended June 30, 2017 and 2016 is as follows:

(Dollars in thousands)	Assets	Liabilities
Fair value, January 1, 2017	$ 29,037	$ —
Servicing assets that resulted from transfers of financial assets	3,096	—
Changes in fair value due to valuation inputs or assumptions	(371)	—
Changes in fair value due to decay	(1,832)	—
Fair value , June 30, 2017	$ 29,930	$ —
Fair value, January 1, 2016	$ 26,202	$ —
Servicing assets that resulted from transfers of financial assets	2,393	—
Changes in fair value due to valuation inputs or assumptions	(4,476)	—
Changes in fair value due to decay	(1,769)	—
Fair value, June 30, 2016	$ 22,350	$ —

There were no unrealized losses included in accumulated other comprehensive income related to Level 3 financial assets and liabilities at June 30, 2017 or 2016.

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)
June 30, 2017:				
OREO	$ 14,430	$ —	$ —	$ 14,430
Non-acquired impaired loans	3,754	—	—	3,754
December 31, 2016:				
OREO	$ 18,316	$ —	$ —	$ 18,316
Non-acquired impaired loans	6,611	—	—	6,611
June 30, 2016:				
OREO	$ 22,427	$ —	$ —	$ 22,427
Non-acquired impaired loans	3,515	—	—	3,515

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Quantitative Information about Level 3 Fair Value Measurement

			Weighted Average		
	Valuation Technique	Unobservable Input	June 30, 2017	December 31, 2016	June 30, 2016
Nonrecurring measurements:					
Non-acquired impaired loans	Discounted appraisals	Collateral discounts	5 %	6 %	6 %
OREO	Discounted appraisals	Collateral discounts and estimated costs to sell	25 %	18 %	17 %

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 June 30, 2017, December 31, 2016 and June 30, 2016. 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 40 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.

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.

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.

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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.

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
June 30, 2017					
Financial assets:					
Cash and cash equivalents	$ 431,890	$ 431,890	$ 431,890	$ —	$ —
Investment securities	1,358,894	1,358,976	15,660	1,343,316	—
Loans held for sale	65,995	65,995	—	65,995	—
Loans, net of allowance for loan losses	8,140,706	8,216,793	—	—	8,216,793
Accrued interest receivable	23,469	23,469	—	5,454	18,015
Mortgage servicing rights	29,930	29,930	—	—	29,930
Interest rate swap - non-designated hedge	208	208	—	208	—
Other derivative financial instruments (mortgage banking related)	1,748	1,748	—	1,748	—
Financial liabilities:					
Deposits	9,031,654	8,481,700	—	8,481,700	—
Federal funds purchased and securities sold under agreements to repurchase	334,018	334,018	—	334,018	—
Other borrowings	98,147	100,723	—	100,723	—
Accrued interest payable	1,502	1,502	—	1,502	—
	203	203	—	203	—

Interest rate swap - non-designated hedge					
Interest rate swap - cash flow hedge	389	389	—	389	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	17,200	—	17,200	—
December 31, 2016					
Financial assets:					
Cash and cash equivalents	$ 374,448	$ 374,448	$ 374,448	$ —	$ —
Investment securities	1,014,981	1,015,137	12,041	1,003,096	—
Loans held for sale	50,572	50,572	—	50,572	—
Loans, net of allowance for loan losses	6,643,326	6,649,575	—	—	6,649,575
Accrued interest receivable	18,618	18,618	—	3,642	14,976
Mortgage servicing rights	29,037	29,037	—	—	29,037
Interest rate swap - non-designated hedge	203	203	—	203	—
Other derivative financial instruments (mortgage banking related)	2,403	2,403	—	2,403	—
Financial liabilities:					
Deposits	7,334,423	6,935,867	—	6,935,867	—
Federal funds purchased and securities sold under agreements to repurchase	313,773	313,773	—	313,773	—
Other borrowings	55,358	54,379	—	54,379	—
Accrued interest payable	1,359	1,359	—	1,359	—
Interest rate swap - non-designated hedge	181	181	—	181	—
Interest rate swap - cash flow hedge	498	498	—	498	—
Other derivative financial instruments (mortgage banking related)	51	51	—	51	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	1,587	—	1,587	—
June 30, 2016					
Financial assets:					
Cash and cash equivalents	$ 481,912	$ 481,912	$ 481,912	$ —	$ —
Investment securities	1,007,060	1,007,370	12,047	995,323	—
Loans held for sale	48,926	48,926	—	48,926	—
Loans, net of allowance for loan losses	6,380,657	6,591,596	—	—	6,591,596
Accrued interest receivable	18,191	18,191	—	3,941	14,250
Mortgage servicing rights	22,350	22,350	—	—	22,350
Other derivative financial instruments (mortgage banking related)	3,257	3,257	—	3,257	—
Financial liabilities:					

Deposits	7,163,926	6,980,410	—	6,980,410	—
Federal funds purchased and securities sold under agreements to repurchase	341,064	341,064	—	341,064	—
Other borrowings	55,254	49,499	—	49,499	—
Accrued interest payable	1,649	1,649	—	1,649	—
Interest rate swap - cash flow hedge	776	776	—	776	—
Other derivative financial instruments (mortgage banking related)	1,437	1,437	—	1,437	—
Off balance sheet financial instruments:					
Commitments to extend credit	—	53,838	—	53,838	—

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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 June 30, 2017				
Balance at March 31, 2017	$ (6,078)	$ 1,458	$ (264)	$ (4,884)
Other comprehensive income before reclassifications	—	1,115	11	1,126
Amounts reclassified from accumulated other comprehensive income (loss)	116	(67)	12	61
Net comprehensive income	116	1,048	23	1,187
Balance at June 30, 2017	$ (5,962)	$ 2,506	$ (241)	$ (3,697)
Three Months Ended June 30, 2016				
Balance at March 31, 2016	$ (5,889)	$ 9,887	$ (493)	$ 3,505
Other comprehensive income (loss) before reclassifications	—	2,865	(28)	2,837
Amounts reclassified from accumulated other comprehensive income	126	—	42	168
Net comprehensive income	126	2,865	14	3,005
Balance at June 30, 2016	$ (5,763)	$ 12,752	$ (479)	$ 6,510
Six Months Ended June 30, 2017				
Balance at December 31, 2016	$ (6,195)	$ (1,708)	$ (308)	$ (8,211)
Other comprehensive income (loss) before reclassifications	—	4,282	(37)	4,245
Amounts reclassified from accumulated other comprehensive income (loss)	233	(68)	104	269
Net comprehensive income	233	4,214	67	4,514
Balance at June 30, 2017	$ (5,962)	$ 2,506	$ (241)	$ (3,697)
Six Months Ended June 30, 2016				
Balance at December 31, 2015	$ (6,015)	$ 2,588	$ (444)	$ (3,871)
Other comprehensive income (loss) before reclassifications	—	10,240	(123)	10,117
Amounts reclassified from accumulated other comprehensive income (loss)	252	(76)	88	264
Net comprehensive income (loss)	252	10,164	(35)	10,381
Balance at June 30, 2016	$ (5,763)	$ 12,752	$ (479)	$ 6,510

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

(Dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Three Months Ended June 30,		For the Six Months Ended June 30,		
Accumulated Other Comprehensive Income (Loss) Component	2017	2016	2017	2016	Income Statement Line Item Affected
Losses on cash flow hedges:					
Interest rate contracts	$ 19	$ 68	$ 168	$ 142	Interest expense
	(7)	(26)	(64)	(54)	Provision for income taxes
	12	42	104	88	Net income
Gains on sales of available for sale securities:					
	$ (110)	$ —	$ (110)	$ (122)	Other noninterest income
	43	—	42	46	Provision for income taxes
	(67)	—	(68)	(76)	Net income
Amortization of defined benefit pension:					
Actuarial losses	$ 187	$ 204	$ 376	$ 408	Salaries and employee benefits
	(71)	(78)	(143)	(156)	Provision for income taxes
	116	126	233	252	Net income
Total reclassifications for the period	$ 61	$ 168	$ 269	$ 264	

Note 16 — Derivative Financial Instruments

Cash Flow Hedge of Interest Rate Risk

The Company utilizes an interest rate swap agreement to essentially convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). For derivatives designated as hedging exposure to variable cash flows of a forecasted transaction (cash flow hedge), the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings or when the hedge is terminated. The ineffective portion of the gain or loss is reported in earnings immediately. For derivatives that are not designated as hedging instruments, changes in the fair value of the derivatives are recognized in earnings immediately.

When applying hedge accounting for derivatives, the Company establishes a method for assessing the effectiveness of the hedging derivative and a measurement approach for determining the ineffective aspect of the hedge upon the inception of the 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 $23,000 and $67,000 for the three and six months ended June 30, 2017, respectively. This compares to an unrealized gain of $14,000 for the three months ended June 30, 2016 and an unrealized loss of $35,000 for the six months ended June 30, 2016. The Company recognized a $389,000 cash flow hedge liability in other liabilities on the balance sheet at June 30, 2017, compared to a $776,000 liability at June 30, 2016. There was no ineffectiveness in the cash flow hedge during the three and six months ended June 30, 2017 and 2016.

On January 3, 2017, the Company, through its merger with SBFC, acquired two forward starting interest rate swaps with a total notational amount of $10.0 million which was used to manage interest rate risk by SBFC on its $20.6

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million in junior subordinated debt issued by capital trusts. Like the Company, SBFC was using the swaps to hedge 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. The subordinated debt was paying interest at three month LIBOR plus 1.40% (2.36% at the time of the merger) while the interest rate swaps were providing a fixed rate of approximately 5.35% on $10.0 million of the junior subordinated debt. During the first quarter of 2017, the Company decided to terminate the interest rate swaps acquired through the merger with SBFC with an immaterial effect to net income.

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 June 30, 2017 and 2016, the Company provided $450,000 and $850,000 of collateral, respectively, 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.

Non-designated Hedges of Interest Rate Risk

Customer Swap

On December 28, 2016, the Company entered into two interest rate swap contracts that were classified as non-designated hedges and are not speculative in nature. One of the derivatives is an interest rate swap that was executed with a commercial borrower to facilitate a respective risk management strategy and allow the customer to pay a fixed rate of interest to the Company. This interest rate swap was simultaneously hedged by executing an offsetting interest rate swap that was entered into with a derivatives dealer to minimize the net risk exposure to the Company resulting from the transactions and allow the Company to receive a variable rate of interest.

As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of June 30, 2017, the interest rate swaps had an aggregate notional amount of approximately $27.3 million and the fair value of the interest rate swap derivatives are recorded in other assets at $208,000 and in other liabilities at $203,000 for a net asset carrying value of $5,000, which was recorded through earnings. The fair value of the interest rate swap derivative with the derivatives dealer was in a net liability position of $203,000 at June 30, 2017 and the Company was required to provide $300,000 of collateral, which is included in cash and cash equivalents on the balance sheet as interest-bearing deposits with banks.

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 June 30, 2017, the Company had derivative financial instruments outstanding with notional amounts totaling $102.5 million related to mortgage servicing rights, compared to $120.0 million on June 30, 2016. The estimated net fair value of the open contracts related to the mortgage servicing rights was recorded as a gain of $9,000 at June 30, 2017, compared to $1.8 million at June 30, 2016.

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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)	June 30, 2017	December 31, 2016	June 30, 2016
Mortgage loan pipeline	$ 115,820	$ 85,445	$ 129,570
Expected closures	86,865	64,083	97,177
Fair Value of mortgage loan pipeline commitments	1,568	1,037	3,257
Forward sales commitments	109,525	97,092	120,000
Fair value of forward commitments	89	1,366	(1,437)

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 June 30, 2017, December 31, 2016 and June 30, 2016 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 June 30, 2017 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
June 30, 2017								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 985,586	11.96 %	$ 473,967	5.75 %	$ 577,003	7.00 %	$ 535,789	6.50
South State Bank (the Bank)	1,023,298	12.41 %	473,954	5.75 %	576,988	7.00 %	535,774	6.50
Tier 1 capital to risk-weighted assets:								
Consolidated	1,056,506	12.82 %	597,610	7.25 %	700,647	8.50 %	659,432	8.00
South State Bank (the Bank)	1,023,298	12.41 %	597,594	7.25 %	700,628	8.50 %	659,414	8.00
Total capital to risk-weighted assets:								
Consolidated	1,100,757	13.35 %	762,468	9.25 %	865,505	10.50 %	824,290	10.00
South State Bank (the Bank)	1,067,398	12.95 %	762,448	9.25 %	865,481	10.50 %	824,268	10.00
Tier 1 capital to average assets (leverage ratio):								
Consolidated	1,056,506	10.12 %	417,671	4.00 %	417,671	4.00 %	522,088	5.00
South State Bank (the Bank)	1,023,298	9.80 %	417,537	4.00 %	417,537	4.00 %	521,921	5.00
December 31, 2016:								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 788,544	11.66 %	$ 346,730	5.125 %	$ 473,582	7.00 %	$ 439,755	6.50
South State Bank (the Bank)	815,823	12.06 %	346,629	5.125 %	473,444	7.00 %	439,627	6.50
Tier 1 capital to risk-weighted assets:								
Consolidated	841,266	12.43 %	448,212	6.625 %	575,064	8.50 %	541,237	8.00
	815,823	12.06 %	448,081	6.625 %	574,896	8.50 %	541,079	8.00

South State Bank (the Bank)								
Total capital to risk-weighted assets:								
Consolidated	881,957	13.04 %	583,521	8.625 %	710,374	10.50 %	676,546	10.00
South State Bank (the Bank)	856,388	12.66 %	583,351	8.625 %	710,166	10.50 %	676,349	10.00
Tier 1 capital to average assets (leverage ratio):								
Consolidated	841,266	9.88 %	340,612	4.00 %	340,612	4.00 %	425,765	5.00
South State Bank (the Bank)	815,823	9.58 %	340,483	4.00 %	340,483	4.00 %	425,604	5.00
June 30, 2016:								
Common equity Tier 1 to risk-weighted assets:								
Consolidated	$ 741,000	11.23 %	$ 338,086	5.125 %	$ 461,776	7.00 %	$ 428,792	6.50
South State Bank (the Bank)	766,183	11.62 %	337,972	5.125 %	461,620	7.00 %	428,647	6.50
Tier 1 capital to risk-weighted assets:								
Consolidated	793,116	12.02 %	437,038	6.625 %	560,728	8.50 %	527,744	8.00
South State Bank (the Bank)	766,183	11.62 %	436,890	6.625 %	560,539	8.50 %	527,566	8.00
Total capital to risk-weighted assets:								
Consolidated	834,102	12.64 %	568,974	8.625 %	692,665	10.50 %	659,681	10.00
South State Bank (the Bank)	807,084	12.24 %	568,782	8.625 %	692,430	10.50 %	659,457	10.00
Tier 1 capital to average assets (leverage ratio):								
Consolidated	793,116	9.51 %	333,587	4.00 %	333,587	4.00 %	416,984	5.00
South State Bank (the Bank)	766,183	9.19 %	333,433	4.00 %	333,433	4.00 %	416,791	5.00

As of June 30, 2017, December 31, 2016, and June 30, 2016, 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 $595.8 million at June 30, 2017. The Company added $257.5 million in goodwill related to the SBFC merger during 2017. 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

Company added $18.1 million in core deposit intangible related to the SBFC merger. The following is a summary of gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	June 30, 2017	December 31, 2016	June 30, 2016
Gross carrying amount	$ 100,274	$ 82,154	$ 82,154
Accumulated amortization	(47,308)	(42,306)	(38,525)
	$ 52,966	$ 39,848	$ 43,629

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Amortization expense totaled $2.5 million and $5.0 million for the three and six months ended June 30, 2017, respectively, compared to $1.9 million and $3.8 million for the three and six months ended June 30, 2016, respectively. 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:

(Dollars in thousands)	
Quarter ending:	
September 30, 2017	$ 2,494
December 31, 2017	2,494
March 31, 2018	2,331
June 30, 2018	2,319
September 30, 2018	2,318
Thereafter	41,010
	$ 52,966

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

As of June 30, 2017, December 31, 2016, and June 30, 2016, the portfolio of residential mortgages serviced for others, which is not included in the accompanying balance sheets, was $2.8 billion, $2.7 billion, and $2.6 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 six months ended June 30, 2017 and June 30, 2016 was $1.8 million and $3.6 million, and $1.8 million and $3.4 million, respectively. Servicing fees are recorded in mortgage banking income in the Company's consolidated statements of income.

At June 30, 2017, December 31, 2016, and June 31, 2016, mortgage servicing rights ("MSRs") were $30.0 million, $29.0 million, and $22.3 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 six months ended June 30, 2017 and June 30, 2016 were losses of $815,000 and $370,000, respectively, compared with losses of $1.9 million and $4.5 million, respectively. 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 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		Six Months Ended	
(Dollars in thousands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Increase (decrease) in fair value of MSRs	$ (815)	$ (1,870)	$ (370)	$ (4,476)
Decay of MSRs	(1,029)	(990)	(1,832)	(1,769)
Gains related to derivatives	$ 829	$ 1,968	$ 1,095	$ 5,013
Net effect on statements of income	$ (1,015)	$ (892)	$ (1,107)	$ (1,232)

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)	June 30, 2017		December 31, 2016		June 30, 2016	
Composition of residential loans serviced for others						
Fixed-rate mortgage loans	99.7	%	99.6	%	99.5	%
Adjustable-rate mortgage loans	0.3	%	0.4	%	0.5	%
Total	100.0	%	100.0	%	100.0	%
Weighted average life	7.52	years	7.70	years	5.60	years
Constant Prepayment rate (CPR)	8.1	%	7.7	%	12.7	%
Weighted average discount rate	9.6	%	9.8	%	9.8	%
Effect on fair value due to change in interest rates						
25 basis point increase	$ 1,457		$ 1,399		$ 2,106	
50 basis point increase	2,651		2,557		3,977	
25 basis point decrease	(1,783)		(1,713)		(2,334)	
50 basis point decrease	(3,914)		(3,670)		(4,492)	

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 $23.5 million and $19.2 million at June 30, 2017 and June 30, 2016, respectively.

Mandatory cash forwards and whole loan sales were $193.9 million and $358.3 million for the three and six months ended June 30, 2017, respectively, compared to $179.5 million and $315.4 million for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2017, $153.6 million and $274.2 million, or 79.2% and 76.5%, respectively, were sold with the servicing rights retained by the company, compared to $150.2 million and $243.5 million, or 83.7% and 77.2%, for the three and six months ended June 30, 2016, 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 $66.0 million, $50.6 million, and $48.9 million at June 30, 2017, December 31, 2016, and June 30, 2016, 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 six months ended June 30, 2017, tax credits and other tax benefits of $1.5 million and amortization of $1.2 million were recorded. For the six months ended June 30, 2016, the Company recorded tax credits and other tax benefits of $1.2 million and amortization of $729,000. At June 30, 2017 and 2016, the Company's carrying value of QAHPs was $25.6 million and $27.6 million, respectively, with an original investment of $33.8 million. The Company has $8.7 million and $15.5 million in remaining funding obligations related to these QAHPs recorded in liabilities at June 30, 2017 and 2016, 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 master repurchase agreements between the Company and the client and are accounted for as secured borrowings.

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Repurchase agreements are included in federal funds purchased and securities sold under agreements to repurchase on the condensed consolidated balance sheets.

At June 30, 2017, December 31, 2016 and June 30, 2016, the Company's repurchase agreements totaled $279.3 million, $238.3 million, and $272.6 million, respectively. All of the Company’s repurchase agreements were overnight or continuous (until-further-notice) agreements at June 30, 2017, December 31, 2016 and June 30, 2016. These borrowings were collateralized with government, government-sponsored enterprise, or state and political subdivision-issued securities with a carrying value of $279.3 million, $238.3 million and $272.6 million at June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Declines in the value of the collateral would require the Company to increase the amounts of securities pledged.

Note 22 – Subsequent Events

The Company has evaluated subsequent events for accounting and disclosure purposes through the date the

financial statements are issued and has determined that there is no disclosure necessary.

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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 Results3of Operations relates to the financial statements contained in this Quarterly Report beginning on page 3. 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, 2016. Results for the three and six months ended June 30, 2017 are not necessarily indicative of the results for the year ending December 31, 2017 or any future period.

Overview

South State Corporation ("SSB and, together with its subsidiaries, the "Company") is 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 South State Advisory (formerly 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 June 30, 2017, we had approximately $11.2 billion in assets and 2,261 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 six months ended June 30, 2017 as compared to the three and six months ended June 30, 2016 and also analyzes our financial condition as of June 30, 2017 as compared to December 31, 2016 and June 30, 2016. 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

Park Sterling Corporation Proposed Acquisition

On April 26, 2017, SSB entered into an Agreement and Plan of Merger with Park Sterling Corporation, a North Carolina corporation ("PSTB"), and a bank holding company headquartered in Charlotte, North Carolina. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, PSTB will merge with and into SSB, with SSB as the surviving corporation in the Merger. Immediately following the Merger, PSTB's wholly owned bank subsidiary, Park Sterling Bank ("PSB"), will merge with and into the Bank, with the Bank as the surviving entity in the bank merger. At June 30, 2017, PSTB reported $3.3 billion in total assets, $2.5 billion in loans and $2.5 billion in deposits. PSTB has over 50 full service branches in North Carolina, South Carolina, Georgia and Virginia that serve individuals and businesses.

Under the terms of the merger agreement, PSTB common shareholders will receive aggregate consideration of approximately 7,459,199 shares of SSB common stock plus cash for the value of “in the money” outstanding stock options. The common stock consideration is based upon a fixed exchange ratio of 0.14 shares of SSB common stock for each of the outstanding shares of SBFC common stock.

The proposed merger is subject to regulatory approvals, the affirmative vote of both SSB’s and PSTB’s shareholders, and other customary closing conditions. The transaction is expected to close during the fourth quarter of 2017.

Southeastern Bank Financial Corporation Acquisition

On January 3, 2017, SSB closed its merger with Southeastern Banking financial Corporation (“SBFC”), and SBFC’s wholly-owned bank subsidiary, Georgia Bank & Trust (“GB&T”), merged into the Bank. SSB issued 4,978,338 shares using a fixed exchange ratio of 0.7307 shares of SSB common stock for each outstanding share of SBFC common stock. The total purchase price was $435.1 million, including the value of “in the money” outstanding stock options totaled $490,000. GB&T had nine full service branches in Augusta, Georgia, three full service branches in Aiken, South Carolina that served individuals and businesses and a limited service loan production office in Athens, Georgia and was ranked second in market share in the Augusta, Georgia market. See Note 4 – Mergers and Acquisitions for detail on the asset purchased and liabilities assumed through this merger.

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, 2016. 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

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statements in our Annual Report on Form 10-K for the year ended December 31, 2016 for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

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 June 30, 2017, December 31, 2016 and June 30, 2016, the balance of goodwill was $595.8 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.

In January 2017, the FASB issued ASU No. 2017-04, Intangible-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment; ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under Accounting Standards Codification (ASC) 350 and eliminating Step 2 from the goodwill impairment test. This guidance is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those years.

Our stock price has historically traded above its book value. As of June 30, 2017, book value was $54.87 per common share. The lowest trading price during the first six months of 2017, as reported by the NASDAQ Global Select Market, was $80.25 per share, and the stock price closed on June 30, 2017 at $85.70 per share. 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, 2017, 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

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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.

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of June 30, 2017, 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 June 30, 2017. State tax returns for 2013 and subsequent tax years remain subject to examination by taxing authorities as of June 30, 2017.

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 and gains or losses on sales of covered OREO were offset against 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

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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 were initially recorded at fair value, and were measured separately from the loan assets and foreclosed assets because the loss sharing agreements were not contractually embedded in them or transferrable with them in the event of disposal. The FDIC indemnification asset was measured at carrying value subsequent to initial measurement. 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, 2016, 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.

With the closing of the merger between SSB and SBFC and our organic growth, we surpassed $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 six quarters will result in a loss of interchange revenue and additional expenses associated with stress testing and FDIC insurance premiums.

Results of Operations

We reported consolidated net income of $31.8 million, or diluted earnings per share ("EPS") of $1.08, for the second quarter of 2017 as compared to consolidated net income of $24.5 million, or diluted EPS of $1.01, in the comparable period of 2016, a 29.8% increase. The $7.3 million increase in consolidated net income was primarily the net result of the following items:

- Higher interest income of $19.4 million which resulted both from the merger with SBFC which contributed to higher investment securities income of $2.9 million and acquired loan interest income of $5.3 million and an increase in non-acquired loan interest income of $11.0 million due to organic loan growth;
- Higher interest expense of $1.8 million which mainly resulted from the merger with SBFC as average interest-bearing liabilities increased $1.3 billion and cost of funds on interest-bearing liabilities increased 7 basis points;
- Lower provision for loan losses by $415,000 which mainly came from a $619,000 decrease in the provision for loan losses within the acquired credit impaired loan portfolio due to releases of certain loan pools within the second quarter of 2017;
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Higher noninterest income of $5.5 million which resulted from a $616,000 improvement in fees on deposit accounts, a $611,000 increase in recoveries on acquired loans, a $4.4 million reduction in the amortization of FDIC indemnification asset, a $1.5 million increase in trust and investment services income offset slightly by a $1.0 million decline in other noninterest income;

· Higher noninterest expense by $12.7 million which resulted from the effects of the merger with SBFC as merger and branch consolidation related expense increased $2.7 million, salaries and employee benefits increased $7.0 million, information services expense increased $1.3 million, net occupancy and furniture and equipment expense increased $1.3 million and amortization of intangibles increased $603,000; and

· An increase in the provision for income taxes of $3.5 million due to higher pre-tax income.

Our asset quality related to non-acquired loans continued to remain strong at the end of the second quarter of 2017 compared to the end of 2016 and the second quarter of 2016. Non-acquired nonperforming assets declined from $25.2 million at June 30, 2016 to $18.1 million at June 30, 2017, a decline of $7.1 million which came from a $4.9 million decline in non-acquired nonperforming loans and a $2.2 million decline in OREO. Compared to the balance of non-acquired nonperforming assets at December 31, 2016, non-acquired nonperforming assets declined slightly from $18.7 million at December 31, 2016 to $18.1 million at June 30, 2017. Annualized net charge-offs for the second quarter of 2017 were 0.05%, or $756,000, compared to net charge-offs in the second quarter of 2016 of 0.06%, or $676,000, and net charge-offs in the first quarter of 2017 of 0.05%, or $628,000.

The allowance for loan losses decreased to 0.67% of total non-acquired loans at June 30, 2017, down from 0.71% at December 31, 2016 and 0.77% at June 30, 2016. The allowance provides 2.97 times coverage of non-acquired

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nonperforming loans at June 30, 2017, an increase from 2.51 times at December 31, 2016, and 2.01 times at June 30, 2016. The Company continues to show improvement in its asset quality numbers and ratios.

During the second quarter of 2017, the Company had net charge-offs related to "acquired non-credit impaired loans" which totaled $429,000, or 0.10% annualized, and accordingly, recorded a provision for loan losses equal to the net charge off for the same amount. Additionally, we have $5.8 million in nonperforming loans from this loan portfolio, up slightly from $4.8 million at December 31, 2016 and up $1.4 million 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 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, excluding the merger with SBFC. Below is a summary of the second quarter of 2017 assessment of the impact from the 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 $2.8 million from the first quarter of 2017, With the SBFC merger, the acquired loans were primarily noncredit impaired loans. The acquired loan yield increase or decrease going forward will be dependent primarily on the level of pay downs and pay-offs each quarter of the acquired noncredit impaired loan portfolio. The yield of the acquired loan portfolio was 6.69% at June 30, 2017, down 21 basis points from 6.90% at March 31, 2017. During the second quarter of 2016, the acquired loan yield was 7.94%, and did not include any acquired loans from SBFC;
· Releases from certain loan pools during the second quarter of 2017 resulted in a credit to the provision for loan loss charge of $572,000 compared to impairment totaling $1.2 million in the first quarter of 2017, and a $47,000 impairment in the second quarter of 2016. The release during the second quarter of 2017 was the result of improvements of certain loan pools where prior impairments were recorded. The increased impairment, during the first quarter of 2017, was primarily related to impaired residential real estate loan pools and consumer mobile home loan pools.

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 from the second quarter of 2016 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. In addition, the

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yield on the loans acquired in the merger with SBFC were lower than the existing acquired loan portfolio. These factors resulted in a lower yield on the acquired loan portfolio.

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Average balances:				
Acquired loans, net of allowance for loan losses	$ 2,263,748	$ 1,645,263	$ 2,323,616	$ 1,690,437
Non-acquired loans	5,776,432	4,623,448	5,590,436	4,477,109
Total loans, excluding held for sale	$ 8,040,180	$ 6,268,711	$ 7,914,052	$ 6,167,546
Interest income:				
Noncash interest income on acquired performing loans	$ 3,311	$ 1,174	$ 7,502	$ 2,730
Acquired loan interest income	34,443	31,297	70,817	64,407
Total acquired loans	37,754	32,471	78,319	67,137
Non-acquired loans	55,386	44,366	106,164	86,928
Total loans, excluding held for sale	$ 93,140	$ 76,837	$ 184,483	$ 154,065
Non-taxable equivalent yield:				
Acquired loans	6.69 %	7.94 %	6.80 %	7.99 %
Non-acquired loans	3.85 %	3.86 %	3.83 %	3.90 %
Total loans, excluding held for sale	4.65 %	4.93 %	4.70 %	5.02 %

Compared to the balance at March 31, 2017, our non-acquired loan portfolio has increased $428.1 million, or 30.9% annualized, to $6.0 billion, driven by increases in all categories: consumer real estate lending by $145.0 million, or 35.3% annualized; consumer non real estate lending by $17.5 million, or 20.6% annualized; commercial owner occupied loans by $4.9 million, or 1.7% annualized; commercial and industrial by $36.6 million, or 20.2% annualized; construction/land development by $65.7 million, or 40.8% annualized; and commercial non-owner occupied by $148.9 million, or 74.3% annualized. The acquired loan portfolio decreased by $155.3 million to $2.2 billion in the second quarter of 2017 compared to $2.3 billion at March 31, 2017. This decrease was due to continued payoffs, charge-offs, transfers to OREO, and renewals of acquired loans moved to the non-acquired loan portfolio. Since June 30, 2016, the non-acquired loan portfolio has grown by $1.2 billion, or 24.4%, 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 $338.8 million, or 23.3%, and $545.1 million, or 48.7%, respectively, since June 30, 2016. Since June 30, 2016, the acquired loan portfolio increased by $587.7 million due to the merger with SBFC. Excluding the addition of SBFC's acquired loans at the date of the merger, the acquired loan portfolio declined by $398.8 million due to continued payoffs, charge-offs, transfers to OREO, and renewals of acquired loans moved to the non-acquired loan portfolio.

Non-taxable equivalent net interest income increased $17.6 million, or 21.7% and the non-taxable equivalent net interest margin declined to 4.07% from 4.22% during the second quarter of 2017 compared to the same period in

2016. The increase in net interest income was due to an increase in average interest-earning assets of $2.0 billion or 25.8% from the merger with SBFC and through organic loan growth. The decline in the net interest margin was due to the decline in the yield on the acquired loan portfolio of 125 basis points and due to an increase in the rate on interest-bearing liabilities of 7 basis points.

Compared to the first quarter of 2017, net interest margin (non-taxable equivalent) decreased by 7 basis points. This was primarily due to a decline in the yield on interest-earning assets by 6 basis points primarily due to a decrease in the yield on the acquired loan portfolio by 21 basis points. This decline related to the acquired loan portfolio was slightly offset by an increase of 4 basis points in the yield on the non-acquired loan portfolio. The yield on the acquired loan portfolio declined 21 basis points 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 non-acquired loan portfolio increased mainly due to the Federal Reserve increasing the federal funds target rate 75 basis points since December 2016 which effectively increases the Prime Rate which is used in pricing for a majority of our variable rate loans and new originated loans.

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Our quarterly efficiency ratio improved to 62.8% compared to 77.5% in the first quarter of 2017 and 64.5% in the second quarter of 2016. The improvement in the efficiency ratio compared to the first quarter of 2017 was the result of a 17.4% decrease in noninterest expense, a 3.1% increase in noninterest income and a 1.7% increase in net interest income. The decrease in noninterest expense was mainly due to a decline in merger and branch consolidation related expense of $16.7 million. During the first quarter of 2017, SBFC merged with and into SSB, and SBFC's bank subsidiary GB&T was merged and converted with and into the Bank resulting in $21.0 million in merger and conversion related charges. Salaries and employee benefits also declined by $1.3 million from the first quarter of 2017 due to the following: (1) cost savings from personnel reductions associated with the merger with SBFC, (2) lower payroll taxes, and (3) lower cost associated with self-funded medical plan. Noninterest income increased by $1.1 million which resulted from $436,000 improvement in fees of deposit accounts, a $511,000 increase in trust and investment services income and a $639,000 increase in recoveries on acquired loans. The increase in net interest income of $1.7 million resulted from a $1.8 million increase in interest income due to a $212.4 million increase in interest-earning assets. The improvement in the efficiency ratio compared to the second quarter of 2016 was the result of a 17.0% increase in noninterest income and a 21.7% increase in net interest income, partially offset by a 17.2% increase in noninterest expense. The increase in noninterest expense, noninterest income and net interest income compared to the second quarter of 2016 were all due the merger with SBFC.

Diluted EPS and basic EPS increased to $1.08 and $1.09, respectively for the second quarter of 2017, from the second quarter 2016 amounts of $1.01 and $1.02, respectively. This was the result of the 29.8% increase in net income being higher than the 20.9% increase in outstanding common shares.

Selected Figures and Ratios

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Return on average assets (annualized)	1.15 %	1.13 %	0.92 %	1.14 %
Return on average equity (annualized)	7.98 %	9.02 %	6.39 %	9.10 %
Return on average tangible equity (annualized)*	14.16 %	14.59 %	11.56 %	14.81 %
Dividend payout ratio **	30.33 %	29.61 %	38.53 %	28.63 %
Equity to assets ratio	14.39 %	12.66 %	14.39 %	12.66 %
Average shareholders' equity	$ 1,598,592	$ 1,093,208	$ 1,580,195	$ 1,083,403

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

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

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For the three months ended June 30, 2017, return on average tangible equity decreased to 14.16% compared to 14.59% for the same period in 2016. This decrease was the result of the higher percentage increase in average tangible shareholder's equity of 33.5% as compared to a 29.8% increase in net income excluding amortization of intangibles.

- For the three months ended June 30, 2017, return on average assets increased to 1.15%, compared to 1.13% for the three months ended June 30, 2016, due to a 29.8% increase in net income offset by the effects of a 27.3% increase in average assets.
- Dividend payout ratio increased to 30.33% for the three months ended June 30, 2017 compared with 29.61% for the three months ended June 30, 2016. The increase from the comparable period in 2016 primarily reflects the increase in the cash dividends declared per common share of 33.0% as compared to a 29.8% decrease 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 14.39% for the three months ended June 30, 2017 compared with 12.66% for the three months ended June 30, 2016. The increase from the comparable period in 2016 primarily reflects the higher percentage increase in equity of 45.4% as compared to a 27.9% increase in assets.

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Reconciliation of GAAP to Non-GAAP

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Return on average equity (GAAP)	7.98 %	9.02 %	6.39 %	9.10 %
Effect to adjust for intangible assets	6.18 %	5.57 %	5.17 %	5.71 %
Return on average tangible equity (non-GAAP)	14.16 %	14.59 %	11.56 %	14.81 %
Average shareholders' equity (GAAP)	$ 1,598,592	$ 1,093,208	$ 1,580,195	$ 1,083,403
Average intangible assets	(650,135)	(382,995)	(646,864)	(383,960)
Adjusted average shareholders' equity (non-GAAP)	$ 948,457	$ 710,213	$ 933,331	$ 699,443
Net income (GAAP)	$ 31,823	$ 24,516	$ 50,087	$ 49,010
Amortization of intangibles	2,495	1,892	5,002	3,795
Tax effect	(845)	(636)	(1,576)	(1,281)
Net income excluding the after-tax effect of amortization of intangibles (non-GAAP)	$ 33,473	$ 25,772	$ 53,513	$ 51,524

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 14 basis points from the second quarter of 2016, due to the following: (1) a decrease of 10 basis points in the yield on interest-earning assets from the decline in the yield on both the non-acquired loan portfolio by 1 basis point and the acquired loan portfolio by 125 basis points, (2) an increase of 7 basis points in the rate on interest-bearing liabilities related to 6 basis point increase in funding cost from interest-bearing deposits, and (3) a 12 basis point increase in funding cost from federal funds purchased and repurchase agreements. The taxable equivalent net interest margin decreased by 7 basis points from the first quarter of 2016 to 4.13% in the second quarter of 2017, which was the result of the yield on interest-earning assets decreasing by 6 basis points during this period. This decrease in yield on interest-earning assets was due to the decrease in yield on the acquired loan portfolio by 21 basis points, partially offset by an increase in yield of 4 basis points on the non-acquired loan portfolio. The yield on the acquired loan portfolio declined due to the acquired credit impaired loans being renewed the cash flow from these assets is being extended out, therefore increasing the weighted average life of the loan pools within all acquired loan portfolios. The yield on the non-acquired loan portfolio increased due to the Federal Reserve increasing the federal funds target rate 75 basis points since December 2016 which effectively increases the Prime Rate which is used in pricing for a majority of our variable rate loans and new originated loans.

Net interest income increased from the second quarter of 2016 by $17.6 million. This increase was driven by the following:

1. Higher loan interest income of $16.3 million with acquired loan interest income increasing by $5.3 million due to the addition of the SBFC loan portfolio through the merger and non-acquired loan interest income increasing by $11.0 million due to higher average balances through organic loan growth and due to higher yields due to the rising rate environment; offset partially by
2. Higher interest expense of $1.8 million, due to higher average balances in most categories of interest-bearing liabilities due to the merger with SBFC and due to higher rates on most categories of interest-bearing liabilities

due to both the merger with SBFC whose deposits rates were higher than the Company's legacy deposit rates and to higher costs related to the rising rate environment.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Non-TE net interest income	$ 99,031	$ 81,399	$ 196,393	$ 163,000
Non-TE yield on interest-earning assets	4.23 %	4.33 %	4.26 %	4.38 %
Non-TE rate on interest-bearing liabilities	0.22 %	0.15 %	0.22 %	0.15 %
Non-TE net interest margin	4.07 %	4.22 %	4.11 %	4.27 %
TE net interest margin	4.13 %	4.27 %	4.16 %	4.32 %

Non-TE net interest income increased $17.6 million, or 21.7%, in the second quarter of 2017 compared to the same period in 2016. Some key highlights are outlined below:

- Average interest-earning assets increased 25.8% to $9.8 billion in the second quarter of 2017 compared to the same period in 2016 due to the increase in acquired loans and investment securities through the merger with SBFC in the first quarter of 2017 and due to the increase in non-acquired loans through organic growth.
- Non-TE yield on interest-earning assets for the second quarter of 2017 decreased 10 basis points from the comparable period in 2016. The decrease since the second quarter of 2016 was driven by a 125 basis point decline in the yield on the acquired loan portfolio. The decline in yield on the acquired loan portfolio is 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. This decrease was partially offset by a 16 basis point increase in the yield on investment securities and a 50 basis point increase in the yield on federal funds sold and reverse repurchase agreements. The increase in yield on the investment portfolio is due to the addition of the investment portfolio through the merger with SBFC which had a higher yield than our legacy investment portfolio and the increase on federal funds sold and reverse repurchase agreements was due to the rising rate environment and the Federal Reserve increasing the federal funds target rate 75 basis points since December 2016. The loan portfolio continues to remix with 73% of the portfolio being comprised of non-acquired loans and 27% being acquired loans. This compares to 75% and 25%, respectively, one year ago. The increase in the acquired loan portfolio as a percentage of the total portfolio was due to the addition of the SBFC loan portfolio through the merger in the first quarter of 2017. The percentage of the non-acquired loan portfolio of the total loan portfolio increased from March 31, 2017 with 70% being non-acquired loans and 30% being acquired loans.
- The average cost of interest-bearing liabilities for the second quarter of 2017 increased 7 basis points from the same period in 2016. The increase since the second quarter of 2016 was primarily the result of an increase in the cost of deposits due to rates on the deposits acquired through the merger with SBFC being higher than the rates on our legacy deposits. The average cost of deposits increased from 0.11% during the second quarter of 2016 to 0.17% in the same period in 2017. Also, the average costs on federal funds purchased and repurchase agreements increased 12 basis points to 0.29% for the second quarter of 2017 compared to the same period in 2016. This increase was the result of the Federal Reserve increasing the federal funds target rate by 75 basis points since December 2016 which has increased short term borrowing rates.
- TE net interest margin decreased by 14 basis points in the second quarter of 2017 compared to the second quarter of 2016.

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Loans

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

LOAN PORTFOLIO (ENDING balance)	June 30, 2017	% of Total		December 31, 2016	% of Total		June 30, 2016	% of Total	
Acquired loans:									
Acquired non-credit impaired loans:									
Commercial non-owner occupied real estate:									
Construction and land development	$ 112,855	1.4	%	$ 10,090	0.2	%	$ 12,516	0.2	%
Commercial non-owner occupied	209,560	2.6	%	34,628	0.5	%	36,904	0.6	%
Total commercial non-owner occupied real estate	322,415	4.0	%	44,718	0.7	%	49,420	0.8	%
Consumer real estate:									
Consumer owner occupied	520,106	6.4	%	408,270	6.1	%	466,479	7.3	%
Home equity loans	177,129	2.2	%	160,879	2.4	%	177,946	2.8	%
Total consumer real estate	697,235	8.6	%	569,149	8.5	%	644,425	10.1	%
Commercial owner occupied real estate	221,566	2.7	%	27,195	0.4	%	32,267	0.5	%
Commercial and industrial	117,884	1.4	%	13,641	0.2	%	15,598	0.2	%
Other income producing property	83,403	1.0	%	39,342	0.6	%	44,873	0.7	%
Consumer non real estate	143,478	1.8	%	142,654	2.1	%	155,303	2.4	%
Other	-	-	%	-	-	%	-	-	%
Total acquired non-credit impaired loans	1,585,981	19.5	%	836,699	12.5	%	941,886	14.7	%
Acquired credit impaired loans:									
Commercial non-owner occupied real estate:									
Construction and land development	44,711	0.5	%	39,891	0.6	%	43,615	0.7	%
Commercial non-owner occupied	108,636	1.3	%	109,453	1.6	%	118,266	1.8	%
Total commercial non-owner occupied real estate	153,347	1.8	%	149,344	2.2	%	161,881	2.5	%
Consumer real estate:									
Consumer owner occupied	150,884	1.8	%	149,257	2.2	%	166,277	2.6	%
Home equity loans	68,027	0.8	%	72,857	1.1	%	78,459	1.2	%
Total consumer real estate	218,911	2.6	%	222,114	3.3	%	244,736	3.8	%
Commercial owner occupied real estate	95,714	1.2	%	94,593	1.4	%	103,502	1.6	%

Commercial and industrial	16,771	0.2	%	18,262	0.3	%	20,140	0.3	%
Other income producing property	65,550	0.8	%	62,856	0.9	%	68,967	1.1	%
Consumer non real estate	55,929	0.7	%	58,772	0.9	%	63,361	1.0	%
Other	-	-	%	-	-	%	-	-	%
Total acquired credit impaired loans	606,222	7.3	%	605,941	9.0	%	662,587	10.3	%
Total acquired loans	2,192,203	26.8	%	1,442,640	21.5	%	1,604,473	25.0	%
Non-acquired loans:									
Commercial non-owner occupied real estate:									
Construction and land development	712,242	8.7	%	580,464	8.7	%	533,219	8.3	%
Commercial non-owner occupied	952,911	11.6	%	714,715	10.7	%	586,828	9.1	%
Total commercial non-owner occupied real estate	1,665,153	20.3	%	1,295,179	19.4	%	1,120,047	17.4	%
Consumer real estate:									
Consumer owner occupied	1,382,922	16.9	%	1,197,621	17.9	%	1,109,667	17.3	%
Home equity loans	411,532	5.0	%	383,218	5.7	%	345,957	5.4	%
Total consumer real estate	1,794,454	21.9	%	1,580,839	23.6	%	1,455,624	22.7	%
Commercial owner occupied real estate	1,204,953	14.8	%	1,177,745	17.7	%	1,083,051	16.9	%
Commercial and industrial	762,583	9.3	%	671,398	10.0	%	611,901	9.5	%
Other income producing property	189,326	2.3	%	178,238	2.7	%	181,703	2.8	%
Consumer non real estate	357,761	4.4	%	324,238	4.9	%	272,957	4.3	%
Other	18,163	0.2	%	13,404	0.2	%	91,592	1.4	%
Total non-acquired loans	5,992,393	73.2	%	5,241,041	78.5	%	4,816,875	75.0	%
Total loans (net of unearned income)	$ 8,184,596	100.0	%	$ 6,683,681	100.0	%	$ 6,421,348	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 $1.8 billion, or 27.5%, at June 30, 2017 as compared to the same period in 2016. Acquired non-credit impaired loans increased by $644.1 million and acquired credit impaired loans decreased by $56.4 million as compared to the same period in 2016. The overall increase in acquired loans was the result of the addition of approximately $1.0 billion in loans through the SBFC acquisition during the first quarter of 2017, partially offset by principal payments, charge offs, and foreclosures and due to renewals of acquired loans moved to the non-acquired loan portfolio. Non-acquired loans or legacy loans increased by $1.2 billion, or 24.4%, from June 30, 2016 to June 30, 2017. With the addition of approximately $1.0 billion in loans through the SBFC acquisition, the trend in the makeup of the loan portfolio shifted during the first quarter of 2017 as acquired loans as a percentage of total loans increased to 30% at March 31, 2017. However, during the second quarter of 2017, acquired loans as percentage of total loans continued to decline as in

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previous quarter before the merger and were 27% of the total loan portfolio at June 30, 2017. As of June 30, 2016, non-acquired loans as a percentage of the overall portfolio was 75% and acquired loans were 25%. The percentage of acquired loans was higher in 2017 than in 2016 due to acquisition of loans through the merger with SBFC.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Average total loans	$ 8,040,180	$ 6,268,711	$ 7,914,052	$ 6,167,546
Interest income on total loans	93,140	76,837	184,483	154,065
Non-TE yield	4.65 %	4.93 %	4.70 %	5.02 %

Interest earned on loans increased in the second quarter of 2017 compared to the second quarter of 2016. Some key highlights for the quarter ended June 30, 2017 are outlined below:

- Our non-TE yield on total loans decreased 28 basis points in the second quarter of 2017 compared to the same period in 2016. Average total loans increased 28.3% in the second quarter of 2017, as compared to the same period in 2016. The increase in average total loans was the result of 24.9% growth in the average non-acquired loan portfolio and of 37.6% growth in the average acquired loan portfolio during period. The growth in the non- acquired loan portfolio was due to normal organic growth while the growth in the acquired loan portfolio was due to the addition of approximately $1.0 billion in loans through the merger with SBFC in the first quarter of 2017, partially offset by principal payments, charge offs, and foreclosures and by renewals of acquired loans moved to the non-acquired loan portfolio. The yield on the non-acquired loan portfolio only declined slightly from 3.86% in the second quarter of 2016 to 3.85% in the same period in 2017 and the yield on the acquired loan portfolio declined from 7.94% in the second quarter of 2016 to 6.69% in the same period in 2017. The growth in the non-acquired loan portfolio during the second half of 2016 came in a low interest rate environment, however, in the first half of 2017, interest rates began to rise. With the Federal Reserve Bank increasing the federal funds target rate 75 basis points since December 2016, we have begun to see the yield in the non-acquired loan portfolio increase. In comparing the second quarter of 2017 to the first quarter of 2017, the yield on the non-acquired loan portfolio increased 4 basis points. The yield on the acquired loan portfolio declined to 6.69% in the second quarter of 2017 compared to 7.94% in the same period in 2016. This decline was due to the impact of the yield of the SBFC loan portfolio acquired during the first quarter of 2017, well as 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 balance of mortgage loans held for sale increased $15.4 million from December 31, 2016 to $66.0 million at June 30, 2017, and increased $17.1 million from a balance of $48.9 million at June 30, 2016.

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 June 30, 2017, investment securities totaled $1.4 billion, compared to $1.0 billion at both December 31, 2016 and June 30, 2016. Our investment portfolio increased $343.9 million and $351.8 million from December 31, 2016 and June 30, 2016, respectively, primarily as a result of the acquisition of SBFC and its investment portfolio of which $350.4 million remained at June 30, 2017. Otherwise, we generally have continued to try and slowly increase our investment securities portfolio as we identify securities that meet our strategy and objectives.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Average investment securities	$ 1,395,488	$ 974,545	$ 1,429,932	$ 998,077
Interest income on investment securities	8,417	5,469	17,078	11,278
Non-TE yield	2.42 %	2.26 %	2.41 %	2.27 %

Interest earned on investment securities was higher in the second quarter of 2017 compared to the second quarter of 2016, as result of a higher average balance and an increase in yield which were both a result of the addition of the investment portfolio through the acquisition of SBFC.

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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 June 30, 2017:

(Dollars in thousands)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	AAA - A	BBB	BB or Lower	Not Rated
June 30, 2017							
Government-sponsored entities debt	$ 76,508	$ 75,952	$ (556)	$ 76,508	$ —	$ —	$ —
State and municipal obligations	192,886	197,542	4,656	192,886	—	—	—
Mortgage-backed securities *	1,068,718	1,068,597	(121)	—	—	—	1,068,718
Corporate stocks	3,658	3,809	151	—	—	—	3,658
	$ 1,341,770	$ 1,345,900	$ 4,130	$ 269,394	$ —	$ —	$ 1,072,376

* - 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 June 30, 2017, we had 124 securities available for sale in an unrealized loss position, which totaled $6.4 million. At December 31, 2016, we had 129 securities available for sale in an unrealized loss position, which totaled $8.6 million. At June 30, 2016, we had 10 securities available for sale in an unrealized loss position, which totaled $306,000.

During the second quarter of 2017 as compared to the second quarter of 2016, the total number of available for sale securities with an unrealized loss position increased by 114 securities, while the total dollar amount of the unrealized loss increased by $6.1 million. This increase was due to the higher interest rate environment at June 30, 2017 compared to June 30, 2016.

All securities available for sale in an unrealized loss position as of June 30, 2017 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 June 30, 2017.   As of June 30, 2017, the investment in FHLB stock represented approximately $10.8 million, or 0.10% 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 June 30,				Six Months Ended June 30,			
(Dollars in thousands)	2017		2016		2017		2016	
Average interest-bearing liabilities	$ 6,817,128		$ 5,473,322		$ 6,796,296		$ 5,468,726	
Interest expense	3,748		1,980		7,372		4,194	
Average rate	0.22	%	0.15	%	0.22	%	0.15	%

The average balance of interest-bearing liabilities increased $1.3 billion in the second quarter of 2017 compared to the second quarter of 2016 due to increases in all categories of interest bearing liabilities. The overall increase was mostly related to increases in transaction and money market accounts and saving deposits acquired through the SBFC acquisition during the first quarter of 2017 which totaled approximately $1.0 billion at June 30, 2017. The increase in interest expense in the second quarter of 2017 compared to the same period in 2016 was largely driven by higher balances in all interest-bearing liabilities, as well as the impact of higher interest rates on our interest-bearing liabilities, with the exception of other borrowings. The increase in rates was due to the fact that the cost of deposits acquired through the merger with SBFC were at higher rates than that of our legacy deposits and due to the Federal Reserve Bank increasing the federal funds target rate 75 basis points since December 2016. Overall, this resulted in a 7 basis point increase in the average rate on all interest-bearing liabilities from the three months ended June 30, 2016. Some key highlights are outlined below:

- Average interest-bearing deposits for the three months ended June 30, 2017 increased 25.3% from the same period in 2016.
- Interest-bearing deposits increased to $6.4 billion at June 30, 2017 from the period end balance at June 30, 2016 of $5.0 billion. This was mainly the result of the addition of interest bearing-deposits during the first quarter of 2017 from the SBFC acquisition which totaled $1.2 billion at June 30, 2017. 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 certificates of deposit and other time deposits for the three months ended June 30, 2017 increased 19 basis points to 43 basis points from the comparable period in 2016.
- Average transaction and money market accounts balances increased 19.1%, up $632.4 million from the average balance in the second quarter of 2016 as balances acquired from the SBFC transaction totaled approximately $459.8 at June 30, 2017. Interest expense on transaction and money market accounts increased $361,000 as a result of the growth in average balances and a two basis point increase in the average rate to 10 basis points for the three months ended June 30, 2017 as compared to the same period in 2016.
- Average savings account balances increased 79.0%, up $609.1 million from the average balance in the second quarter of 2016 as balances acquired from the SBFC transaction totaled approximately $545.6 million at June 30, 2017. Interest expense on savings accounts increased $410,000 as a result of the growth in average balances and a

nine basis point increase in the average rate to 15 basis points for the three months ended June 30, 2017 as compared to the same period in 2016.

- In the second quarter of 2017, average other borrowings increased $51.2 million compared to the second quarter of 2016. This increase was the result of the SBFC acquisition as we acquired $18.5 million in trust preferred securities and $91.3 million in FHLB advances through the merger. During 2017, the company paid off $57.0 million of the acquired FHLB advances during the first quarter and $10.0 million in the second quarter. The average rate on other borrowings experienced a 27 basis point decline to 3.19% for the three months ended June 30, 2017 as compared to the same period in 2016 due to the low rates on the FHLB advances acquired in the SBFC transaction.

Noninterest-Bearing Deposits

Noninterest-bearing deposits are transaction accounts that provide our Bank with "interest-free" sources of funds. Average noninterest-bearing deposits increased $503.9 million, or 24.3%, to $2.6 billion in the second quarter of 2017 compared to $2.1 billion during the same period in 2016. The SBFC acquisition added approximately $278.8

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million as the remaining increase was through organic deposit growth. At June 30, 2017, the period end balance of noninterest-bearing deposits was $2.6 billion, exceeding the June 30, 2016 balance by $517.9 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 and internal 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.

Beginning with the FFHI business combination, the Company segregates the 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 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 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).

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During the second quarter of 2017, we decreased the valuation allowance on acquired credit impaired loans by $815,000, which resulted in a $572,000 negative net provision for loan losses on acquired credit impaired loans. This negative net provision was due to releases through recoveries and improved cash flows on the acquired credit impaired loan portfolio.

The following table presents a summary of the changes in the ALLL for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,							
	2017				2016			
(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	$ 38,449	—	$ 4,556	$ 43,005	$ 35,115	$ —	$ 3,877	$ 38,992
Loans charged-off	(1,292)	(501)	—	(1,793)	(1,557)	(232)	—	(1,789)
Recoveries of loans previously charged off	536	72	—	608	881	51	—	932
Net charge-offs	(756)	(429)	—	(1,185)	(676)	(181)	—	(857)
Provision for loan losses	2,456	429	(572)	2,313	2,500	181	47	2,728
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	—	—
Total provision for loan losses charged to operations	2,456	429	(572)	2,313	2,500	181	47	2,728
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	—	—
Reductions due to loan removals	—	—	(243)	(243)	—	—	(172)	(172)
Balance at end of period	$ 40,149	—	$ 3,741	$ 43,890	$ 36,939	$ —	$ 3,752	$ 40,691
Total non-acquired loans:								
At period end	$ 5,992,393				$ 4,816,875			
Average	5,776,432				4,623,448			
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.05 %				0.06 %			
Allowance for loan losses as a percentage of period end non-acquired loans	0.67 %				0.77 %			
Allowance for loan losses as a percentage of period end non-performing non-acquired loans (“NPLs”)	297.42 %				201.06 %			

	Six Months Ended June 30, 2017				2016			
(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	$ 36,960	$ —	$ 3,395	$ 40,355	$ 34,090	$ —	$ 3,706	$ 37,796
Loans charged-off	(2,589)	(890)	—	(3,479)	(3,276)	(529)	—	(3,805)
Recoveries of loans previously charged off	1,205	135	—	1,340	1,645	141	—	1,786
Net charge-offs	(1,384)	(755)	—	(2,139)	(1,631)	(388)	—	(2,019)
Provision for loan losses on non-acquired loans	4,573	755	692	6,020	4,480	388	395	5,263
Benefit attributable to FDIC loss share agreements	—	—	—	—	—	—	23	23
Total provision for loan losses charged to operations	4,573	755	692	6,020	4,480	388	418	5,286
Provision for loan losses recorded through the FDIC loss share receivable	—	—	—	—	—	—	(23)	(23)
Reductions due to loan removals	—	—	(346)	(346)	—	—	(349)	(349)
Balance at end of period	$ 40,149	$ —	$ 3,741	$ 43,890	$ 36,939	$ —	$ 3,752	$ 40,691
Total non-acquired loans:								
At period end	$ 5,992,393				$ 4,816,875			
Average	5,590,436				4,477,109			
Net charge-offs as a percentage of average non-acquired loans (annualized)	0.05 %				0.07 %			

Allowance for loan losses as a percentage of period end non-acquired loans	0.67	%	0.77	%
Allowance for loan losses as a percentage of period end non-performing non-acquired loans (“NPLs”)	297.42	%	201.06	%

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. Our nonaccrual loans and non-performing loans declined during the second quarter of 2017 compared to the same quarter in 2016 while our classified loans increased slightly. Nonaccrual loans and non-performing loans did increase slightly when compared to the first quarter of 2017, although classified assets declined during this same period. Our overall net charge offs for the quarter on non-acquired loans was 5 basis points annualized, or $756,000, compared to 6 basis points annualized, or $676,000, a year ago, and 5 basis points, or $628,000 in the first quarter of 2017. Net charge offs on non-acquired loans have

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remained low at 5 basis points or less over the past four quarters. Excluding acquired assets, nonperforming assets decreased by $7.1 million during the second quarter of 2017 compared to the second quarter of 2016 and decreased $608,000 from the first quarter of 2017, to $18.1 million. The ratio of the ALLL to cover total nonperforming non-acquired loans increased from 201.06% at June 30, 2016 and 294.97% at March 31, 2017 to 297.42% at June 30, 2017.

We increased the ALLL compared to the second quarter of 2016, as well as compared to the first quarter of 2017, due primarily to larger loan growth and increases in certain loan types during the second 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 require the use of an alternate historical loss rate to better capture the risk within the portfolio. We also consider qualitative factors such as economic risk, model risk and operational risk when determining the ALLL. We adjust our qualitative factors to account for uncertainty and certain risk inherent in the portfolio that cannot be measured with historical loss rates. All of these factors are reviewed and adjusted each reporting period to account for management's assessment of loss within the loan portfolio. Overall, the general reserve increased by $2.4 million compared to the balance at June 30, 2016, and $1.1 million compared to the balance at March 31, 2017.

On a specific reserve basis, the allowance for loan losses increased $642,000 from March 31, 2017, with loan balances being evaluated for specific reserves increasing $21.8 million during the second quarter of 2017, to $49.1 million. Specific reserves increased $793,000, to $2.3 million at June 30, 2017, from $1.5 million at June 30, 2016 with the loan balances being evaluated for specific reserves increasing $24.8 million from $24.3 million at June 30, 2016. The increase in loans being evaluated for specific reserves during the second quarter of 2017 include builder loans for which greater scrutiny was provided. All of these loans are performing under their contractual terms.

During the three months ended June 30, 2017, the decline in our total nonperforming assets ("NPAs") was reflective of continued improvement in the unemployment rates and economy as a whole within the markets that we serve. We continue to work our nonperforming assets out through collections, transfers to OREO and disposals of OREO.

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

(Dollars in thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Non-acquired:					
Nonaccrual loans	$ 12,100	$ 11,909	$ 12,485	$ 12,386	$ 15,071
Accruing loans past due 90 days or more	432	77	281	125	450
Restructured loans - nonaccrual	967	1,049	1,979	2,499	2,851
Total nonperforming loans	13,499	13,035	14,745	15,010	18,372
Other real estate owned (“OREO”) (2)	4,519	5,653	3,927	6,585	6,833
Other nonperforming assets (3)	114	52	71	29	29
Total non-acquired nonperforming assets	18,132	18,740	18,743	21,624	25,234
Acquired non-credit impaired:					
Nonaccrual loans	5,134	4,915	4,728	4,633	4,438
Accruing loans past due 90 days or more	659	35	106	—	—
Total acquired nonperforming loans (1)	5,793	4,950	4,834	4,633	4,438
Acquired OREO and other nonperforming assets:					
Covered OREO (2)	—	—	—	—	—
Acquired OREO not covered under loss share (2)	9,911	14,355	14,389	15,626	15,594
Other acquired nonperforming assets (3)	528	637	637	653	664
Total acquired OREO and other nonperforming assets	10,439	14,992	15,026	16,279	16,258
Total nonperforming assets	$ 34,364	$ 38,682	$ 38,603	$ 42,536	$ 45,930
Excluding Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	0.30 %	0.34 %	0.36 %	0.43 %	0.52 %
Total NPAs as a percentage of total assets (5)	0.16 %	0.17 %	0.21 %	0.25 %	0.29 %
Total NPLs as a percentage of total loans (4)	0.23 %	0.23 %	0.28 %	0.30 %	0.38 %
Including Acquired Assets					
Total NPAs as a percentage of total loans and repossessed assets (4)	0.42 %	0.49 %	0.58 %	0.65 %	0.71 %
Total NPAs as a percentage of total assets	0.31 %	0.35 %	0.43 %	0.48 %	0.53 %
Total NPLs as a percentage of total loans (4)	0.24 %	0.23 %	0.29 %	0.30 %	0.36 %

(1) Excludes the acquired credit impaired loans that are contractually past due 90 days or more totaling $19.0 million, $20.8 million, $14.8 million, $11.5 million, and $14.5 million as of June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016, and June 30, 2016, 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, 2016.
(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 $13.5 million, or 0.23% of non-acquired loans, a decrease of $4.9 million, or 26.5%, from June 30, 2016. The decrease in nonperforming loans was driven primarily by a decrease in commercial nonaccrual loans of $1.4 million, consumer nonaccrual loans of $1.6 million and restructured nonaccrual loans of $1.9 million.

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Nonperforming non-acquired loans overall, including restructured loans, increased by $464,000 during the second quarter of 2017 from the level at March 31, 2017. This increase was primarily driven by an increase in consumer nonaccrual loans of $530,000 and loans greater than ninety days past due but still accruing of $355,000, offset by a decline in commercial nonaccrual loans of $339,000 and restructured nonaccrual loans of $82,000.

At June 30, 2017, non-acquired OREO decreased by $1.1 million from March 31, 2017. At June 30, 2017, non-acquired OREO consisted of 24 properties with an average value of $188,000. This compared to 31 properties with an average value of $182,000 at March 31, 2017. In the second quarter of 2017, we added 4 properties with an aggregate value of $315,000 into non-acquired OREO, and we sold 11 properties with a basis of $983,000. Our non-acquired OREO balance of $4.5 million at June 30, 2017 is comprised of 18% in the Low Country/Orangeburg region, 7% in the Coastal region (Beaufort to Myrtle Beach), 44% in the Central region (Columbia), and 31% in the Upstate region (Greenville).

Potential Problem Loans

Potential problem loans (excluding all acquired loans), totaled $6.0 million, or 0.10% of total non-acquired loans outstanding, at June 30, 2017, compared to $8.8 million, or 0.17% of total non-acquired loans outstanding, at December 31, 2016, and compared to $15.3 million, or 0.20% of total non-acquired loans outstanding, at June 30, 2016. Potential problem loans related to acquired non-credit impaired loans totaled $9.2 million, or 0.58% of total acquired non-credit impaired loans, at June 30, 2017, compared to $2.0 million, or 0.24% of total acquired non-credit impaired loans outstanding, at December 31, 2016, and compared to $1.3 million, or 0.14% of total acquired non-credit impaired loans outstanding, at June 30, 2016. 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Fees on deposit accounts	$ 22,155	$ 21,539	$ 43,874	$ 41,663
Mortgage banking income	5,195	5,620	10,764	9,818
Trust and investment services income	6,452	4,911	12,393	9,697
Securities gains, net	110	—	110	122
Amortization of FDIC indemnification asset	—	(4,427)	—	(5,901)
Recoveries on acquired loans	2,171	2,002	3,703	2,923
Other	1,491	2,473	3,165	3,838
Total noninterest income	$ 37,574	$ 32,118	$ 74,009	$ 62,160

Note that “Fees on deposit accounts” include service charges on deposit accounts and bankcard income

Noninterest income increased by $5.5 million, or 17.0%, during the second quarter of 2017 compared to the same period in 2016. The quarterly increase in total noninterest income primarily resulted from the following:

- Amortization of the FDIC indemnification asset declined by $4.4 million as a result of the elimination of the FDIC indemnification asset as the Loss Share Agreements with the FDIC were terminated in the second quarter of 2016;
- Trust and investment services income increased by $1.5 million due to the increase in wealth customers added with the SBFC merger and through organic growth of the legacy wealth business;
- Fees on deposit accounts increased $616,000, or 2.9%, which resulted primarily from higher bankcard services income and higher service charges on deposit accounts associated with the increase in customers through the merger with SBFC; partially offset by
- Other income declined by $982,000, or 39.7%, due to the resolution of an acquired credit impaired loan in the second quarter of 2016 totaling $1.2 million; and
  - Mortgage banking income decreased by $425,000, or 7.6%, which was a result of lower MSR income due to lower servicing fee income and a decline in the fair value of MSR, net of the hedge, and as a result of lower income from the secondary market due to a decline in the fair value of the mortgage pipeline.

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Noninterest income increased by $11.8 million, or 19.1%, during the first six months of 2017 compared to the same period in 2016. This year over year increase resulted primarily from the following:

- Amortization of FDIC indemnification asset decreased $5.9 million as a result of the elimination of the FDIC indemnification asset as the Loss Share Agreements with the FDIC were terminated in the second quarter of 2016;
- Trust and investment services income increased $2.7 million, or 27.8%, due to the increase in wealth customers added with the SBFC merger and through organic growth of the legacy wealth business;
- Fees on deposit accounts increased $2.2 million, or 5.3%, which resulted primarily from higher bankcard services income and higher service charges on deposit accounts associated with the increase in customers through the merger with SBFC;
- Mortgage banking income increased $946,000, or 9.6%, which was primarily a result of higher realized gains from mortgage loans sold in the secondary market; and
- Recoveries on acquired loans increased $780,000, or 26.7%, 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.

Bankcard Services Income

The Company exceeded $10 billion in total consolidated assets upon consummation of our merger with SBFC on January 3, 2017. Banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve's rules on interchange transaction fees for debit cards. This means that, beginning on July 1 of the year following the time when our total assets reach or exceed $10 billion, the Bank will be limited to receiving only a "reasonable" interchange transaction fee for any debit card transactions processed using debit cards issued by the Bank to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. A reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. As noted above, bankcard income including interchange transaction fees is included in "Fees on deposit accounts". In the first half of 2017, we earned $22.2 million in bankcard services income. This regulation will become effective for us in July 2018; however, if it were effective for the first half of 2017, we estimate that our bankcard services income would have been reduced by approximately $8 million.

Noninterest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Salaries and employee benefits	$ 47,580	$ 40,537	$ 96,466	$ 81,969
Net occupancy expense	6,048	5,541	12,436	10,900
Information services expense	6,413	5,083	12,773	10,117
Furniture and equipment expense	3,877	3,072	7,671	5,923
OREO expense and loan related	1,753	874	3,895	2,648
Bankcard expense	2,886	3,040	5,656	5,919

Amortization of intangibles	2,495	1,892	5,002	3,795
Supplies, printing and postage expense	1,570	1,757	3,224	3,565
Professional fees	1,599	1,576	3,372	2,906
FDIC assessment and other regulatory charges	989	1,017	2,111	2,161
Advertising and marketing	989	858	1,548	1,502
Merger and branch consolidation related expense	4,307	1,573	25,331	2,531
Other	6,033	7,034	11,777	11,947
Total noninterest expense	$ 86,539	$ 73,854	$ 191,262	$ 145,883

Noninterest expense increased by $12.7 million, or 17.2%, in the second quarter of 2017 as compared to the same period in 2016. The quarterly increase in total noninterest expense primarily resulted from the following:

· Salaries and employee benefits expense increased by $7.0 million in 2017 compared to the same period in 2016. This increase was attributable to the addition of personnel mainly through the merger with SBFC. The number of full time equivalent employees increased by 229 or 11.3% from June 30, 2016 to June 30, 2017;

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- An increase in merger and branch consolidation related expense of $2.7 million compared to the second quarter of 2016. The 2017 expense was mostly related to our merger with SBFC while the 2016 expense was related to the branch consolidation project;
- Information services expense was up by $1.3 million in 2017 as compared to the same period in 2016. This increase was related to the additional cost associated with facilities, employees and systems added through the merger with SBFC;
- OREO expense and loan related expense increase of $879,000 related to higher write downs and losses on sale of properties in 2017;
- Net occupancy expense and furniture and equipment expense increased by $507,000 and $805,000, respectively, in 2017 as compared to the same period in 2016. These increases were due to additional costs related to the facilities added through the acquisition of SBFC; and
- Amortization of intangibles increased $603,000 due to amortization from the core deposit intangible created with the merger with SBFC.

Noninterest expense increased by $45.4 million, or 31.1%, during the first six months of 2017 compared to the same period in 2016. This year over year increase resulted primarily from the following:

- An increase in merger and branch consolidation related expense of $22.8 million compared to the first half of 2016. The 2017 expense was mostly related to our merger with SBFC while the 2016 expense was related to the branch consolidation project. The $25.3 million in merger and branch consolidation related expense in the first half of 2017 mainly consisted of $9.5 million from change in control payments, severance payments and other merger related incentive payments and of $9.2 million in vendor contract resolution payments;
- Salaries and employee benefits expense increased by $14.5 million in 2017 compared to the same period in 2016. This increase was mainly attributable to the cost of personnel added from SBFC;
- Information services expense was up by $2.7 million in 2017 as compared to the same period in 2016. This increase was related to the additional cost associated with facilities, employees and systems added through the merger with SBFC;
- Net occupancy expense and furniture and equipment expense increased by $1.5 million and $1.7 million, respectively, in 2017 as compared to the same period in 2016. These increases were due to additional costs related to the facilities added through the acquisition of SBFC;
- OREO expense and loan related expense increase of $1.2 million related to higher write downs and losses on sale of properties in 2017; and
- Amortization of intangibles increased $1.2 million due to amortization from the core deposit intangible created with the merger with SBFC.

Income Tax Expense

Our effective income tax rate was 33.36% and 31.50% for the three and six months ended June 30, 2017, respectively. This compares to 33.63% and 33.76% for the three and six months ended June 30, 2016, respectively. The reason for the decline during the six months ended June 30, 2017 compared to the same period in 2016 is the implementation of the new accounting standard which requires the excess tax benefit associated with vested or exercised stock awards be included in determination of the effective tax rate each reporting period. A significant number of stock awards vested during the first quarter as happens in most years which reduced our effective tax rate by 2.90%, or $735,000. This is a discrete income tax item which should not occur at this level in subsequent quarters during 2017.

Capital Resources

Our ongoing capital requirements have been met primarily through retained earnings, less the payment of cash dividends. As of June 30, 2017, shareholders' equity was $1.6 billion, an increase of $470.9 million, or 41.5%, from December 31, 2016, and an increase of $501.1 million, or 45.4%, from $1.1 billion at June 30, 2016. The driving factor for the increase from year-end was issuance of common stock through the merger with SBFC during the first quarter of 2017 of $434.6 million. The increase was also attributable to net income of $50.1 million, which was offset by the common stock dividend paid of $19.3 million. At June 30, 2017 we had accumulated other comprehensive loss of $3.7 million compared to an accumulated other comprehensive loss of $8.2 million at December 31, 2016. This change was mainly attributable to the increase to an unrealized gain position in the AFS securities portfolio of $4.2 million, net of tax during the first six months of 2017 due to the continued low interest rate environment for long-term rates. The increase in shareholder's equity from June 30, 2016 was also primarily the result of the issuance of common stock

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through the merger with SBFC during the first quarter of 2017 of $434.6 million. The increase was also attributable to net income of $102.4 million and partially offset by dividends paid to common shareholders of $34.6 million. Our common equity-to-assets ratio was 14.39% at June 30, 2017, up from 12.75% at December 31, 2016 and 12.66% at June 30, 2016.

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, 2016, 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.

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 over a four year period at 0.625% per annual, 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.

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

	June 30, 2017		December 31, 2016		June 30, 2016	
South State Corporation:						
Common equity Tier 1 risk-based capital	11.96	%	11.66	%	11.23	%
Tier 1 risk-based capital	12.82	%	12.43	%	12.02	%
Total risk-based capital	13.35	%	13.04	%	12.64	%
Tier 1 leverage	10.12	%	9.88	%	9.51	%
South State Bank:						
Common equity Tier 1 risk-based capital	12.41	%	12.06	%	11.62	%
Tier 1 risk-based capital	12.41	%	12.06	%	11.62	%
Total risk-based capital	12.95	%	12.66	%	12.24	%
Tier 1 leverage	9.80	%	9.58	%	9.19	%

The Tier 1 leverage ratio increased compared to December 31, 2016 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 total risk-based capital ratios all increased compared to December 31, 2016 due to the increase in our capital outpacing the increase in our risk-based assets. The increase in our capital was mainly attributable to the issuance of common stock through our merger with SBFC. Our capital ratios are currently well in excess of the minimum standards and continue to be in the "well capitalized" regulatory classification.

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 $1.2 billion, or approximately 24.4%, compared to the balance at June 30, 2016, and by $751.4 million, or 28.9% annualized, compared to the balance at December 31, 2016.

Our investment securities portfolio increased $351.8 million, or 34.9%, compared to the balance at June 30, 2016, and increased by $343.9 million compared to the balance at December 31, 2016. The main reason for the increase from both December 31, 2016 and June 30, 2016 was the acquisition of SBFC and its investment portfolio which was $350.4 million at June 30, 2017. The Company's recent strategy has been to increase the investment portfolio as a

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percentage to total assets as we identify securities that meet our strategy and objectives. Total cash and cash equivalents were $431.9 million at June 30, 2017 as compared to $374.4 million at December 31, 2016 and $481.9 million at June 30, 2016.

At June 30, 2017, December 31, 2016 and June 30, 2016, the Company had $42.5 million, $2.9 million and $5.5 million, respectively, in traditional, out-of-market brokered deposits and $52.7 million, $57.6 million, and $63.1 million, respectively, of reciprocal brokered deposits. Total deposits were $9.0 billion at June 30, 2017, up $1.9 billion or 26.1%, from June 30, 2016. This increase was mainly related to the deposits acquired through the merger with SBFC which totaled $1.4 billion at June 30, 2017. The deposits related to SBFC included $260.5 million in noninterest-bearing transaction accounts, $335.7 million in interest-bearing transaction accounts, $643.0 million in savings and money market accounts and $168.0 million in certificates of deposit. The Company had legacy deposit growth of $460.5 million which included an increase in interest-bearing transaction accounts of $121.4 million, savings and money market accounts of $184.5 million and noninterest-bearing transaction account of $257.4 million, partially offset by a decline in certificates of deposit of $102.8 million. Other borrowings increased $42.9 million from June 30, 2016 mainly through the addition of trust preferred debt of $20.6 million and FHLB advances of $34.0 million through the merger with SBFC during the first quarter of 2017. During the second quarter of 2017, $12.0 million of the FHLB advance acquired in the merger with SBFC matured reducing the advances outstanding at June 30, 2017 to $24.0 million. 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 June 30, 2017, our Bank had total federal funds credit lines of $516.0 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 portfolio. At June 30, 2017, our Bank had $176.2 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 June 30, 2017, our Bank had a total FHLB credit facility of $1.2 billion with total outstanding letters of credit consuming $6.3 million, $24.1 million in outstanding advances and $94,000 in credit enhancements from participation in the FHLB's Mortgage Partnership Finance Program. The Company has a $10.0 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.

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 June 30, 2017, 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 $275.2 million at June 30, 2017. Based on this criteria, the Company had four such credit concentrations for non-acquired loans and acquired non-credit impaired loans at June 30, 2017, including $349.4 million of loans to lessors of residential buildings, $859.6 million of loans to lessors of nonresidential buildings (except mini-warehouses), $300.1 million of loans to religious organizations, and $299.0 million of loans for construction purposes.

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, 2016, 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 June 30, 2017 from that presented in our Annual Report on Form 10-K for the year ended December 31, 2016.

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 three months ended June 30, 2017, 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

As of June 30, 2017 and the date of this form 10-Q, we believe that we are not party to, nor is any or our property the subject of, any pending material proceeding other than those that may occur in the ordinary course of our business.

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, 2016, 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. In March 2017, the Board of Directors approved and reset the number of shares available to be repurchased under the 2004 stock repurchase program to 1,000,000. The following table reflects share repurchase activity during the second quarter of 2017:

	(c) Total Number of Shares (or Units)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)	Purchased as Part of Publicly Announced Plans or Programs	Units) that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30	447	*	$ 90.20	—	1,000,000
May 1 - May 31	—		—	—	1,000,000
June 1 - June 30	3,721	*	85.53	—	1,000,000
Total	4,168			—	1,000,000

*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 were not purchased under the 2004 stock repurchase program to purchase 1,000,000 shares.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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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: August 4, 2017	/s/ Robert R. Hill, Jr. Robert R. Hill, Jr. Chief Executive Officer (Principal Executive Officer)
Date: August 4, 2017	/s/ John C. Pollok John C. Pollok Senior Executive Vice President, Chief Financial Officer, and Chief Operating Officer (Principal Financial Officer)
Date: August 4, 2017	/s/ Keith S. Rainwater Keith S. Rainwater Executive Vice President and Principal Accounting Officer

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Exhibit Index

Exhibit No.	Description
Exhibit 2.1	Agreement and Plan of Merger, dated as of April 26, 2017, by and between Park Sterling Corporation and South State Corporation (incorporated by reference as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 1, 2017)
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 June 30, 2017, 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.